FOI2024/00330 – Meeting Minutes Extractions

POLB 15(8th)
POLB 15/120 – 15/124

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a Board meeting held at 9.30 am on 17 December 2015
at 20 Finsbury Street, London EC2Y 9AQ and by telephone conference

Present:	
Tim Parker	Chairman
Richard Callard	Non-Executive Director
Alisdair Cameron	Chief Financial Officer
Tim Franklin	Non-Executive Director
Paula Vennells	Chief Executive
Apologies:	
Virginia Holmes	Non-Executive Director
In Attendance:	
Alwen Lyons	Company Secretary
Nick Kennett	Group Director, Financial Services, (Minute 15/120)
Jane MacLeod	General Counsel
[redacted]	

POLB 15/122 **PROJECT TRINITY**

(a) The CFO introduced the paper and updated the Board on Project Trinity, its risks and benefits. He explained the work underway and the options being considered. The CFO acknowledged that the FJ proposal was attractive in the short term with reduced costs and delivery plan risk.

(b) The CFO explained that the IBM contract was could be terminated for convenience however contracting with FJ without rerunning the public procurement was much more complicated from a legal persepctive. The Executive were taking external legal advice to ensure that these risks were understood and could therefore be

managed as effectively as possible.

(c) The CFO understood that the Trinity option carried significant legal risk, but guaranteed the Board that the Business would not present any plan which exposed the directors to personal liability.

(d) The Board asked if there was a viable option for FJ to sub-contract to IBM. The CFO explained that this option was still being considered but that this proposal may not reduce the procurement threat and would increase operational complexity.

(e) The Chairman thanked the CFO for his update. The Board gave its support to the next steps and the tabling of a formal proposal in January.

ACTION: CFO

POLB 16(1st)
POLB 16/1 – 16/12

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a Board meeting held at 12.00 noon on 22 January 2016
at 20 Finsbury Street, London EC2Y 9AQ

Present:	
Tim Parker	Chairman
Richard Callard	Non-Executive Director
Alisdair Cameron	Chief Financial Officer
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Ken McCall	Senior Independent Director
Carla Stent	Non-Executive Director
Paula Vennells	Chief Executive
In Attendance:	
Alwen Lyons	Company Secretary
Dave Carter	Group Financial Controller (Minute 16/7)
[redacted]	[redacted]
[redacted]	[redacted]
Jane MacLeod	General Counsel (Minute 16/8)
[redacted]	KPMG

POLB 16/8 **TRINITY**

(a) The Chairman welcomed Jane MacLeod, General Counsel, to the meeting.

(b) The CFO noted that the Board had previously been briefed on Project Trinity and provided an update on progress and the status of discussions with the various third parties involved.

(c) The Board asked for a note explaining who had given assurance to the original plans and what assurance would be sought for delivery of the Trinity plan.

ACTION: GC **Provide a paper to explain what assurance was given to the original plan and what will be given to Trinity**

(d) The CFO explained that a final decision was likely to be needed in February and proposed an Extraordinary Board meeting be help at the appropriate time.

(e) The Board noted the update and that an additional board meeting would be called in February to be held by telephone.

POLB 16(3rd)
POLB 16/16 – 16/25

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a Board meeting held at 9.00am on 21 March 2016
at 20 Finsbury Street, London EC2Y 9AQ.

Present:

Tim Parker	Chairman (*Minutes POLB 16/19-16/25)*
Richard Callard	Non-Executive Director
Alisdair Cameron	Chief Financial Officer
Tim Franklin	Non-Executive Director
Virginia Holmes	Non-Executive Director
Ken McCall	Senior Independent Director
Carla Stent	Non-Executive Director
Paula Vennells	Chief Executive

In Attendance:

Alwen Lyons	Company Secretary
[redacted]	
Dave Carter	Group Financial Controller (*Minute POLB 16/19 only)*
[redacted]	
Nick Kennett	Financial Services Director (*Minute POLB 16/22 only)*

Trinity Contract

(c) The CFO introduced the project Trinity paper and updated the Board on a FOI request received from a legal firm. The

Post Office Limited – Strictly Confidential

GC would lead on the response to the request ensuring any commercial information was redacted.

(d) The Board noted the progress made.

POLB 16(2nd)
POLB 16/13 – 16/15

POST OFFICE LIMITED
(Company no. 2154540)
(the 'Company')

Minutes of a Board meeting held at 12.00 noon on 09 February 2016
at 20 Finsbury Street, London EC2Y 9AQ and by telephone conference

Present:

Tim Parker	Chairman
Richard Callard	Non-Executive Director (by telephone)
Alisdair Cameron	Chief Financial Officer
Virginia Holmes	Non-Executive Director
Ken McCall	Senior Independent Director
Carla Stent	Non-Executive Director
Paula Vennells	Chief Executive (by telephone)

In Attendance:

Alwen Lyons	Company Secretary
Jane MacLeod	General Counsel (GC)

[redacted]

Apologies:

Tim Franklin	Non-Executive Director

POLB 16/13 **INTRODUCTION**

(a) A quorum being present, the Chairman opened the meeting.

(b) The directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's articles of association

POLB 16/14 **PROJECT TRINITY**

(a) The CEO thanked the team for the work undertaken on project Trinity and acknowledged the complexity involved in addressing the issues arising from the Front Office IT plans.

(b) The CFO explained that four key questions had been considered before recommending the Trinity changes to the Board:

1. Would this be the right option commercially and operationally for Post Office?
2. Would the extension of the Fujitsu (FJ) contract on the terms described be in the best interests of Post Office?
3. Could the change be made in a legally compliant way?
4. Would it deliver a long term cost effective relationship with FJ?

[redacted]

[redacted]

- finalise the necessary contractual documentation (including the Notice to Terminate and all ancillary documentation) to terminate the IBM contract;
- finalise the necessary contractual documentation to extend the Fujitsu Horizon contract and any ancillary documentation; and
- authorise the execution of all such documentation.

POLB 16/15 **CLOSE**

(a) There being no further business, the Chairman declared the meeting close.

[redacted]
Chairman

24|5|16
Date

Project Trinity Update

Author: Alison Japp Sponsor: Al Cameron Date: January 2016

Executive Summary

Context

1. At the last Board, we discussed options that would reduce the complexity, risk and cost associated with IT Transformation including the option to retain Horizon, the existing branch software provided by Fujitsu (Project Trinity).

2. We have explored three options:
   - Proceed with IBM as per the current implementation plan
   - Re-negotiate with IBM to see if by reducing their scope, we can reduce costs, time and execution risk
   - Terminate the IBM contract, retain the existing Fujitsu contract and build on the existing Horizon infrastructure as necessary.

Questions this paper addresses

3. The purpose of this paper is to update the Board on the progress; providing fuller responses to the questions raised at last Board:
   - Is there a compelling case for Project Trinity?
   - Is there a way to manage the legal and commercial risk?
   - What are the next steps?

Conclusions

4. There is a compelling case for Project Trinity. It provides a substantial reduction in complexity; operational risk and a £69m cost reduction over three years, reducing to £15m after seven years. The IBM options, as outlined above, have not yet demonstrated that they would provide a substantive reduction in complexity, risk or cost.

5. There are routes to manage the legal and commercial risks. Detailed advice has been obtained from Counsel and additional analysis undertaken by Gartner to better understand which route will be most effective. The Board will be updated at the meeting.

6. We plan to revert to the Board with a final recommendation during February.

Input Sought

7. The Board is asked to highlight any additional issues that they wish addressed prior to a final recommendation being brought to the Board in February.

