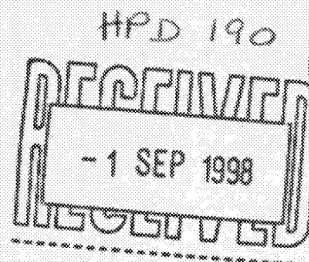


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TO **GRO**

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To: Post Office Counters Limited

Atten/Ref: Mena Rego

Fax No: **GRO**

cc: Dave Miller

Fax No: **GRO**

From: Hazel Grant

Client: BA/POCL

Account No: BPOCL/1

Date: 28 August 1998

Time:

Number of pages (including this page): 25

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Message:

Please see attached.

Partners

D Harris
C E Camm
D M Cuthwaite
T M Cook
R N Scott
P J Christie
P Smith
D W Byrom-Cook
G I H Smith
J R C Walford
D Kerr
M Macdonald
D M C Stone
C W Ross
S J Hubert
P D Quinn
H R Sandison
D M Ayles
R J Wynn
S R Graham
C M Cuthwaite
N T Jenkins
R M Bicknell
S K Topping
T C G Tether
H E Pearson
V S A Cook
T R D Aserson
J Stannard
C J R Barron
D C J Cook
J M Cragg
M R Hylke
C Powell
A J Sanderson
H J Robins

Consultants

K T Arnold
S N L Chilton
P J Darr
R F Fawcett
Dr J N Wadsworth

*not a solicitor

EC Office 209A Avenue Louise, 1050 Brussels, Belgium Telephone: **GRO** Facsimile: +32-2-644 2486Hong Kong 25/F Pwning House, 16 Ice House Street, Central, Hong Kong Telephone: **GRO** Facsimile: **GRO**

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P01

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P.02/27

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Our Ref: HRS/HIG/SJB/BPOCL-1

Your Ref:

28 August 1998

Mena Rego
Post Office Counters Limited
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www.twobirds.com

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Dear Mena

RECOMMENDED NEGOTIATION STRATEGY

Thank you for your letter of 26 August addressed to Hamish Sandison. Hamish is now on holiday and has asked me to reply on his behalf. Our comments on your points are as follows:

Standstill

We note your initial comments on the Standstill Agreement. Our view is that the Standstill Agreement should be signed, especially before any negotiation meeting. As a result, we would appreciate your comments on the Standstill Agreement as soon as possible.

Project Mentors

I attach:

1. A copy of the terms of reference for Project Mentors; and
2. A copy of the initial report, which is issued for comments.

I appreciate that you have not yet formally agreed the terms of reference for Project Mentors, and therefore sending you the initial report at this stage may be a little premature. However, I have enclosed the initial report on the basis that you will shortly be able to agree the Project Mentor's terms of reference.

Partners

D Harris

G E Cairns

D M Caythwaite

T M Cook

R N Scott

P J Christie

P Smith

D W Byam-Cook

C J H Smith

J R C Walkley

D Kerr

M MacDonald

D M C Stone

C W Rees

P D Quinan

H R Sandison

D H Ayres

R J Ward

C M Crutchwaite

N T Jenkins

R M Bickerton

S K Topping

T C C Trehar

H E Pearson

V S A Crook

T R D Anson

J Stannard

C J R Barrett

D C J Cook

J M Gynell

M R Hatke

G Powell

A I Sanderson

H J Rubin

J W Baker

P R Brownlow

I D Hunter

F A Reeve

J Sims

P C Dally

R H Butterworth

N S P Blundell

Consultants

K T C Arnold

S N L Chilton

P J Dann

R F Fawcett

Dr I N Wymen

*not a solicitor



INVESTOR IN PEOPLE

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Joint Instructions to Counsel

We note your comments.

General

Hamish would like to discuss this issue with you direct, upon his return from holiday.

Please contact me if you have any questions on this letter.

