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IN STRICTEST CONFIDENCE

Tony Oppenheim
Pathway
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5 January 1996

Pathway Financing Structure

Thank you for your letter of 12 December enclosing the Pathway Risk Response. We note that you are not proposing to provide joint and several guarantees from each of Pathway's shareholders for all of Pathway's obligations under the automation contract. Instead, we understand that you are offering several guarantees from each shareholder for its sub-contractual performance obligations together with Pathway lodging a performance bond.

- 1 I am afraid your response does not enable us to clear the category A risk PWY000061. In particular your proposal is unclear as to:
 - 1.1 What categories of risk you envisage will not be covered by shareholders' several guarantees and will therefore be covered by the bond.
 - 1.2 How the performance bond will operate in relation to a failure in the efficacy of the automation system, particularly in the circumstance where the failure is due to a problem with component integration rather than the failure of a specific sub-contractor to perform its obligations. For example, we envisage that the bond would make funds available to Contracting Authorities in the event of a performance failure, but it is not clear to us how this provision would ensure that Pathway are enabled to resolve the problem.
 - 1.3 How the amount of the performance bond can be established prior to ITT.

- 1.4 How we would be able to review and clear your sub-contract and financing documents prior to ITT.

Whilst we remain open to any acceptable alternative to joint and several guarantees we find some difficulty in seeing how we could be satisfied without them.

- 2 In addition we do not find acceptable your proposal that in the event of contract termination due to the fault of Pathway BA/POCL should be obliged to purchase the counter hardware that is installed and is functional.
- 3 We are asking Charterhouse to pursue these matters with you to see if we can close the gap between us. I have asked them to do this urgently so that you can let us have revised proposals by 17 January '96.
- 4 You must appreciate however that failure to satisfy us that your financial structure is sound will result in no ITT being issued to Pathway.

Dave Miller

Dave Miller
Deputy Director BA/POCL Programme

Tel: **GRO**

cc: CNT
Andrew Stott