The Report

Context

8. Since the last board we have focused on developing a fuller understanding of these options ensuring that the proposed solution meets our success criteria:
   - Clear financial benefits on a like for like basis
   - Acceptable legal and procurement risks
   - A significant reduction in delivery risk
   - Confidence that the solution works
   - Additional functionality can be added simply, at an acceptable cost, in an acceptable timescale
   - Improved management controls & processes, mitigating any Sparrow related risks
   - Impacts on the integrated plan and contracts beyond Front Office are manageable
   - Clear communications strategy for multiple stakeholders, with government acceptance
   - Confidence that the supplier will behave as partners, making change easy and cost effective as it evolves beyond what we know we need today
   - Credible governance structure to manage supplier contractually and day to day, engaging with business leadership as well as IT

9. We have made significant progress with only a small number of outstanding actions:
   - Conclusion of commercial negotiations with Fujitsu and IBM
   - Finalisation of the approach to procurement and contracting
   - Confirmation that the solution works (test of the Fujitsu solution started on 18th January)

   A verbal update will be provided on these outstanding areas at the Board.

Is there a compelling case for Project Trinity?

Option A: Proceed with IBM as per the current implementation plan.

10. We are in the process of carrying out a full review with IBM of the costs, delivery risks and delivery plans that underpin our current plan with IBM. Within the current scope, approach and implementation plans there are no additional actions that can be taken at this point that will substantially reduce complexity, risk or cost.

11. We believe the current plan is under threat due to supplier dates slipping and the operational and delivery risk remain high.

Option B: Re-negotiate with IBM to see if by reducing their scope, we can reduce costs, time and execution risk

12. POL and IBM reviewed the current scope, technical design and delivery plan with the aim of identifying options that would reduce complexity, cost and risk. Fundamentally, no suggestions from IBM have materially changed the plan and increasingly promote leaving more services with Fujitsu.

Option C: Terminate the IBM contract, retain the existing Fujitsu contract and build on the existing Horizon infrastructure as necessary. (Project Trinity)

13. This option does provide a substantial reduction in complexity and operational risk and a £69M cost reduction over three years, reducing to £15M after seven years. Further options are under discussion to adopt an invest to save option that provide an additional 5% saving year on year run cost saving assuming a 3 year investment. These figures are now significantly more robust and provide a reasonable estimate of costs.

14. We continue to challenge Fujitsu on the run costs and to ensure that we are developing a better, partnership spirit in the relationship. This is patchy.

Is there a way to manage the legal and procurement risks

15. Counsel has confirmed that termination of the contract with IBM does not give rise to any breach of procurement law. However the way in which POL procures replacement services is open to challenge if POL makes a direct award to Fujitsu, fails to run a transparent procurement process and it cannot rely on any available exemptions under the Public Contract Regulations 2015.

16. As outlined in our last update to Board there are a variety of procurement routes available. We are currently exploring whether a direct award to Fujitsu could be possible under the terms of an exemption under Regulation 32 which allows direct awards where, inter alia, the services can be supplied only by one provider where: (i) competition is absent for technical reasons or (ii) because of the protection of exclusive rights including IP rights, provided that no reasonable alternative or substitute exists and the absence of competition is not the result of an artificial narrowing down of the parameters of the procurement.

17. If this exemption is available, it would substantially reduce the risk of challenge and of an award to Fujitsu being declared invalid. It would also mitigate previously highlighted risks of an action against either POL or the Board for f misfeasance in public office.

18. While at a practical and commercial level, Fujitsu appears to be uniquely placed to provide this service, this is not of itself sufficient to prove that there is no competition for technical reasons..

19. Accordingly we have commissioned Gartner to provide an assessment, via a desk-top analysis, if there are likely to be suppliers that would be capable and potentially interested in delivering our specification. This will inform our assessment of whether we fall within the scope of the exemption provided by regulation 32. An update will be provided verbally at the Board.

20. Depending on the nature of the findings, three further options exist to support an award:
    - Expanding the Gartner conversation to interactions with potential suppliers. This is likely to be appropriate to give the Board confidence.
    - Publishing details of the award or the intention to award.
    - Re-procuring the services.

Next Steps

21. The priorities are to confirm the approach to procurement of continuation of our existing Horizon solution and finalise commercial negotiations with Fujitsu. Once confirmed we will be able to complete an outline business case, finalise high level delivery plans, and undertake a final assurance review (the requested "Red Team Review"), with Deloittes, our Business Transformation Assurance partner.

22. We will look to recommend to the Board a final way forward in February. The Deloitte assurance will be provided to the Board at the same time as the request for Board approval.

Project Trinity

Author: Alison Jaap Sponsor: Al Cameron & Jane MacLeod 9 February, 2016

Executive Summary

Context

1. In October 2015 a detailed review was undertaken of our Front Office plans which showed a delay of 11 months and cost increases of c. £60m. The revised timetable has continued to slip and IBM, our procured partner, has acknowledged that the plan is broken. Our service with Fujitsu has an – extended – end date of March 2018.

2. Project Trinity was set up to mitigate the financial and operational risks of Front Office. Its objectives were to deliver our core IT requirements at minimum cost and minimum risk of legal challenge.

3. In addition to this paper a separate legal paper will be presented today under privilege; with a further legal paper presented after review by counsel on Monday. We are agreeing the final pieces of the precise legal arrangement and the commercial terms with Fujitsu and will provide a verbal update for any changes at the Board.

Questions this paper addresses

3. This paper addresses the following questions:
   - Is there a compelling case for change?
   - What legal structure should be followed?
   - What funding is required?
   - What are our next steps?

Conclusions and Recommendations

4. There is a clear and compelling case for change. The IBM plan will not deliver in time and creates very significant operational risk and substantial additional costs. Even if service is maintained it will have a material adverse impact on our 3 Year Plan and our funding.

5. For the economic and technical reasons set out in the separate legal paper, we have concluded that it is not practically possible to have a change of contractor

from our incumbent supplier because such a change would cause significant inconvenience and a substantial duplication of costs.

6. Retaining Fujitsu, our incumbent supplier and our existing Horizon software provides a substantive reduction in complexity, operational, delivery risk and the total cost of ownership. It also enables earlier consideration of EPOS/new network models, a potentially significant enabler of our strategy.

7. A number of legal options have been considered since November. We propose extending the existing Fujitsu contract by a Change Control Notice (CCN) under regulation 72(1) (b) of the Public Contracts Regulations. There are risks inherent in this plan notably that other suppliers may seek to challenge this approach, and should these crystallise, we can consider reversion to a public procurement.

8. [redacted]

[redacted]

10. We can deliver all of the business outcomes planned for the original Front Office software and have more control and flexibility over the changes we will make.

Input Sought

[redacted]

- [redacted]

[redacted]

[redacted]

[1] *Figures included in financial analysis later in this paper relate to a 3 year term – the initial scope of discussion with Fujitsu rather than the now proposed 4 year term and also include run costs for CDP that have already been agreed.*

Main paper

Further Context

12. Modernisation of branch EPOS systems is a key tenet of our Strategy. We have signed contracts to replace hardware in branches – introduced in 1997 – and upgrade the branch network. The Horizon point of sale software has to be upgraded to work on new kit and to enable other improvements to the customer journey.

13. Following legal advice, we issued an OJEU notice on 22nd February 2014 to procure a prime supplier for an enhanced Front Office solution that was scalable and flexible enough to grow with customer needs and to support increased product diversity, reduce running costs and improve integration with partners and suppliers. Fujitsu, our incumbent supplier, withdrew from the process.

14. On 21st May 2015 Post Office awarded a 7 year contract to IBM who scored the highest on all three key evaluation criteria areas (cost, quality and delivery / implementation). New software and support services were planned to be operational across 11,600 branches by the end March 2017, the end-date of the Fujitsu contract (although this was subsequently extended to 31st March 2018).

15. A Red Team review is being completed and the Board will be provided with a verbal update.

Is there a compelling case for change?

16. In November 2015, we completed a bottom up, detailed integrated planning exercise to produce a single integrated Post Office and supplier IT change plan. This resulted in a projected delay of 11 months and cost increases of c. £60m in the Front Office element, bringing the end date uncomfortably close to the revised end date for Fujitsu. This created very significant operational risk and has a material adverse impact on our 3 Year Plan.

