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**Peter Mathison**  
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Sir Michael Butler  
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7<sup>h</sup> November 1995

Dear Sir Michael

Thank you for your letter of 25 October 1995.

I am grateful for your welcome of the changes already made to the procurement process. Although Pathway have not had a monopoly of good ideas we were, as I have already indicated, grateful for your contribution - and, indeed, for subsequent proposals.

You expressed particular concern about the specification of requirements. As far as the BA are concerned we are now well advanced, after discussion with suppliers, to conclude our requirements and confirm them with our Ministers. While I cannot speak for POCL, it is clearly in the BA's interest for POCL to ensure that the counter equipment is adequately serviceable and that it can support other applications which will help us by spreading the cost. The target date for finalisation of requirements includes provision for supplier response and resolving this by December will not endanger the critical path.

You also remind us of the need to resist the temptation to over specify "how" services are carried out. The Statement of Service Requirements (SSR) was deliberately based on service outputs in line with Treasury guidance. The range of solutions which have been proposed is evidence of the scope for innovation from the private sector. Moreover at the start of Chapter 4 of the SSR service providers were told to concentrate on the underlying business requirements, and where considered appropriate propose alternative business processes to exercise innovative thinking, indicating any benefits, costs or risk implications of their proposals. It is hard to see how more could have been done to open up the scope for innovation. However, we are now at a stage where we need to encapsulate the proposed solution into an unambiguous basis for a long term business relationship between the parties involved. We also need to ensure that because BA and POCL will bear the underlying risks of running their mission-critical businesses in the case of supplier default or failure, that we are satisfied that the "how" is itself feasible.



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David Riggs has already told John Jones that we cannot see a way of progressing the ESNS proposal separately from the main PFI as Pathway had once suggested. We are, however, very interested in extending our requirement to incorporate ESNS as an interim protection. This requires some necessary commercial and technical specification work which is in hand so that we can have substantive discussions with Pathway as soon as possible.

However, we do not recognise the figures you quote. The widely used public estimate of the amount of instrument of payment fraud is £150 million per year and this is a 'raw' figure prior to the introduction of specially targeted measures - such as ESNS in London, the reward scheme and more secure delivery - to reduce it in the short term.

The problems with the initial proposal that Pathway put forward were discussed at some length with Mr Oppenheim, your Finance Director. Pathway had agreed to take away and revise these proposals. The legal point is, as I understand it, that the Negotiated Procedure envisages some negotiation with a shortlist of three service providers (if available) before selection whereas the Pathway proposal would have had negotiation of both Heads of Agreement and Contracts after supplier selection. However, I do believe that there is growing common ground on the possibility of basing ITT on a clear set of contract clauses and a much reduced set of schedules, more directly reflecting the requirements and the solution. This work is being proceeded with the urgency which you would expect.

Yours sincerely

**GRO**

PETER MATHISON  
Chief Executive

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