Yours sincerely

GRO

HAZEL GRANT

cc: Dave Miller, POCL

- 2 -

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P03

28-AUG-1998 18:36 FROM BIRD & BIRD

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**PROJECT MENTORS LTD.
as Subcontractor to Bird & Bird****Terms of Reference
Expert review of BA/POCL Payment Card Programme**

Carry out an expert review of the BA/POCL Payment Card Programme to support negotiation and potential litigation between the Sponsoring Authorities and ICL Pathway, including:

- (1) Assess the strengths and weaknesses of the Sponsoring Authorities' case.
- (2) Prepare a report, by August 28th 1998, giving an initial assessment of those areas where ICL Pathway have alleged that there was Sponsor culpability for delays that occurred before the replan in February 1997.
- (3) Coordinate the preparation of a quantum of costs, incurred by BA and POCL in their preparations for the Payment Card Programme, that would substantiate a claim for damages resulting from termination of the Programme.
- (4) Work in the negotiation team, carrying out such components of the expert review as are agreed by the team to be needed at each stage of the negotiation.
- (5) Plan and direct the work that will be needed to identify, retrieve and review all the documents that will support the negotiation and potential litigation.
- (6) Prepare such reports as are deemed necessary by the negotiation team to support ongoing negotiation and potential litigation.
- (7) Report to Bird and Bird, the Benefits Agency and Post Office Counters Limited.

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TO GRO

P.05/27

Project Mentors

GRO

Tel:
Fax:
E-mail: ~~mentors@~~

GRO
GRO

August 26, 1998

Mr. Hamish Sandison
Partner
Bird & Bird
90 Fetter Lane
LONDON EC4A 1JP

RECEIVED

27 AUG 1998

27 AUG 1998

Dear Hamish,

Independent Consultant Review of BAPOCL Payment Programme

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I enclose the following:

- a paper copy of my report;
- a future activities list;
- a disk copy of the report;
- an invoice for my work in August;
- a statement of amounts owing.

I will return to my office on Monday morning, September 7th, and will no doubt speak to you in the following week. I have arranged with Rod for a meeting with Duncan that week. I am liaising with Andy Wing and Jim Pimpemell to arrange support so that we can move quickly when I return.

Enjoy your holiday - I will

Yours sincerely,

GRO

Andrew Davies
Director

Project Mentors Limited
Registered in England no.3193018 Registered Office: 30 Upper High Street Thame Oxon

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Bird and Bird

Project Mentors further tasks identified in August 1998 report

in the following table we list all the activities identified as requiring further work in our August 1998 report. The work will involve a combination of interviews and document reviews, with relevant documents identified by interviewees. The work will be carried by a Project Mentors team, with responsibility split by application area. At a later stage, if the negotiations move into litigation, it will be necessary to carry out a more detailed review of all documents found.

Para-graph	Activity	Key people
	Review Project Management	
301 304 305	Develop a full understanding of the project management approach taken by all parties and the tasks carried out	Peter Crahan Bruce McNiven Team Leaders
204 306	Review project reporting	As above
307 404	Review the management of design activities	John Meagher Design team leaders
	Review design	
	Develop a detailed understanding of the design of the systems and the interface systems in BA and POCL	John Meagher Design documents
403	Develop a better understanding of pre-contract design activities	Andrew Stott Dave Miller Gareth Lewis Colin Oudot
404	Develop a better understanding of information given to Pathway pre-contract and their handling of this information	As above
405	Investigate all areas of design to understand whether there was slow resolution of issues by any party	John Meagher Design team leaders
205	Review ICL claims of delay caused by inadequate business analysis and changed requirements	John Meagher Design team leaders
207 406	Review history of CAPS development to develop a better understanding and to assess whether Pathway were impacted by CAPS delays	Vai Curran CAPS design team leaders
206	Review ICL claims of delay caused by slow resolution of issues	Peter Crahan Bruce McNiven John Meagher Design team leaders
	Review general issues	
409	If appropriate, develop an understanding of the POCL premises issue	Dave Miller Bruce McNiven
410	Investigate the preparation of volumetric information	Ken Davenport Keith Baines
208 407 408	Review areas of conflict between the Authorities and consider the impact of the PDA	Peter Crahan Dave Miller Bruce McNiven

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25 June 1998

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**Expert Review of BA/POCL Payment Card Programme
Initial Report August 1998****Contents**

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Expert Review of BA/POCL Payment Card Programme
Initial Report August 1998