17. The revised delivery plan remains high risk and movement in supplier plans mean there is a real risk of further delays. The IBM plan is very unlikely to deliver within the requisite time without significant operational risk and substantial additional costs. IBM has acknowledged that the procured plan is "broken" and has been unable to offer a compelling alternative. They have also acknowledged that the most effective way to de-risk the plan is to leave more service with Fujitsu.

18. We have explored options to mitigate the financial and operational risk (details in Appendix A):
    - **Continue** with IBM and proceed with complete replacement of the current systems with an updated IBM implementation plan (Option 1).
    - **Terminate** the IBM contract, retain the existing Fujitsu contract and build on the existing Fujitsu infrastructure as necessary (Option 2).
    - **Partially terminate** the IBM contract, and re-scope IBM responsibilities to focus on the digital platform only. Retain branch point of sale on the existing Fujitsu platform reducing time, costs and risk (Option 3).
    - **Re-scope** the Front Office solution, continuing to build on the IBM platform but with different scope or solution design (Option 4).

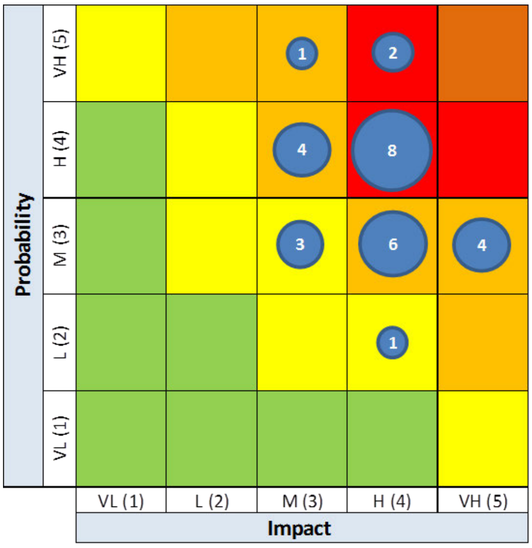
19. These options have been assessed against four objectives: Provide **continuity** of service; Simplify programme delivery and minimise operational **risk;** Reduce overall **cost** and provide financial certainty; and Provide an ongoing mechanism for front office **enhancement while delivering the business's requirements.** These objectives are underpinned by the critical success factors previously discussed with Board.

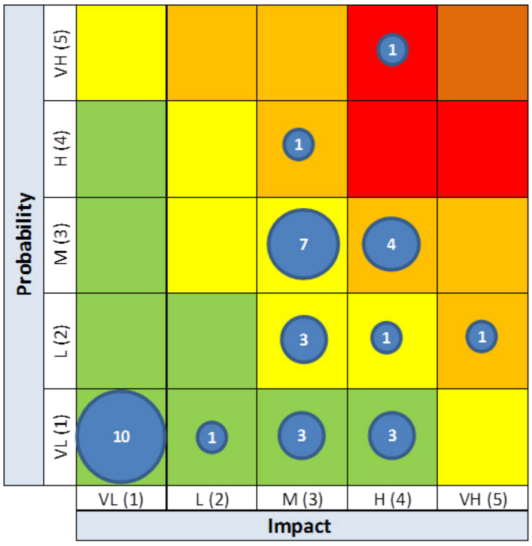
Continuity of Service

20. The current systems work and operational performance and stability are exceptional. The upgrade required to enable Horizon to work on new kit, Horizon Next Generation Anywhere (HNGA), has been built and early testing gives high confidence that it will be fit for purpose. The change is expected to be available for scale roll-out this summer, far quicker than the IBM solution. In addition, with a postponed contract end date, the risk of having no available service is dramatically reduced.

Simplify and minimise risk

21. A risk assessment has been undertaken of all options. The numbers inside the circle represent the number of risks at that position on the grid, with high impact/probability risk in the red quadrant, lowest risks in the green quadrant.





Option 1: Continue with IBM
Option 4: Rescope IBM solution

Option 2: Terminate IBM
Option 3: Partially Terminate

22. Option 2: Terminate IBM and Option 3: Partially Terminate IBM have significantly fewer and less severe delivery risks than Option 1: Continue with IBM and Option 4: Rescope solution

Reduce overall cost

23. The summary financial analysis is outlined below. This was undertaken on a "like for like" basis and we have endeavoured to ensure that all numbers reflect similar functionality and services.

24. The analysis is based on a 3 year contract extension, and provides an overall cost of ownership saving of £60m. When extended out to a seven year period the picture deteriorates to a saving of £18m as higher run costs diminish the investment savings in early years.

25. However, some costs have already been approved and in some cases spent: sunk Front Office project costs, costs already committed to the data centre upgrade etc. Other costs are optional: the £25m of costs under Trinity 2 (the commercial vehicle to allow us to make enhancements), will be considered on a case by case basis. An additional funding column has been include for Option2 and this outlines how the funding we are requesting ties with the "like for like" analysis.

	FO Bid Plan	Option 1: Continue with IBM	Option 2: Full Termination	Option 2: Funding Request	Option 3: Partial Termination
FO:					
IBM	£ 61,420,413	£ 81,010,843	£ [redacted]	£ 545,000	£ [redacted]
POL	£ 16,222,015	£ 19,386,379	£ 7,515,710	£ 4,639,813	£ 7,515,710
Fujitsu	£ 9,360,000	£ 10,663,975	£ 1,116,975	£ -	£ 1,116,975
ATOS/Other	£ 10,967,741	£ 17,135,247	£ 5,923,661	£ -	£ 5,923,661
TUPE	£ 5,700,000	£ 5,700,000	£ -	£ -	£ -
Total FO	**£ 103,670,169**	**£ 133,896,443**	**£** [redacted]	**£ 5,184,813**	**£** [redacted]
Contingency	£ 19,000,000	£ 19,000,000	£ 5,351,731	£ 1,828,103	£ 6,127,815
"Trinity 2 improvements"	£ -	£ -	£ 25,017,521	£ -	£ 25,331,411
Invest to Save	£ -	£ -	£ 3,870,000	£ 3,870,000	£ 3,870,000
"Trinity 3" Refresh	£ -	£ -	£ 3,597,000	£ -	£ 3,597,000
Total FO prog	**£ 122,670,169**	**£ 152,896,443**	**£ 61,474,159**	**£ 10,882,916**	**£ 67,506,376**
Fujitu data centre	£ 26,900,000	£ 31,260,000	£ 26,900,000	£ -	£ 26,900,000
Incremental EUC Fujitsu exist costs	£ -	£ 3,542,000	£ 1,000,000	£ -	£ 1,000,000
Termination Costs	£ -	£ -	£ 23,250,910	£ 23,250,910	£ 9,892,195
Legal	£ -	£ -	£ 5,000,000	£ 5,000,000	£ 5,000,000
Total costs of Transformation	**£ 149,570,169**	**£ 187,698,443**	**£ 117,625,068**	**£ 39,133,825**	**£ 110,298,571**
Fujitsu contract extension	£ 18,287,475	£ 36,574,950	£ -	£ -	£ -
Run costs from March 2017 for three years	£ 29,307,383	£ 44,307,383	£ 91,330,929	£ 91,330,929	£ 94,572,768
Total costs to March 2020	**£ 197,165,027**	**£ 268,580,776**	**£ 208,955,998**	**£ 130,464,754**	**£ 204,871,339**
cf initial numbers		**261M**	**166-177M**		**166-177M**
Run costs from March 2017 to March 2023	£ 102,067,329	£ 132,067,329	£ 183,771,266		£ 190,654,531
Total costs to March 2023	**£ 251,637,498**	**£ 319,765,771**	**£ 301,396,334**		**£ 300,953,102**

26. Option 2: Terminate and Option 3: Partially Terminate provide clear financial benefit over continuation with our current plan. A breakdown of the full economic assessment for Option 2 is included in Appendix C.

Provide for enhancement

27. A series of critical business enhancements have been defined to ensure that all options are technically capable of providing a similar outcome. For comparison purposes a number of these are included within the financial evaluation (those that are already in the scope of Front Office). However some items are not included within the evaluation as they do not form part of existing Front Office scope.

