

HM Treasury

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HM TREASURY

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Treasury Chambers, Parliament Street, SW1P 3AG

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For Information*MR Sibbick CGBPS**IM**MS**MR MacDonnell**MR MacIntyre CII**Spads*

15 September 1998

Dr H. P. M.

Keith Todd
Chief Executive
ICL PLC
26 Finsbury Square
LONDON
EC2A 1DS

*Dear Mr Todd,***BENEFITS AGENCY/POST OFFICE COUNTERS AUTOMATION PROJECT**

As you know, Ministers have been reviewing the future of this project in view of the serious delays to the implementation timetable, and ICL Pathway's failure to deliver a key contractual milestone for which ICL Pathway has been placed in breach of contract

2 We remain seriously concerned by the slow rate of progress on this project which was originally scheduled to be fully operational by October 1998. However, we have decided without prejudice to our legal rights under the existing contracts to allow a period of one month for discussion between the parties to see whether satisfactory commercial terms can be agreed for continuing the project, outstanding differences on the timetable resolved, and a credible programme for full implementation settled





3 To facilitate this process, I am proposing to appoint an adviser to work with the parties towards finding a solution. He will report direct to me, and I expect him to be given full co-operation by all the parties. His terms of reference are attached.

4 To provide a satisfactory outcome, the conclusion of the discussions must meet a number of basic criteria which include

- any adjustment to the contracts must of course be compatible with procurement law,
- the contract must provide a firm date after which the Benefits Agency will have no further commitment to using the benefit payment card. We anticipate the Benefits Agency will wish to complete a transition to ACT-based payment methods by this date.

5. There is one general point I must make to avoid any misunderstanding. ICL Pathway entered into these contracts on PFI terms which entail accepting significant risks. It should be clear at the outset, therefore, that the discussions are not posited on an outcome which would ensure ICL Pathway a positive return on the project.

6 A condition for opening discussion must be agreement that

- no party will issue legal proceedings against any other party while these discussions are being conducted,
- discussions will be conducted in strictest confidence and without prejudice; and



- work on the project will continue in accordance with the existing contracts while discussions are continuing .

7 I trust that you will agree that this is the best way forward and would be grateful if you would confirm by return that you are prepared to proceed on the basis set out in this letter

8. I am copying this letter to Alistair Darling and Peter Mandelson, and to John Roberts and Peter Mathison

Yours sincerely,

GRO

STEPHEN BYERS

GRO