1 Introduction

- 101 This initial report has been prepared after a short review of the history of the Payment Card Programme from its inception in mid 1994, following the approval of the Feasibility Study report, to the current time. The review commenced on August 10, 1998 and was completed by August 26, 1998. This report also takes account of previous Project Mentors reviews of the programme, conducted in February - April and July 1998.
- 102 Project Mentors is a Management Consultancy which specialises in the theory and practice of large IT based business change projects. All the directors are experienced IS project managers. Andrew Davies, the director responsible for the BA/POCL programme review, is a visiting lecturer at Cranfield School of Management in Information Systems Project Management and is the Course Director for the Cranfield course 'Managing Information Systems Projects'. We have applied our experience to this assessment of the Payment Card Programme.
- 103 This report gives some initial conclusions, based on interviews with senior management associated with the programme and on some limited review of relevant documents (see Appendices 1 and 2). It concentrates on the delays that occurred prior to the February 1997 replan, focusing in particular on those areas where ICL Pathway have alleged, in various letters, papers and presentations, culpability by the public sector parties.
- 104 Further work will be done to interview a broader range of people and to conduct detailed reviews of relevant documents, in order to prepare a comprehensive report on the history of the programme that clearly identifies the many problems that have occurred and their causes.
- 105 Terms of Reference are set out in Appendix 4.

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Initial Report August 1998

2 Conclusions

- 201 We quote from the Andersen Consulting report of 7th March 1997, 'Review of CAPS and PDA Organisational Structure and Functions':
- 'At face value, the unique challenge faced by CAPS and the PDA in delivering against their declared commitments is the commercial buyer-supplier relationship between two large sponsors of a joint change programme to improve and automate the payment of social security benefits through the Post Office network. But the substance of the work to be managed is itself of enormous complexity because it is effectively 3 separate major programmes of change, to be delivered in parallel. In short we know of no more complex business/IT programme on-going in the UK today, particularly given the interchange between the three programmes (BA/POCL, POCL in-house developments and CAPS).'*
- 202 We agree with Andersen Consulting's conclusion that the Payment Card and Post Office counter automation programme was the most complex IT-enabled business change programme in the UK in 1997. We suspect it still holds that position. The role of the main provider of the base services for such a programme carries enormous responsibility and should be carried out following best industry practice in all aspects of the service provider's activity. The evidence we have seen to date suggests strongly that ICL Pathway have not met this goal.
- 203 We have found no evidence that ICL Pathway have applied effective best practice project management methods that would have been appropriate for managing a project of this scale, scope and complexity. Their failure to deliver products to the published timescales, to warn quickly the sponsoring Authorities that deliveries would be late and to inform the sponsoring Authorities of the timescales for delivery of Authority responsibilities and the implications of delay in delivering these responsibilities suggest serious weaknesses in the planning and estimating techniques applied by ICL Pathway.
- 204 A key component of best practice project management is efficient, regular reporting of all activities completed, active and outstanding, together with assessment of issues arising. We have, as yet, found little evidence of such reporting in this programme, which, in the PFI environment, we would expect to be driven by the service provider.
- 205 It is our impression that ICL Pathway have been primarily responsible for the delays to the programme by seriously under estimating the effort and time needed to develop the services and, as a result, not allocating sufficient resources to complete their contracted obligations within the agreed timescale. We have, as yet, found no documented and quantified claims by ICL Pathway to support their verbal assertions that inadequate business analysis and changes in requirements have impacted their ability to meet the timescale. Such claims would have been a key feature of a well managed service provider programme and we have been surprised by their absence.

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Initial Report August 1998

- 206 A key issue is that the design of the systems to support the service is still not complete, some 2 ¼ years after contract signature. We do not believe that ICL Pathway have given this activity the emphasis and resource appropriate for the task to be carried out. While there are some aspects of the design where there has been slow resolution of issues by the PDA and Contracting Authorities, we have, as yet, found no quantified evidence from Pathway to support their claims that this has caused delay.
- 207 It is not disputed that the Benefits Agency CAPS programme has also been delayed. However, it appears to have met the targets agreed at the February 1997 replan, apart from delays caused by the unavailability of ICL Pathway releases. We have, as yet, found no evidence suggesting that ICL Pathway have suffered delay to their activities as a result of CAPS delays, either before or after the February 1997 replan.
- 208 We do not dispute ICL Pathways claims that there has been conflict between the Contracting Authorities and that the PDA could have operated more effectively. Again we have, as yet, found no quantified evidence that ICL Pathway have suffered delay as a result of these issues, nor have we, as yet, found evidence that ICL Pathway took any effective and timely action to deal with these issues.