28. There is broad comparability between all options bar delivery of a full omni-channel capability, where the IBM Front Office solution provides a more comprehensive solution than can be achieved through the Fujitsu Horizon platform at this point in time. Within the IBM solution, customer journeys can be stopped,

and started, or continued in any channel at any point in the journey. As Horizon and CDP will operate as separate platforms this is not supported in current plans, however it is possible to move from one channel to another at defined points e.g. at end of your transaction. An option does exist to enhance Horizon to support this and this will be considered as part of the Digital strategy.

29. In the next three years, we believe that all the business functionality required under Front Office can be delivered with Horizon. In addition, we can consider and approve enhancements on an individual basis rather than being committed to a defined block of activity.

Summary

30. A summary of the options analysis is included in the figure below and illustrates how well each solution meets our objectives. A high assessment means that the solution meets our objectives fully, a low assessment that there are significant issues in meeting our objectives. Full details are contained in Appendix B.

Option	Continuity	Risk	Cost	Enhancement	Overall Assessment
1. Continue with IBM	Low (1)	Low (1)	Low (1)	High (5)	Low – Medium (8)
2. Terminate IBM	High (5)	Medium (3)	High (5)	Medium (3)	Medium – High (16)
3. Partially Terminate	Medium (3)	Low (1)	High (5)	High (5)	Medium - High (14)
4. Re-scope IBM solution	Low (1)	Low (1)	Low (1)	Medium (3)	Low (6)

31. The partially terminate option, while superficially attractive, is not deliverable. IBM have not indicated any desire to continue as a thin contracting layer, Fujitsu has expressed its dislike of the idea and we are concerned that it will complicate our ability to manage our supplier base.

32. In conclusion, Option 2 to terminate IBM, and award a contract to Fujitsu provides the best outcome when assessed against our four objectives; providing a very convincing case against our existing plan, Option 1: Continue with IBM.

What legal structure should be followed?

33. Following discussions with Fujitsu and IBM, it is currently proposed that the IBM agreement is terminated and a contract extension be entered into with Fujitsu:

Proposed Timing	Event
15 February	Issue termination notice to IBM with a full & final settlement agreement

15 February	Sign Contract Extension and side letter with Fujitsu
By 22 February	Publish Contract Award Notice in the Official Journal
30 days after Publication (expected to be 29 March)	Expiry of period during which challenge can be brought. Condition subsequent to contract extension lapses and side letter lapses. (Please see legal paper for further information)

34. In the event of a successful challenge to the process, the legal structure has been set up such that we will revert to the existing contract we have with Fujitsu.

The IBM Agreement

35. The agreement with IBM provides Post Office with the right to terminate for convenience subject to payment of certain amounts by way of Termination Payments and Compensation Payments (both of which are set out in that agreement). In addition to the termination notice, it is proposed that there should be a binding settlement agreement between Post Office and IBM.

36. IBM has indicated that it will accept us exercising our right of termination for convenience. Provided we honour the financial terms set out in the contract and do not seek to blame IBM or damage its brand, we believe that there will be minimal residual risk from the termination of this agreement.

[redacted]

Extension with Fujitsu

38. Immediately following termination of the IBM agreement, it is proposed that Post Office will sign a legally binding Contract Change Notice (CCN) with Fujitsu. As described elsewhere in this paper the CCN will:
- extend the term of the current agreement.
- provide for an amended financial structure ,and
- grant POL a perpetual licence for all Fujitsu owned intellectual property rights in Horizon upon defined time/payment schedule

39. Commercial details are based on our current negotiated position with Fujitsu and are included at Appendix G. This has not yet completed Fujitsu's full commercial approval process and there is a small risk that some elements may change. Any material changes will be advised to Board.

40. Extending the contract with Fujitsu without undertaking a further public procurement could be result in suppliers in the market challenging this under the legislation. We believe that a contract extension is permitted under Article 72 of the regulations because the operational and financial impacts make a change of contractor from Fujitsu too dangerous for the business. The criteria on which we base this view are set out in the separate legal paper that will be distributed on Monday and will be further discussed at the Board meeting.

41. We will publish details of our contract extension award to Fujitsu, giving other suppliers 30 days to challenge. We will be able to engage with suppliers in this period to explain why we consider a change of contractor to be impossible. Should a challenge be brought, it remains open to us to start a new public procurement process, while continuing to deliver HNGA under our current service agreement.

42. The contract is awarded for a minimum of 4 years with a potential for two one year extensions. During the period, Fujitsu are committed to helping us reduce run costs by moving to a shared infrastructure which they are currently developing. Any additional costs associated with this move are not included within current numbers, however we would expect a viable business case to be developed that will provide payback by reducing remaining ongoing costs to a level closer to IBM proposed costs.

What funding is required?

43. We are seeking approval of one-off costs of £39.1M and the operating costs of £98.5M for the committed minimum contract of 4 years with Fujitsu.

44. The financial case outlined at para 23-26 provides a comparative view of the economic case for Project Trinity. However, as outlined above some costs have already been approved and spent and some are optional. As such the total funding request of £39.1M invest is smaller than the overall economic analysis. In addition the funding request provides for 4 years of Fujitsu funding rather than 3 as outlined within the economic analysis (due to a late change in term in negotiations)

45. The Board is therefore asked to approve:
- [redacted]
- [redacted]

- [redacted]
- £3.9M Spend to Save funding with Fujitsu – this is the first tranche of funding required to deliver the run costs contained within the financial model
- Up to £5.0m for legal costs (small element for work done 15/16, with additional funds available should there be any challenge to the procurement in 16/17).
- A minimum four year contract with Fujitsu costing £107.3m, an average saving of £9.7M pa from the current arrangements with Fujitsu

Year by year breakdown is shown at Appendix D.

What are our next steps?

[redacted]

Appendix A: What options have been assessed?

a. Four options have been explored:

- **Continue** with IBM and proceed with complete replacement of the current systems with an updated IBM implementation plan (Option 1)
- **Terminate** the IBM contract, retain the existing Fujitsu contract and build on the existing Fujitsu infrastructure as necessary. (Option 2)
- **Partially terminate** the IBM contract, and re-scope IBM responsibilities to focus on the digital platform only. Retain branch point of sale on the existing Fujitsu platform reducing time, costs and risk (Option 3)
- **Re-scope** the Front Office solution, continuing to build on the IBM platform but with different scope or solution design. (Option 4)

b. For comparison, we have also included a base case – which reflects the Front Office plan and costs as understood at the point of contract award.

Original Bid Plan

c. The front office programme was initiated, and initially funded on the basis of a business case based on the IBM bid plan. Costs and benefits were incorporated into the 3 year plan on the basis of this business case, and as such it is provided as a base comparator. A summary is included below with further detail available within the full business case (of 5th October 2015)

d. Solution Overview

- Full replacement and migration from existing systems to a new system developed by IBM
- Single replacement for existing CDP and Horizon applications
- Mix of commercial off the shelf products along with configuration and some bespoke development
- Cloud architecture
- Enhanced functionality from existing Horizon system – some out of the box; some bespoke development
- Ongoing development through replicable micro services that allow new features to be added quickly and cheaply

e. Commercial Framework

- Single prime supplier as part of Tower model with associated contractual liabilities and coverage
- Contract Term: Seven years with the option of three 12 month extensions

- Option to migrate number of smaller suppliers into Towers model through IBM prime
- No minimum revenue or spend commitments; no volume commitment, with ability to ramp services up and down with no floor
- Tower contract with extensive liability protections including general liability cap - greater of £40m or 150% of aggregate annual charges
- Benchmarking of services allowed 12 months after the Effective Date and on an annual basis for individual services and the entire scope of services twice during the Initial (7 year) Term, and a further time in the 7th year if Post Office elected to extend the contract.

f. *Delivery Plan*

- Digital Capability: Conduct a one-step transition and transformation of CDP from Accenture Implementation complete by 15/01/2016;
- Release 1: Build and test the Tier 1 Branch Services, progressively rolling out to the branch network, in parallel decommissioning the legacy Horizon services, currently supported by Fujitsu; Implementation by 18/11/2016; and
- Release 2: Build and test the Tier 1 Integration Services separately to the Branch Services to enable them to maintain a single and reconcilable view of operations at the backend, deploying these components in two small deployments following completion of the roll out of the Branch Services by 06/02/2017
- These dates included full rollout across the branch network.

