

RESTRICTED - COMMERCIAL AND POLICY

FROM: PETER SCHOFIELD

DATE: 5 MARCH 1999

EXTN: [GRO]

STEVE ROBSON

cc Harry Bush
Adrian Montague
Robert Ricks
Alan Mawdsley
Tim Drew

BA/POCL

A quick summary of where I think things are:

2. On the legal side, BA and POCL lawyers are producing a letter for you to send to ICL - ideally before we meet them on Monday morning. There's some disagreement on the text (I attach an early draft together with a covering note from DSS). I will let you know when I have an agreed text.

3. As you know, Adrian is in Tokyo on Monday and Tuesday, and will be meeting Fujitsu. I have given him the attached text to speak from. I suggest you also draw on this for your meeting on Monday.

4. There are two particular questions which this text draws out and which we need to resolve on Monday with ICL:

- why the March deadline is so crucial - it does not seem to fit with either ICL or Fujitsu's reporting years;

- whether the auditors would accept a non-binding reassurance of the Government's intentions, such as a letter of comfort.

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5. Some other points to note from ICL's letter:

- the second of their four options (delivery of the core system) refers to the suggestion that they raised at your first meeting with them of rolling out the basic Horizon platform without any capability to pay benefits, though it would provide automation for some of POCL's other activities. As we discussed at the time, this would leave ICL in the driving seat in the commercial negotiations - we would be locked into using them to add a smartcard to the system;

- ICL's option four - termination for convenience - would land us with a bill of £340 million;

- ICL preferred option, set out in the appendix, involves a contractual joint venture with POCL to deliver Modern Government services. The current partnership POCL and ICL have on this second phase ("Golden Cloud") is based only on a declamation of intent.

6. Finally, as we discussed, I'm going to try and have a word with Peter Copping from PA on Monday, to see if we can devise a way to define more clearly with ICL the commercial envelope within which they will be operating.

PETER SCHOFIELD
PEP

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SPEAKING NOTE

Officials from the Treasury and ICL have been working together on a without prejudice basis to try and find a satisfactory solution to the project.

Initial signs are that we will find an acceptable way forward, subject to agreeing commercial terms. But will probably need until the end of next month before these discussions are resolved.

We cannot enter into any form of legally binding agreement at this stage. Need to see the whole package, including the commercial terms. Our position remains that ICL are in breach.

Given the promising progress that has already made, would very much hope to avoid matters being brought to a head prematurely, by the recognition of a provision in this year's accounts.

How firm is the end of March deadline. We understand that

- ICL's year end is December, so they have until the end of July to file their accounts under Company House rules;

- Fujitsu's year end is March 1999. When do they need to file their accounts? Understand last year it was end of May.

Would the auditors be prepared to accept a non-legally binding letter of intent?

At the end of the day, a decision on the solvency of ICL depends on Fujitsu. Given the promising progress to date, very much hope they will allow discussions to continue.