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3 Management of the Project

- 301 We have applied our experience of Information Systems Project Management to our assessment of the approach taken to the management of the Payment Card Programme. We have to date gained an initial impression of the management approach. Further work will be needed to develop a full understanding.
- 302 It is clear that the overall programme of change, to create the Pathway payment card operation, to change the benefit payment operations of BA and to automate the counter services of POCL, is vast. We quote from the Andersen Consulting report of 7th March 1997, 'Review of CAPS and PDA Organisational Structure and Functions':
- 'At face value, the unique challenge faced by CAPS and the PDA in delivering against their declared commitments is the commercial buyer-supplier relationship between two large sponsors of a joint change programme to improve and automate the payment of social security benefits through the Post Office network. But the substance of the work to be managed is itself of enormous complexity because it is effectively 3 separate major programmes of change, to be delivered in parallel. In short we know of no more complex business/IT programme on-going in the UK today, particularly given the interchange between the three programmes (BA/POCL, POCL in-house developments and CAPS).'*
- 303 We agree with Andersen Consulting's conclusion that the Payment Card and Post Office counter automation programme was the most complex IT-enabled business change programme in the UK in 1997. We suspect it still holds that position. The role of the main provider of the base services for such a programme carries enormous responsibility and should be carried out following best industry practice in all aspects of the service provider's responsibility. The evidence we have seen to date suggests strongly that ICL Pathway have not met this goal.
- 304 We have not yet conducted a review of the project management of the programme by ICL Pathway, the PDA and the Sponsoring Authorities. Our initial impression is that no formal methods, such as PRINCE, were used. There are well prepared, high level, plans documented in the various versions of the Master Plan and we understand that lower level plans may have been prepared in some areas. The comment by Mr. Bennett of ICL Pathway at the PDA Board meeting on 13th August 1996, when Master Plan version 1 was approved, is revealing. The minutes state (item 4.6): *'Mr. Bennett confirmed that ICL Pathway were anxious to progress from drawing up plans to actually using them and were content therefore to sign off this version for that purpose. He did however want it placed on record that the plan quoted dates which were a mixture of agreed baseline, planned targets, and hoped for dates and that this weakened the effectiveness of the plan and the process for review.'*

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Initial Report August 1998

- 305 The PDA Master Plans are a list of high level activities and milestone dates, but contain no estimates or resourcing. The covering note accompanying version 1 identifies that further work will be necessary to:
- develop sub-ordinate plans;
 - design and put in place reviewing and reporting for sub-ordinate plans;
 - develop sub-ordinate resource plans within the PDA;
 - review ICL Pathway detailed plans for completeness and fit.
- We will investigate the extent to which these tasks were carried out in further stages of our work.
- Our impression from the work we have carried out to date is that Mr. Bennett's comments of 13th August 1996 reflect the weakness in the project management approach taken by ICL Pathway at that time.
- 306 A key component of best practice project management is efficient, regular reporting of all activities completed, active and outstanding, together with assessment of issues arising. We have, as yet, found little evidence of such reporting in this programme, which, in the PFI environment, we would expect to be driven by the service provider.
- 307 Designing a system of the scale and complexity required for the Payment Card programme is a complex and difficult task. In our interviews we have been told that ICL Pathway assigned a small team to this task. In the early stages of the project, the team were very focused on the next deliverable: Initial go live, then release 1c followed by release 2 (release 1e having been abandoned). Design activities for release 2+, the (as yet unscheduled) release which will deliver all outstanding contracted functionality, continue at the date of writing in August 1998. We suspect that the planning, estimating and resourcing for the design activities were not done well and that this has been a main cause of the delays to the development of the ICL Pathway systems. We shall investigate further.

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Initial Report August 1998

4 ICL Pathway allegations

401 ICL Pathway have been actively making allegations since January 1998, in the form of letters, papers and presentations. A list of relevant documents, including replies to ICL Pathway, is given in Appendix 3.

