

Mos/216

The Rt Hon Frank Field MP  
Minister of State  
Department of Social Security  
Richmond House  
79 Whitehall  
London SW1A 2NS

27 July 1998



Dear Minister of State,

I am glad that you have had an opportunity to see the ICL Pathway system and that we have been able to discuss the importance I place personally on delivering this system on behalf of the Benefits Agency and POCL. As you have seen for yourself, the system is already eliminating encashment fraud in the 204 post offices in which it is operating and, is capable of being rolled out now to many others.

I understand that you and other Ministerial colleagues will be meeting soon to consider the next steps in this programme, and that you will be deliberating on the results of the independent review of the project carried out by HM Treasury. I think that, following our meetings, you have a pretty good idea of ICL's position but I thought that it would be useful to spell out our position once again (enclosed).

The system is technically sound. The entire project is deliverable within a relatively short timescale (ie within the lifetime of this Parliament) provided there is commitment from all of the partners. The best way forward is to roll out the infrastructure as quickly as possible and to issue the payment card to all legitimate claimants. Failure to do so will significantly damage ICL and its flotation, and the project's Sponsors - the only ones to benefit will be the fraudsters.

cont'd.... /

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Unless we can get an unequivocal commitment soon from the Sponsors, it will not be possible for ICL to raise the additional funding necessary for the programme to continue beyond September. Therefore I hope that you and your Ministerial colleagues will recognise the vital importance of moving forward rapidly on this project.



I am sending a copy of the enclosed memorandum to Ian McCartney MP and to Geoffrey Robinson MP.

*Yours sincerely,*

**GRO**

pp.

Keith Todd

Enc

*cc Ministers  
Special Advisers*

24 July 1998

WITHOUT PREJUDICE

BA/POCL AUTOMATION PROGRAMME: ICL POSITION

ICL understands that Ministers will soon be considering how they should respond to the current situation with regard to the PFI contract which ICL has undertaken for the BA/POCL automation programme. We understand that Ministers will consider the findings of the independent Panel set up by HM Treasury to review this programme as part of their deliberations. Whilst we have no major quarrel with the thrust of the Panel's report, we hope Ministers might find a summary of ICL's position useful.

We bid for this project under the PFI regime. We accepted the risks inherent in designing, developing, building, operating and financing a system which would deliver the services which the Post Office and the Benefits Agency (the "Sponsors") required under the contract. We entered into the contract with the expectation that (as was our right under the PFI regime, since we had accepted the risk transfer) we would be allowed by the Sponsors to manage these risks in the way which we judged most appropriate to deliver the required level of service.

We also received and relied upon information and representations from the Sponsors, as to their ability and readiness to discharge in a timely and proper fashion the actions in their organisations which were necessary to enable us to deploy the system within the time period laid down in the contract.

We also relied upon the Sponsors' representations as to the volumes of the various transactions that would be put through the system in the contract operation period.

It was on the basis stated in the preceding three paragraphs that we were willing to enter into the project, and on which we calculated the revenues and profits which we thought we could generate under the project in order to take a fair reward for the assumption of the risk which had been transferred to us.

That is not how things have turned out.

The Sponsors have not allowed ICL to manage the contract in the way required under the PFI regime, without interference. Until after the PA Consulting report last September a team, 150 strong, named the Project Design Authority (a body set up and managed and staffed from the Benefits Agency, despite the fact that the design risk, along with the other risks in the project, had been transferred to ICL as described above) insisted on negotiating every decision in detail, on pain of rejection of the system if its requirements were not satisfied. As a result of the PA Report the PDA has been disbanded, but the damage has already been done. The system has been optimised to an extent far beyond that contemplated in the original contract and, although we have satisfied the increasingly (and, arguably, in some cases unnecessarily) complex requirements of the Sponsors, the result has been that the prospective revenue earning period grew steadily shorter and our costs increased.

Further, our reliance on many of the Sponsors' representations as to timely discharge of their dependencies (particularly in relation to the CAPS project) and as to the accuracy of transaction volumes turned out to be ill-founded.

We have learnt a lot from this experience and in the spirit of partnership we have been prepared to share this experience with HMG. We have made suggestions to HM Treasury as to how complex IT projects under the PFI might be handled in future.

However, ICL cannot, and cannot reasonably be expected to, continue on this basis. From our point of view - but also from the point of view of the Government, it seems to us - a very early decision to revise the terms of the contract is absolutely essential.

The Chairman of ICL Pathway, Sir Michael Butler; the Managing Director, John Bennett, his staff and the Chief Executive, ICL have not lost enthusiasm for - or belief in - this project, in spite of the difficulties and disappointments to date. We are confident that with goodwill and genuine commitment from all sides, this project will bring credit to all involved in it by helping the Government to reduce, if not totally eliminate, social security "encashment" fraud and, once it is rolled out across the country, will help address the issue of "entitlement" fraud; it will revitalise the business prospects for POCL; it will improve the quality of public service to the citizen; it will demonstrate that "joined-up Government" is a reality; and finally it will also help to lay the foundations of an inclusive Information Society in Britain.

Once the system is rolled out across the country, it will provide a means to support many of the Government's objectives; this is not a technological dead end - it is a vital piece of the nation's infrastructure for the 21st century. It is already working well in over 200 post offices and it could be rolled out swiftly across the country if the Sponsors so wished.

The Treasury's independent Panel has clearly and objectively identified the issues which still need to be addressed by all of the parties most directly involved (BA/POCL/ICL). It is important to note that the Panel's review has removed any reasonable doubts which may have existed with regard to the robustness, capability or technological viability of the system which we are building. Therefore, in our view, it is now imperative to accelerate the settlement of the outstanding contractual issues so that all parties can concentrate on stepping up the roll-out of the system.

Ministers should take careful note that the prolonged delay in moving forward to the next stage of roll-out has had a drastic impact on the financial viability of this programme. Moreover, further delays and changes are still being proposed by officials. ICL has invested hundreds of millions of pounds to date and significant further investments are required.

More to the point, unless there is a clear, unequivocal commitment soon by the Sponsors to move forward rapidly on this automation programme, it will not be possible for ICL to raise the financial support necessary to maintain our ongoing, heavy investment in the programme beyond September. In short, the BA/POCL automation programme has become unbankable. Ministers will understand that the financial resources available to us are not limitless without the genuine possibility of an adequate return. The consequences of having to halt further work because of lack of funding would be as serious for the Government as it would be for ICL.

We have made clear our commitment to this project and have demonstrated our willingness to reach a fair and amicable agreement with BA/POCL, but time is running out. We hope that Ministers will recognise the vital importance of moving forward rapidly on this project. We are ready to do all within our power to achieve its successful conclusion.

Keith Todd  
Chief Executive, ICL plc