

17. MAY. 1999 17:45

DSS PFD SPECIAL PROJECT

NO. 7802 P. 1

RESTRICTED - COMMERCIAL & POLICY FAX COVER SHEET

To: Paul Rich

FAX No:

GRO

Location:

No of pages (including this sheet): 4

From: Sarah Graham

Date: 17 May 1999

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Message: PLEASE SEE ATTACHED

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DSS PFD SPECIAL PROJECT

NO. 7802 P. 2

① Brief Commentary.

② Has Mendsley incorporated
this into the offer. - Higham
and Ark.**RESTRICTED - COMMERCIAL & POLICY**

To: Alan Mawdsley HMT

From: Sarah Graham PFD Spec Proj

Date: 17 May 1999

Copies: Steve Robson HMT
Peter Schofield HMT
Sarah Mullen HMT
David Sibbick DTI
Paul Rich Post Office
Vince Gaskell BA Proj Dir
Ken Davenport BA/COBAP
Ron Powell DSS/Sol
Jeff Triggs Slaughter & May
Hamish Sandison Bird & Bird

BA/POCL AUTOMATION PROJECT: REVISED COUNTER-OFFER TO ICL

1. I confirm that from a DSS perspective, we are broadly content with the terms of the revised schedules. Our detailed comments are attached.
2. However, from a wider Government perspective, I think I should flag up a number of concerns:
 - Schedule 2: revised proposals for ICL liability does leave the public sector significantly exposed - as Steve Robson recognised: should the system crash half way through its roll-out (say after 8,000 offices had been rolled-out), ICL could still qualify for nearly 50% of the sums due under the periodic payment arrangements, with no obvious redress for POCL/the public sector;
 - looking at the specific proposals on liability, we need to be clearer about the "fee retention" arrangements, to ensure that we preserve some redress for POCL/public sector should the system fail to work in practice (as happened with NIRS 2) - see more detailed comments attached;
 - on value for money/PAC scrutiny, however good value this option can be made to look in relation to termination, in practice we will be paying to ICL £817m for the platform, EPOSS and OBCS - as compared with about £870m for a complete system under the original contracts. This works out at about £20,000 per Post Office terminal for a five year period and looks very expensive.
3. Happy to discuss any of this further, if that would help.

MRS SARAH V GRAHAM
PFD Special Projects

App/May/Mawdsley-17.05.99.doc

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DSS PFD SPECIAL PROJECT

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RESTRICTED - COMMERCIAL & POLICY**BA/POCL AUTOMATION PROJECT: REVISED OFFER TO PUT ICL****REVISED COUNTER-OFFER FOR HMG, 17 MAY 1999****A. Schedule 2 (Payment Schedule)**

Agree to revised roll-out rate to be submitted by Paul Rich, to inform the number of Post Offices to be rolled-out at each milestone stage, but:

- need to clarify the "fee retention" arrangements: what is meant by the "Core System Completion Date"; and when is it? We would like to see some "fee retention" arrangements until actual completion of roll-out - otherwise there is insufficient protection for the public sector, if the system does not work as it is rolled-out (a real risk, as we know well from NIRS 2)).

B. Draft list of issues

- Conditionality: confirmed that we should not move away from public sector position on conditionality: no way that we should accept unconditionality on a contract of this size and where there are so many issues unresolved.
- Milestones: accept changes; but share HMG's concern to flag up the additional risk that flows from limiting the milestones at which liquidated damages could be imposed.
- BES code: helpful to clarify at whose costs the BES code will be stripped out after NR2, if not POCL's (ICL had originally claimed that it would cost in the region £10m).
- Liquidated damages: content.
- Rights of Termination: retain ability to terminate if detailed contract not signed by agreed drop dead date.
- Transitional Arrangements: the DSS/BA assessment of the cost of transitional arrangements, is £30 per Card which suggests a cap of £1m. Helpful to clarify with ICL (a) this is what they intended to put in their proposal (rather than £10m); or if not, whether what other costs they envisage under these transitional arrangements.

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- Other: just to confirm that, on the understanding that OBCS is included in the overall payments to be made to ICL, it is not an issue now for this schedule. But it remains an issue between POCL and ourselves – and also for KPMG costings, if in practice ICL have charged heavily for this service – which POCL will then pass to DSS/BA: we have an obligation to pay for OBCS costs under contract “B”, so we need to know what they will be!

SVG
DSS
17 May 1999

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