402 We have studied all the documents containing these allegations and have summarised the allegations under nine headings, giving a short précis of the allegation for each heading:

1 Business Analysis

Inadequate business analysis was carried out prior to contract and this has resulted in excessive subsequent work.

2 Design of the solution

The system has been optimised far beyond that envisaged at contract as a result of Authority interference.

3 Slow resolution of issues

Slow resolution of Agreements to Agree, Contracting Authority Responsibilities and Change Control has caused delay.

4 CAPS

The true position on availability of CAPS has been misrepresented and has caused delay.

5 Conflict between the Authorities

Differences between the Authorities have resulted in conflict which has been one of the primary causes of delay.

6 PDA

The operation of the PDA has hindered Pathway.

7 POCL premises

The POCL premises are not fit for the purpose of installing automation equipment.

8 Volumes

The transaction volumes given by the Authorities were inaccurate.

9 Release 1c extension

Release 1c is sufficiently robust for a roll out to several thousand offices.

Table 4.1 shows the cross reference of the allegations to the various documents from ICL Pathway.

In subsequent paragraphs, we consider each of the allegations.

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Initial Report August 1998

Document \ Allegation	1 Business Analysis	2 Design of the solution	3 Slow Resolution of issues	4 CAPS	5 Conflict between the Authorities	6 PDA	7 POCL premises	8 Volumes	9 Release to extension
Presentations Jan / Feb 98	✓	✓	✓	✓	✓	✓			
Position Paper 6/3/98 (refers to pages)	✓ (5)	✓ (2,3,5,6)	✓ (5,6,7,8)	✓ (9,10)	✓ (3,4)	✓ (3,4)	✓ (8)		
Letter 1/5/98				✓				✓	✓
Letter 9/7/98				✓				✓	✓
Letter and paper 27/7/98		✓		✓				✓	✓
Examples: Position Paper 1/6/98									
1 EVP		✓	✓			✓			
2 Foreign encashment	✓	✓	✓			✓			
3 SMART APS	✓	✓	✓			✓			
4 DSS Reference data	✓	✓	✓	✓					
5 POCL Reference data	✓	✓	✓						
6 Conflict and PDA					✓	✓			
7 Drop down		✓							
8.1 CMS end of Interest		✓	✓						
8.2 Summarised receipts		✓	✓						
9 Change control	✓	✓			✓	✓			
9.1 On-line, temporary tokens and casual agents		✓	✓		✓				
9.2 Unmatched encashments		✓	✓	✓					
9.3 Continuation receipts		✓	✓		✓				
10 Contracting Authorities responsibilities			✓						

Table 4.1 Cross reference of allegations to documents

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Expert Review of BA/POCL Payment Card Programme
Initial Report August 1998

403 Business analysis

'Inadequate business analysis was carried out prior to contract and this has resulted in excessive subsequent work'

The Pathway allegations in this area are very general, except in the specific cases identified in the 'Examples' paper of 1/6/98. These cases do identify some requirements which have proved difficult to specify in detail and which had not been fully analysed prior to contract. We will investigate and review these cases in much more detail in the next phase of our work.

However, the overall impression we have gained is that the business analysis pre-contract was of a scale that we would expect from our experience of other projects and that it should have enabled Pathway to gain a good understanding of the scale and nature of the system which they contracted to deliver. The level of resource which we understand Pathway to have allocated to the development of the project post contract suggests that they failed to gain such an understanding.

404 Design of the solution

'The system has been optimised far beyond that envisaged at contract as a result of Authority interference'

In the position paper sent to the Secretary of State on 27/7/98, Keith Todd makes the following statement: *'The Sponsors have not allowed ICL to manage the contract in the way required under the PFI regime, without interference. Until after the PA Consulting report last September a team, 150 strong, named the Project Design Authority (a body set up and managed and staffed from the Benefits Agency, despite the fact that the design risk, along with the other risks in the project, had been transferred to ICL as described above) insisted on negotiating every decision in detail, on pain of rejection of the system if its requirements were not satisfied. As a result of the PA report the PDA has been disbanded, but the damage has already been done. The system has been optimised to an extent far beyond that contemplated in the original contract and, although we have satisfied the increasingly (and arguably, in some cases unnecessarily) complex requirements of the Sponsors, the result has been that the prospective revenue earning period grew steadily shorter and our costs increased.'* (Page 2)

This allegation is weakened by serious inaccuracies it contains, in that the PDA was the Programme Delivery Authority, not the Project Design Authority as stated, and it was staffed from both the Benefits Agency and Post Office Counters, a fact which caused some criticism in the PA Consulting report of 1/10/97: *'there is a tendency to populate the PDA with a balance of representation from BA and POCL, rather than strictly according to required competencies'* - page vi of the Management Summary.