Option 1: Continue with IBM

g. In the "continue" scenario we proceeds with the IBM solution of a full system replacement with a revised implementation plan based on more detailed understanding of the solution and delivery plans. This option is reflected in the Front Office Business Case of 28th October and is summarised below.

h. *Solution Overview*

- No material changes to base case solution
- Enhanced user management now in scope, and some clarification of requirements on appointment booking which will deliver a more suitable business outcome

i. *Commercial Framework*

j. This is the same as the base case outlined above, but has been replicated below for ease and completeness.

- Single prime supplier as part of Tower model with associated contractual liabilities and coverage
- Contract Term: seven years with the option of three 12 month extension
- Option to migrate number of smaller suppliers into Towers model through IBM prime
- No minimum revenue or spend commitments; no volume commitment, with ability to ramp services up and down with no floor
- Tower contract with extensive liability protections including general liability cap - greater of £40m or 150% of aggregate annual charges
- Benchmarking of services allowed 12 months after the Effective Date and on an annual basis for individual services and the entire scope of services twice during the Initial (7 year) Term, and a further time in the 7th year if Post Office elected to extend the contract.

k. However, there will be a need to renegotiate with IBM following existing IBM plan slippages and pause of the programme in February.

l. Delivery Plan Overview

m. The 3 phase implementation approach remains however dates have moved substantially from the base case, due to a Post Office requested delay in completion of Digital capability, supplier plan delivery delays and an overall pause to the programme in January. As such a further replan would be required should we choose to pursue this option.

- Digital Capability: Implementation complete: Post May 2016 (+4 months from original bid plan)
- Release 1: 15/06/17 to 23/10/17 (+11 months from original bid plan)
- Release 2: 01/11/17 to 10/01/18 (+11 months from original bid plan)

Option 2: Full Termination

n. In option 2 we terminate the existing Front Office Tower contract, and extend the current Fujitsu contract for Horizon. Accenture will continue to deliver the Common Digital Platform (CDP).

o. Solution Overview

- Digital services are provided through CDP and branch services through Horizon
- Retention of existing Horizon system and award of new maintenance and development contract
- Horizon is a bespoke solution developed over many years for POL by Fujitsu

- Traditional Data Centre based architecture with commitment to move towards cloud (No costs included within this business case)
- Some enhancements from existing Horizon system expected over the life of the contract – largely bespoke development but can be undertaken in multi-supplier environment
- Improvement of SSIDS and POL processes to deliver simple configuration changes will improve speed of change

p. *Commercial Framework*

A. *CDP managed by Accenture*

- Contract Term: Twelve months with ability to terminate with one months' notice, extended until January 2018. Further procurement required to determine future delivery of digital platform
- No minimum revenue or spend commitments. No volume commitment, with ability to ramp services up and down with no floor
- No cost uplift allowed for the core services, though third party software support costs may be increased upon term renewal
- General liability cap: 150% of the Charges incurred or due during the Term at the point of the trigger event
- Benchmarking of services allowed 12 months after the Effective Date and on an annual basis (subject to minimum of 2 year contract)

B. *Horizon Maintenance and Development*

- Contract Term: Four years with the option of two 12 month extension
- No minimum revenue or spend commitments
- No volume commitment, with ability to ramp services up and down with no floor
- Commitment to core development team of 16 FTE across length of contract
- Operational costs uplifted by adjusted RPI on an annual basis
- General liability cap: £15.2M
- Benchmarking of services allowed 18 months after the Effective Date and on an annual basis
- Provision of Parent Company Guarantee
- FJ to grant POL a perpetual licence for all Fujitsu owned intellectual property rights in Horizon (se) upon defined time/payment schedule (Note: This is an option only, and no costs have been included within this business case)
- Run costs reduction of on average c£9.7M p.a compared to existing contract
- Revised, lower rate card

Commercial details are based on our current negotiated position with Fujitsu. This has not yet completed Fujitsu's full commercial approval process and there is a small risk that some elements may change. Any material changes will be advised to Board.

C. Delivery Plan Overview

- Planned delivery of Horizon upgrade to Horizon Anywhere (HNGA) will take place in line with current EUC timescales. (Further details are available within the EUC Business Case)
- CDP will remain with Accenture following current encryption changes and revert to a standard release cycle from May 2016 (+4 months from bid plan)
- Service enhancements will be subject to separate prioritisation, business case development and scheduling

Option 3: Partial Termination

q. In option 3 we do not terminate the existing Front Office Tower contract, but remove Horizon replacement from the scope of the Front Office contract. IBM will therefore continue to deliver CDP following transition from Accenture. We will undertake a formal procurement exercise to award a maintenance and development contract for the Horizon system.

r. Solution Overview

- Retention of existing Horizon system and award of new maintenance and development contract
- Bespoke solution developed over many years for Post Office by Fujitsu
- Traditional Data Centre based architecture with commitment to move towards cloud (No costs included within this business case)
- Some enhancements from existing Horizon system expected over the life of the contract – large element of bespoke development but can be undertaken in multi-supplier environment
- Improvement of SSIDS and Post Office processes to deliver simple configuration changes will improve speed of change
- Digital services are provided through CDP managed by IBM

s. Commercial Overview

A. CDP Managed by IBM

- Continued use of Tower contract with associated contractual liabilities and coverage
- Contract Term: seven years with the option of three 12 month extension
- Option to migrate number of smaller suppliers into Towers model through IBM prime
- No minimum revenue or spend commitments; no volume commitment, with ability to ramp services up and down with no floor
- Tower contract with extensive liability protections including general liability cap - greater of £40m or 150% of aggregate annual charges

- Benchmarking of services allowed 12 months after the Effective Date and on an annual basis for individual services and the entire scope of services twice during the Initial (7 year) Term, and a further time in the 7th year if Post Office elected to extend the contract.

B. Horizon Maintenance and Development

This is the same as the base case outlined above, but has been replicated below for ease and completeness.

- Contract Term: Four years with the option of two 12 month extension
- No minimum revenue or spend commitments
- No volume commitment, with ability to ramp services up and down with no floor
- Commitment to core development team of 16 FTE across length of contract
- May uplift operational costs on an annual basis (adjusted RPI)
- General liability cap: £15.2M
- Benchmarking of services allowed 18 months after the Effective Date and on an annual basis
- Provision of Parent Company Guarantee
- FJ to grant POL a perpetual licence for all Fujitsu owned intellectual property rights in Horizon (se) upon defined time/payment schedule (Note: This is an option only, and no costs have been included within this business case)
- Run costs reduction of on average c£9.7M p.a compared to existing contract
- Revised, lower rate card

t. *Delivery Plan Overview*

- Planned delivery of Horizon upgrade to HNGA will take place in line with current EUC plans.
- A procurement exercise for award of maintenance and development of Horizon will take place from mid February 2016 with a contract awarded by September 2016 at the latest. Services will be transitioned by March 2017
- Service enhancements will continue to be made on existing Fujitsu platform until transition
- CDP will remain with Accenture until current encryption changes are complete and then migrate to IBM from May onwards

Option 4: Re-scope IBM Delivery

u. Discussions have taken place with IBM to assess if any options exist that would allow us to reduce the costs, risks and timescales of the Front Office Solution. These included:

