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DEPARTMENT OF SOCIAL SECURITY

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File: KR/69

11 December 1998

BA/POCL AUTOMATION PROJECT

Keith Todd has written to me with a copy of the letter he sent you on Wednesday setting out ICL's final offer in response to your letter of 20 November. I understand that this letter constitutes the essential components of the proposed offer, on which ICL are not prepared to move further; and that this letter is underpinned by 3 supporting papers on acceptance testing, funding, and commercial proposals (ie. pricing etc) on which they say they are willing to negotiate the detail.

In preparation for our meeting on Monday, you and colleagues may find it helpful to have my initial reactions to the proposals as I understand them.

The main element of the ICL offer which appears to be new, is Fujitsu "support" for the £600 million that may be needed to fund the project over its life. If this is to be of value, Fujitsu must be prepared to give a firm guarantee that can be legally enforceable. Anything less would leave the Government very vulnerable should the project fail for whatever reason. I would certainly want to be clear about the nature of the Fujitsu commitment when making our decision on Monday. We would also need to establish more clearly what the implications of this support would be for the level of risk now being accepted by ICL under this proposal.



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Secondly, this revised ICL offer does not make any significant change to the 9 November proposals, which we rejected, in the overall balance of expenditure on the project between the public sector and ICL: ICL are still taking a paper loss of around £100 million, and the NPV of the public sector's additional payments to ICL remain around £230 million - more than £100 million more than was offered under Corbett. On these criteria, I cannot see that their final offer represents a significant move towards the public sector position.

On the specific conditions that the proposals seem to involve, I could not agree to the proposed approach to "acceptance testing". ICL persist in asking for acceptance on the basis of a laboratory test of the systems, as opposed to a live trial - particularly important when for our customers it is the service that is the crucial end product. In fact, the approach being suggested by ICL is almost exactly that followed under the NIRS2 project, where the system was fully accepted in a test environment, but did not work in the field. I am not prepared to sign up to another NIRS2 experience! In any event, when we are talking about a system which is affecting around 15 million people, many of whom are dependent on timely and accurate payment of their benefits for their livelihoods, the political risks are huge if the system is not tested properly beforehand to make sure it works. This is a risk I am not prepared to take.

In discussing on Monday how best to proceed and deciding our route forward, it is worth noting that the project timetable has slipped yet again. The first milestone to arrive since the timetable was last reviewed (as recently as October, in the course of the Corbett discussions) is just about to be missed. There will be knock-on effects on the overall delay to the project of at least 2-3 months, but in practice likely more, given that by then we begin to bump up against the Millennium, with the IT priorities that involves. This does not bode well for the grasp that ICL have of a realistic timetable. The final implementation of the project now looks unlikely to be achieved before the end of 2001; and by that date we could already have made significant in-roads into our programme to introduce an ACT-based system - for example paying up to 50% of our 20 million customers by ACT and bank accounts, with related administration and programme savings, potentially reaching £200 million.



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Finally, we should remind ourselves of how much this project has already cost Government, and the total bill with which we will be faced if we accept the ICL proposals. My Department alone has estimated its losses to date at more than £300 million: and in agreeing to consider Option 1 as proposed by Corbett, we are in effect foregoing £800 million savings in the welfare administration bill we could otherwise have achieved over the next 10 years.

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ALISTAIR DARLING

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