The view of the people from the PDA with whom we have discussed this issue is that Pathway prepared design documents which were submitted to the PDA for discussion and referral to Sponsors where appropriate. Many of these documents required extensive rework to meet the established

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requirements of the Sponsors. There were cases, some of which Pathway have included in their 'Examples' set, where there was a degree of uncertainty and indecision from the Sponsors and, in some cases, conflict between the Sponsors.

However, we have gained a strong impression that the most common problem was a failure by Pathway to grasp the detail of the requirement, which then needed considerable input from PDA and Sponsor staff to correct. We have also been told that Pathway failed to employ sufficient staff to conduct the necessary analysis to develop their design and did not employ effective methods and techniques to perform these tasks.

We have not identified any significant documented complaints by Pathway in the period when they were doing the design work that the Sponsors were extending or 'optimising' the requirements, other than in the area of Security. The Security issues have been researched in detail by PA Consulting, who produced a report in February 1998 that stated: *'our investigations found no evidence to suggest that the Security Requirements were onerous, ill defined and constantly changing. The Requirements were developed in conjunction with Government standards and industry best practice and as such are appropriate and adequate for the programme. They have been stable since February 1996 (before award of contract), with the only post-contract change being a modification requested by Pathway.'*

It should be noted that design work is still continuing, at the date of writing in August 1998, with Pathway and BA/POCL staff working together to complete it.

Our initial view is that Pathway were given adequate information which should have enabled them to understand the complexity of the system which they contracted to deliver. The Statement of Service Requirements (13/4/95) demonstrates to our satisfaction that the Payment Card system will be a complex system that will need to handle both benefit payment and other counter services for BA and POCL. The subsequent extended period of demonstration (six months) leading to the preparation of an Invitation to Tender (29/2/96) containing both requirements and service provider solutions should have given Pathway every opportunity to understand the scale and complexity of the task which they were taking on. We have, as yet, seen nothing to alter our view in our previous report that: *'It is our opinion that Pathway seriously under-estimated the effort and time needed to develop the services when they prepared their proposal and did not recognise this under-estimation in the period from May 1996 to February 1997, when the contract re-plan was agreed'*.

It should be noted that the PA Consulting report of October 1997 also took this view: *'At the outset of this procurement, it appeared to Pathway that the development of a service to meet the PFI requirement could be achieved largely through systems integration, and that its role was essentially one of a systems integrator. In reality, the amount of development work needed was in PA's opinion, seriously misjudged. As a result, time scales and resource needs were underestimated.'* (M3.4)

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We will need to conduct further work to develop a more detailed understanding of the nature of the information given to Pathway and the way in which they handled the information before we can confirm our current, initial view.

405 Slow resolution of issues

'Slow resolution of Agreements to Agree, Contracting Authority Responsibilities and Change Control has caused delay'.

We quote from our June 1998 report and our letter of 1st July 1998:

June report: 'Our review of documentation has identified that some of the hundreds of issues (A2As, CARs and CCNs) have taken a long time to resolve and there are a few instances of documented Pathway claims that delay will be caused if resolution is not achieved quickly. We have not found a single documented claim by Pathway that quantifies the extent of such delay or that states that such delay has occurred.

It is normal in a project of this size and complexity for there to be many issues that require resolution and such resolution may be slow in some cases. We would have expected the development manager (Pathway) to have identified any critical path activities that were dependent on Sponsor resolution and to have documented these to the PDA.

From our interviews, we understand that the responsibility for slow resolution of issues lies with Pathway as well as the Sponsors, as there have been many instances where Pathway have been late in delivering documents or have delivered documents of poor quality.'