1. Cut back solution: reduce “full” requirements and focus purely on continuity of service

2. Decommission CDP: build up capability natively on IBM Front Office technology
3A. Keep Fujitsu Gateways in place to reduce testing
3B. Transition the Fujitsu systems required to support R1 into IBM for lower cost application development and maintenance.
4. Start Roll out earlier
5. Combine releases 1 and 2
6. IBM Stand down for roll out
7. Accelerate roll out
8. Risk Based Testing
9. CDP early take on
10. Strengthen delivery model

v. An assessment of these options has been undertaken but does not present a substantive reduction in risk or cost:

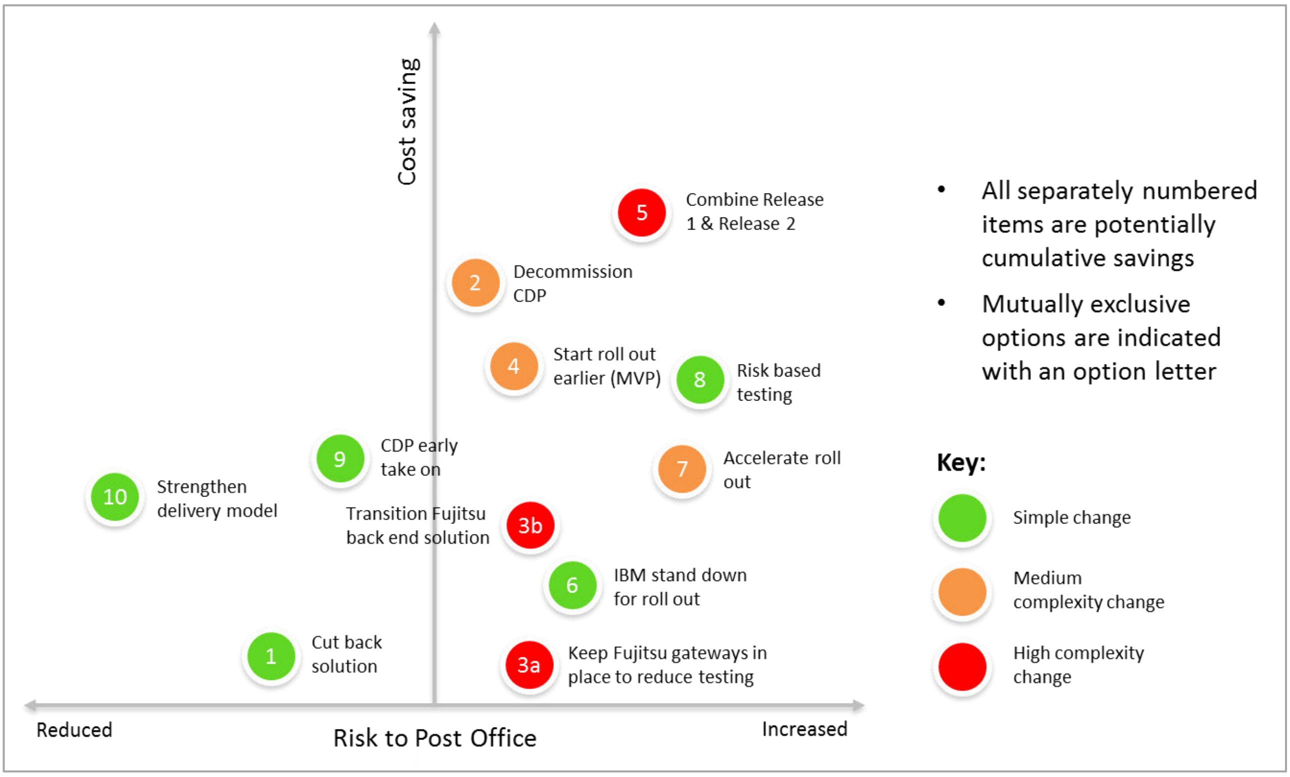


Figure 9: IBM Descope Risk/Cost Assessment

Appendix B: Detailed options analysis.

w. The options analysis below illustrates how well each solution meets our objectives. A high assessment means that the solution meets our objectives fully, a low assessment that there are significant issues in meeting our objectives.

Critical Success Factors (CSF)	Option 1 Continue	Option 2 Terminate	Option 3 Partially Terminate	Option 4 Rescope Solution
Clear financial benefits on a like for like basis that has been challenged for credibility (CSF1)	Low (1)	High (5)	High (5)	Low (1)
Acceptable legal and procurement risks (CSF2)	Please see separate Trinity: Options and Risks paper			
A significant reduction in delivery risk (CSF3)	Low (1)	Medium (3)	Low (1)	Low (1)
Confidence that the solution works (CSF4)	Low (1)	High (5)	High (5)	Low (1)
Additional functionality can be added in at acceptable cost in an acceptable timescale (CSF5)	High (5)	High (5)	High (5)	High (5)
Confidence that our supplier will behave as partners, making change easy and cost effective as it evolves beyond what we need today (CSF6)	Medium (3)	Medium (3)	Medium (3)	Medium (3)
Strong belief that we can manage the impacts on the integrated plan and IT transformation contracts (CSF7)	Low (1)	High (5)	High (5)	Low (1)
Communications strategy for multiple stakeholders, with government acceptance (CSF8)	High (5)	Medium (3)	Medium (3)	Medium (3)
Credible governance structure to manage supplier contractually, engaging the business leadership as well as IT (CSF9)	Medium (3)	Medium (3)	Medium (3)	Medium (3)
Improved management controls & processes to reassure ourselves re Sparrow (CSF10)	High (5)	High (5)	High (5)	High (5)

These CSF's have then been summarised against the objectives of Trinity:

Objective	Supporting Critical Success Factor
Provide Continuity of Service	• Confidence that the solution works (CSF4) • Credible governance structure to manage supplier contractually, engaging the business leadership as well as IT (CSF9)
Simplify programme delivery and minimise operational risk	• Acceptable legal and procurement risks (CSF2) • A significant reduction in delivery risk (CSF3) • Strong belief that we can manage the impacts on the integrated plan and IT transformation contracts (CSF7) • Communications strategy for multiple stakeholders, with government acceptance • Improved management controls & processes to reassure ourselves re Sparrow (CSF10)
Reduce overall cost and provide financial certainty	• Clear financial benefits on a like for like basis that has been challenged for credibility (CSF1)
Provide a mechanism for front office enhancement	• Additional functionality can be added in at acceptable cost in an acceptable timescale (CSF5) • Confidence that our supplier will behave as partners, making change easy and cost effective as it evolves beyond what we need today (CSF6)

[redacted]

[redacted]

Appendix E: Impact on Wider IT Plans

a. We have an IT strategy agreed with the Board to:

- Separate our IT from RMG and build our own digital platform
- Move to a streamlined and modernised IT architecture & Supply chain model
- Maintain continuity of service whilst transitioning services to the new model

b. Our strategy for separation of IT from RMG remains the same and we continue to implement in line with plans and have separated our Digital Platform from RMG. As such Project Trinity has no impact.

c. Within our original Front Office plan we intended to transition management of our Common Digital Platform to IBM, and this would be integrated with Horizon through a set of common micro-services. Under Project Trinity this will not occur, and there will be a need for additional work on Digital Strategy. This is a change but presents the Post Office with an opportunity to transform our digital delivery based on a more incremental business strategy.

d. There remains a strong business need to move to a streamlined and modernised IT architecture and supply chain and implementation of HNGA is one step in this direction. However the transformation is complex, with significant risk – especially in simultaneously replacing front office hardware, software suppliers and data centres. Project Trinity allows us to move to a streamlined architecture at a more measured pace, with less risk. Work has been initiated to review our IT Strategy by Q2 2016/2017.

e. It is still our intention to provide branches with new kit through end user computing, but Project Trinity provides an opportunity to not just provide continuity of service but accelerate transformation through ePOS integration and small footprint devices. This is being explored as part of Board sponsored activity on new network models and an update will be provided at March Board.

f. Replacement of non-branch kit through EUC Admin is unaffected by Project Trinity; as are our plans to move to a new IT network with Verizon.