July letter: 'It is our opinion that the Pathway examples are typical of the sort of issues that we would expect to be raised in a programme of this type. The fact that none of the issues were escalated through the CNT meeting to the PDA Board supports this view. The final statement of Paragraph 207 of our report, 'Pathway have made no documented claims to support their verbal assertions of delays resulting from slow issue resolution.', still holds as even the 1st June document contains no quantified assessment of the impact of the alleged delays. We do not, therefore, consider that the documented examples change the opinion given in our review of the programme.'

In the short review we have undertaken for the preparation of this report, we have found nothing that alters these views. We will, however, be investigating all areas where there has been significant design work and discussion in order to build a much more complete understanding of what happened.

406 CAPS

'The true position on availability of CAPS has been misrepresented and has caused delay'.

CAPS passes benefit data to the Pathway systems and receives payment data from them. There appear to be two issues which ICL Pathway are raising about CAPS: the first is that they expected a single release on

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1st September 1996 and the second that they were not informed of subsequent delays.

There is some contractual confusion on the plans for delivery of CAPS. In Schedule B7 of the contract, the Timetable, CAPS is shown as due for delivery on 1st September 1996, with no reference to the components due for delivery on that date and with no indication that there will be subsequent releases. ICL have stated in the 5th March Position Paper that: *'It was represented pre-contract that CAPS would be available in one single feed for integration testing on the 1st September 1996.'*

However, Schedule B7 also specifies that there will be a limited go live on 23rd September 1996 and that roll out of DSS services will take place over the period January 1997 to July 1998. There is a reference to the CAPS Component Release Strategy of 28th February 1996, in Requirement 933 in Schedule B1. This document shows that CAPS was planned for delivery in a number of phased releases. The main pre-contract document we have reviewed, the Statement of Service Requirements of 13th April 1995, which was the basis for the ICL Pathway proposal of 8th June 1995, also clearly states that CAPS would be implemented in phases.

Immediately post contract, work started on the production of a 'Master Plan', and version 1, dated 9th July 1996, was presented for approval to the PDA Board, attended by ICL Pathway, on 13th August 1996. It was approved and version 1 was distributed on 16th August 1996. This plan was prepared by PA Consulting for the PDA, BA, POCL and ICL Pathway jointly and all parties appear to have committed to it through their approval at the PDA Board. This Plan shows a phased delivery of CAPS and no comment was made by ICL Pathway at the time.

We therefore conclude that ICL Pathway were notified and should have been aware that CAPS was to be delivered in phased releases commencing in September 1996.

On the second issue, of failure to notify ICL Pathway of CAPS delays, the following statements (among others) were made in the 5th March Position Paper: *'Indeed it now seems that the true position as to the CAPS programme was deliberately concealed from Pathway for several months. It was not until February 1997 that Pathway received notification of the delay to the CAPS programme, by which time fundamental principles relating to the basis of the replanning exercise had been established and these involved Pathway making further substantial commercial concessions so as to minimise delay to the Project.'*

We have interviewed some staff who were involved in the CAPS and Payment Card replans in late 1996 / early 1997 and reviewed certain documents. The situation was not simple, but our initial conclusions are:

- there was a revision of CAPS plans, announced to CAPS in June 1996 and incorporated in Master Plan version 1, that deferred the first card payment for a second benefit after Child Benefit from January to April 1997;

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- a CAPS workshop was held on 4th June 1996, where a presentation was made to show that the revised plans were going to be difficult to achieve. A number of actions were initiated to establish whether the problems could be overcome and what further actions were needed;
- re-planning of the CAPS programme took place over the period to mid October 1996, concluding with a ministerial submission by Ms. Rintoul on 11th October 1996 that stated the need to re-schedule;
- positive statements were made by Mr. McCorkell, on the progress of CAPS, at the PDA Board meetings on 10th July 1996 and 13th August 1996, although the August minute includes references to 'a very difficult timetable' and 'risks of not meeting delivery dates were recognised', suggesting some concerns;
- at the 17th September PDA Board Mr. McCorkell reported that subsequent CAPS releases would be impacted by the work to achieve initial go live;
- no CAPS issues were raised at the 9th October PDA Board;
- it was recognised within BA that an independent review of the CAPS programme would be of benefit and this was commissioned from Ernst and Young, taking place in November and December 1996, reporting in December. ICL, as suppliers of the hardware and systems software for the CAPS platforms, took a part in this review. The review found that the CAPS programme was sound and recommended continuation, but with timetable revisions;
- at the 21st November PDA Board it was minuted that ICL Pathway had taken action to alert and stress the importance of the CAPS review work with senior managers in ICL. It was also minuted that Mr. McCorkell acknowledged the co-operation with and input to the Ernst & Young review from ICL Pathway;
- The revised timetable was formally documented in the 'CAPS Migration Strategy' paper dated 26th March 1997.