Appendix F: Summary of contract terms

a. **Condition subsequent** - In the event that there is a challenge under the Public Contracts Regulations 2015, Post Office may terminate CCN 1600 and the Horizon Agreement will continue on the terms that existed immediately prior to the signature of CCN 1600.

b. **Expiring Services** - Those services which are already set to expire under CCN 1400 and 1500a will expire as agreed. The Operational Business Change (Branch Change) Service ("OBS"), Branch Network Service ("BNS") and Branch Network Resilience Service and CMT Service will expire on 31st March 2017. The POLSAP Hosting Service, POLSAP Applications Support Service and support for the Credence/ MDM Service and the Salesforce Support Service will expire on 31st March 2016. Extensions will be available for BNS, OBS, POLSAP and Credence. Additionally, Test Rigs will expire on 31st March 2017 but there will be subsequent CCN, to an extension to the Test Rigs through to 31st March 2022 (the charges for this extension are not included in this CCN1600).

c. **Extension** - The Agreement will be extended to 31 March 2021 with the ability for POL to seek two additional one year extensions (giving a long stop date of 31 March 2023). All services apart from the Expiring Services will continue to this point (unless otherwise terminated).

d. **Oracle database** - If Post Office does not refresh the Oracle database, Fujitsu will provide support for an additional charge (130% of the supported system charge plus all Incidents associated with the Oracle database will be resolved on a Time & Materials basis).

e. **Termination for convenience** - Post Office to waive right to terminate for convenience until 1 April 2020. Termination charges will apply for termination for convenience (save in relation to termination of Terminable Services).

f. **Amended Financial Structure** – This includes the following:

(i) The Rate Card (subject to ongoing RPI) is amended and the new Rate Cards comprise an average 18% discount to the on-shore rate and 22% discount for the off-shore rate (effective 1 April 2016);
(ii) the variable to fixed charges position agreed as part of CCN1500a is to be reversed;
(iii) Fujitsu entitled to uplift all operational charges by full RPI from 1st April 2017 for each and every year for the remainder of the term (but RPI will not apply to the £25m run cost until April 2018); and

(iv) an "Invest to Save" model will be implemented whereby Post Office commits to pay £1.3m in each of the first three years of the extended term to Fujitsu and Fujitsu will deliver various savings.

g. **Benchmarking** – This is reinstated but to a limited extent.

h. **Parent company guarantee** – The parent company guarantee with Fujitsu Services Holdings plc will be extended from 31 March 2017 to the end of the new term.

i. **TUPE indemnity** – the TUPE indemnity which Post Office gave to Fujitsu in CCN 1500a which applied to Transitional Support Services will remain but will apply to the Services on expiry or termination of the Agreement. This indemnity shall be capped at three million pounds (£3,000,000).

j. **Data retention** - The provisions regarding the provision of the service desk call and transitional audit data set out in CCN1500a shall continue to apply.

POST OFFICE

IT Transformation Update

Sponsors: Al Cameron   Date: 17 December 2015

Executive Summary

Context

1. At the last Board, we discussed IT Transformation. The output of the detailed, integrated Transformation plan was a delay of 11 months and cost increases of c. £60m. A number of options are being explored to reduce complexity, risk and cost. The most potentially significant, Project Trinity, is reviewing options to determine whether we can retain some or all of Horizon, the existing branch software.

Questions this paper addresses

2. The purpose of this paper is to update the Board on the Trinity option, answering the following questions:
   - Is there a compelling financial case?
   - Is there a way to manage the legal and commercial risks?
   - What are the next steps?

Conclusions

3. Current, high-level estimates suggest that Trinity provides a compelling case, saving POL some £60-90m over the next three years. These are not robust enough for a formal business case but have reinforced our view that Trinity is worth exploring in detail.

4. The legal risks are considerable. A detailed assessment of the contract is in its second phase with Counsel. The Board will be updated at the meeting.

5. The next steps are to agree a preferred way forward, understand the Board's risk appetite and conclude the exploratory conversations with Fujitsu. The approach will be tested by a "red" team as requested. We are building negotiating strategies to address the concerns likely to be raised by other interested parties.

Input Sought

6. The Board is asked to support the proposed next steps, with a view to a formal proposal being brought to the January Board or, if possible, before.

The Report

Context: the IT transformation programme

7. The Board concluded in 2012 that IT transformation should follow a Towers model, with different suppliers delivering specialist services. Following legal advice, contracts were awarded based on a compliant public procurement process to IBM (branch software), Computacentre (hardware), Verizon (network) and Atos (integration). The back office contract is under review with Accenture. Fujitsu, the front-runners for the branch software, with the existing Horizon product, withdrew from the process.

8. The current plan for Front Office assumes that the hardware and network upgrades will be completed in advance of the software roll-out, reducing operational risk. This requires Fujitsu to enable Horizon to work on the new kit.

9. Very confidentially, the IT team reached out to Fujitsu in one last attempt to determine if there is an option for them to upgrade Horizon more permanently. Under new local leadership, they have engaged with us (Project Trinity).

Is there a compelling business case?

10. Horizon Anywhere, which enables the Horizon software to work on Windows, and therefore the new kit, is now working. It will be tested in January and should be available for a full, secure roll-out in Summer 2016. This enables the roll out of new hardware ahead of the IBM solution or the retention of Horizon.

11. Continuing on the Horizon software significantly reduces the scale of change that needs to be designed, built, tested and trained into the network. Unsurprisingly, recent discussions with Fujitsu suggest that a solution retaining Horizon would cost significantly less to build and roll out. However, we would have to factor in the risk of claims from IBM and other suppliers. In addition, Fujitsu are proposing higher running costs, using existing data centres, than IBM are contracted to deliver. We have set Fujitsu three challenges: to reduce the annual cost; to accelerate it by two years into the existing contract period; and to agree an annual efficiency reduction to narrow the gap.

12. The Trinity Steering Group has reviewed high level estimates of the total costs of the existing plan and of Trinity. Over the next three years, the total of implementing and supporting the branch software is reduced in Trinity by around £60-90m. This benefit shrinks over seven years, due to the higher running costs.

13. These numbers are high-level, ungrounded and cannot be relied on at this stage. However, they suggest that the opportunity is material, especially given the reduced risk of Trinity, which is based on software that works and without the deadline pressure caused by Fujitsu's exit.

Is Trinity practical, given the legal and commercial risks?

14. Fujitsu have responded positively and enthusiastically to the new opportunity, with Paula meeting Duncan Tait to confirm intent on both sides. However, Fujitsu are nervous of being involved with further procurements while we are nervous of having to negotiate with Fujitsu without competitive pressures.

15. The IBM contract contains provisions allowing termination for convenience, with set termination payments. These are capped at c.£15m.

16. However, renewing or extending our contract with Fujitsu without going through a new procurement would be a breach of procurement law. Our contract could be challenged by anyone with "an interest" and could be set aside. This could include previously failed bidders such as Accenture and CSC and other IT companies. While technically other parties (such as JFSA) could also bring a challenge, they would have to prove a loss in order to recover damages. The greatest risk is therefore from IBM and other unsuccessful bidders.

17. In addition there is a risk of an action in tort for misfeasance in public office, which could arise where a decision is taken that the Company knows to be in breach of the law. It is most likely that such an action would be brought against Post Office Limited (if the facts were made out). We have therefore ruled out any approach which would be in breach of the public procurement laws.

18. We are considering a range of options that would allow us to continue to utilise the Horizon software. These options include reducing the scope of work undertaken by IBM and requesting IBM to sub-contract work to Fujitsu, possibly through a formal sub-contract arrangement. In each case we are seeking to understand the risk of a challenge under procurement law. It is also unclear if IBM could accept this arrangement. Clearly, it could complicate future operations.

19. The lowest risk option legally would be to terminate the IBM contract and start a new procurement. Given the relative costs and complexities of the different solutions, it is likely that Fujitsu would have significant advantages (as would have been the case had it participated in the Front Office procurement process). Indeed, it is possible that no one else would bid. However, this would add 3-6 months of uncertainty in which Fujitsu would become increasingly confident of our dependence on them.

20. We are also discussing with Counsel whether there are exclusions in the procurement legislation which would enable a more direct award, reflecting the use of a system that exists and works. These carry significant legal risk. We are exploring whether we can sufficiently mitigate these risks and will provide the Board with a verbal update on 17 December.

Next Steps

21. The priority is to confirm the planned route and select an option. We will continue exploratory discussions with Fujitsu, firming up a business case. A recommended solution will emerge from this work, hopefully before Christmas. This will be tested, as suggested, by a "red team", while we evolve negotiating strategies to be used in discussions with interested third parties. Proactive and reactive communications plans are being developed.

22. In the meantime, we have started conversations with existing suppliers to challenge them on costs and complexity. We have held back from taking them through the impact of the detailed planning. If we stick to Plan A, commercial negotiations will also be required. We have also held up the transfer of the digital platform to IBM.

23. We will keep the Board updated and will request additional Board time before the formal meeting in January, should a decision be required.

POST OFFICE LIMITED BOARD

Project Trinity

Author: Alison Jaap Sponsor: Al Cameron, Jane MacLeod 21 March, 2016

Executive Summary

Context

1. On the 9th February the Board approved the termination of the Front office contract with IBM and the extension of the Fujitsu contract for provision of the Horizon point of sale system. The Board approved the one-off costs of £39.1M and the operating costs of £107.3M for the committed minimum contract of 4 years, extendable to six years.
2. The Board authorised the Group Chief Executive Officer ('CEO') and the Chief Financial Officer ('CFO') to finalise negotiations with IBM and Fujitsu and to complete the necessary contractual documentation.
3. On Monday 22nd February we concluded negotiations, terminated our contract with IBM and signed a contract extension with Fujitsu.

Questions this paper addresses

3. This paper addresses the following questions:
   - What are the final commercial arrangements agreed with Fujitsu and IBM?
   - How does this align with the business case presented to the Board?
   - What is our communication plan?
   - What future workstreams have been mobilised?

Conclusions and Recommendations

[redacted]

4. Contract terms have been agreed with Fujitsu in line with Board discussions. This:
   - extends the term of the current agreement for six years
   - provides for an improved financial structure
   - sets an agreement in principle to move to lower cost, shared infrastructure during the term
   - grants POL a perpetual licence for all Fujitsu owned intellectual property rights in Horizon upon a defined time/payment schedule

Strictly Confidential

5. [redacted]
6. The contract extension was published on the OJEU website on 26 February, giving 30 days for challenge and expressions of interest. We have had a number of conversations with IT partners. No conversation to date has raised concern and no media interest has been expressed so far. Internal briefings have been conducted with the relevant teams and the news has generally been received positively.
7. The commercial terms with Fujitsu are as in the business case, with the additional two years of the contract extended on the same terms as previous years. [redacted]
8. We have closed down all "front office" activity and transitioned to a post Trinity programme structure and governance arrangements. We have started workshops to prioritise Trinity 2 enhancements. We are also working through how we would plan to move to a shared infrastructure and how we could be in a position to utilise the IPR. Work is also underway to refresh the IT and Digital strategies.

Input Sought

9. The Board is asked to note the progress made.

Main paper

What are the final commercial arrangements agreed with IBM and Fujitsu?

IBM Termination and Compromise Agreement

5. [redacted]

6. This is in full and final settlement of all amounts owed by Post Office to IBM in relation to the Front Office contract. In consideration of this, IBM has agreed to release Post Office from any claims related to termination of the IBM contract and any purchase by Post Office of replacement IT services from another provider. IBM has returned all Post Office confidential information and provided all deliverables, documentation, milestones, registers, and specially written software delivered under the contract.
7. We have agreed with IBM that all negotiations surrounding the compromise agreement are commercially sensitive and confidential and will not be disclosed to third parties. Responses to any enquiries from third parties will be jointly agreed between Post Office and IBM.

Contract Extension with Fujitsu

8. On Monday 22nd we signed a legally binding Contract Change Notice (CCN 1600) with Fujitsu for a period of six years to 31 March 2023 with the option to terminate for convenience with the last two years of the term. Should we choose to terminate for convenience during this period, compensation will be payable, capped at £10m if termination is in the last year of the term, and at £15m for termination in the penultimate year of the term.
9. During the period, Fujitsu are committed to helping us reduce run costs by moving to a shared infrastructure which they are currently developing. Any additional costs associated with this move are not included within current numbers, however we would expect a viable business case to be developed that will provide payback by reducing remaining ongoing costs to a level closer to IBM proposed costs.
10. Fujitsu have agreed to grant Post Office a perpetual licence for all Fujitsu owned intellectual property rights in Horizon. The total value of IPR has been agreed at £25M part of which will be amortised over the term and part will be payable on expiry/termination of the Agreement. On expiry (assuming 31 March 2023) the amount payable will be £10m, however we expect this will be subject to further downward commercial negotiation should we wish to continue our relationship with Fujitsu.
11. Should there be a challenge under the Public Procurement Regulations 2015, we may terminate the contract extension with Fujitsu and the terms of the Agreement will revert to those previously in place. This allows us to continue to deliver HNGA under our current service agreement.
12. Should a challenge be brought, it is our intention to go straight to tender and to complete a re-tender within five months. We have managed the commercial risks associated with this course of action through a side letter with Fujitsu.

How does this align with the business case presented to the Board?

[redacted]

14. We expect the Post Office project team costs to support exit of IBM and for programme management support to October 2016 of HGNA delivery to remain as outlined (£4.6M); and there has been no change in spend to save funding (£3.9M). Legal costs to date have been c£450K, and should there be no challenge to the contract award within the next 30 days there is a further upside of c£4m of legal fees.
15. The Board approved a minimum four year contract with Fujitsu costing £107.3m, an average saving of £9.7M pa from the current arrangements with Fujitsu, extended to 6 years resulting in an additional £53M of cost. This is on the basis of the same commercial arrangements previously outlined to the Board, but with a formal commitment from Fujitsu and Post Office to jointly work to further reduce run-costs through a move to shared infrastructure.

How have we communicated the change?

16. Our overall communications positioning was constructed to make the development uninteresting in news and political terms, and to underline that there is no change to our ultimate aim to enhance what we do for customers and to demonstrate continued effective programme management. It is also designed to manage potential 'disappointment' about continuing with Horizon, amongst the very small minority who have high awareness of the IBM alternative.
17. We have briefed the following groups:
    - Branch Technology Transformation programme
    - IT and Transformation teams
    - Commercial and Financial Services product/relationship managers
    - IT partners - AtoS, Verizon, Accenture, CSC and Computacenter
    - Client partners – First Rate, MoneyGram, Royal Mail Group
    - Support Services
    - Remaining supplier/partners via product managers
    - NFSP
    - Unite

18. We have not issued a proactive message to branches as awareness of our work with IBM is limited to some 30 postmasters and those colleagues to whom they have spoken. The Branch Technology Programme team are following up with each impacted postmaster individually and we will also brief our Field Support Agents (in case they are questioned by postmasters or branch teams).
19. Responses to date from our client partners have been understanding; there are some indications that partners such as RMG feel more reassured that we are now developing existing software rather than replacing it.

How are we mobilising future workstreams?

10. Following Board approval we have mobilised a series of workstreams to progress key activities:
    - Work has commenced on prioritisation of Trinity 2 enhancements and the development of supporting business cases.
    - Work has been initiated to start to work through the steps necessary to move to a shared infrastructure and to understand how we would take control and use Horizon IPR should we wish to purchase this
    - We are re-assessing our digital strategy.
    - We are undertaking work to review the branch kit and network projects to ensure the minimum delivery cost and impact. We expect to take a decision on roll out in early April.
    - Work has commenced on reviewing and updating our full IT Strategy, and we intend to return to the Board in Q1 2016-17
    - A full, independent lessons learnt review will be carried out over the major IT procurements and reported to the ARC together with management responses