Our initial conclusion from our investigations is that there was concern that the CAPS timetable was not achievable in June 1996 and work then took place to attempt to rectify matters, concluding with a realisation by October 1996 that this was not possible. Indications of possible difficulties were being made to ICL Pathway by August 1996, but nothing formal was said until mid October / early November. This suggests that there is little merit in the ICL Pathway claims, in Keith Todd's letter of 9th July 1998, of deliberate concealment of the CAPS position in the period June to August 1996, although our first investigations suggest that there was uncertainty about the CAPS position in this period. Further investigation will be needed to fully understand the position. It will also be necessary to assess whether ICL Pathway's claim that such concealment harmed them holds any merit.

One further issue with CAPS was raised in Keith Todd's letter of 9th July 1998, when he stated: *'Incidentally, the state of the CAPS programme*

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~~appears to have deteriorated further with the recent, unexpected declaration that CAPS will require an additional nine months to carry out end-to-end testing of Income Support and JSA.~~ This complaint appears to relate to the current exercise to prepare a new plan for implementation of the programme. In our discussions we have been told that there is indeed additional time suggested for testing, to recognise that previous ICL Pathway testing estimates have proved inadequate in practice. The implementation of further benefits (Income Support and JSA) has been delayed by some six months, to reduce the time before starting the roll out of Child Benefit and Counter Services to more Post Offices, as it was felt that adding the two additional benefits to the test would unduly delay this activity, to the disadvantage of all parties. The statements in Keith Todd's letter suggest that the logic of this approach has escaped ICL Pathway. We understand that they do not agree with the 'extended' testing which the Benefits Agency requires, not accepting that their test estimates may be insufficient.

We have been told by the CAPS team that their preparations for roll-out of Income Support and JSA are well advanced and are dependent on the availability of Pathway release 2 for integration testing. Subject to a more detailed understanding of the precise position, we therefore conclude that there is a genuine dispute between the Benefits Agency and ICL Pathway on the timetable for testing and subsequent roll-out, which has nothing to do with the CAPS programme.

407 Conflict between the Authorities

'Differences between the Authorities have resulted in conflict which has been one of the primary causes of delay'

This issue, documented primarily in the ICL Pathway 'Examples' paper of 1st June 1998, appears to rely heavily on the conclusions reached by PA Consulting in their October 1997 review of the BA/POCL programme, where the issue is documented in paragraphs 3.5.4 and 4.1.1. Neither ICL Pathway nor PA Consulting attempt to quantify the impact of such conflict on the delays to the programme.

We have found in our interviews that there is agreement that there is conflict between the Authorities but disagreement that it has seriously impacted the programme. The general view is that where conflict has become an issue, it has been dealt with by one of two methods:

- escalation of the issue to senior management, who have managed resolution;
- or, if that was not successful, production of a 'working solution' that ICL Pathway have worked on pending resolution, with a clear understanding that Change Control would be applied if the final resolution amended the 'working solution'.

There appear to be examples where considerable time elapsed before escalation, but this option would always have been open to ICL Pathway. Further investigation will be needed to establish the facts in this area. We have certainly, as yet, seen no quantified evidence that the, admitted,

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assisted Pathway to complete their design earlier. We shall investigate these claims in subsequent stages of our work.

409 POCL Premises

'The POCL premises are not fit for the purpose of installing automation equipment'

This issue is the subject of a separate arbitration procedure and so we have not investigated it. Investigation may become necessary in subsequent stages of our work.

410 Volumes

'The transaction volumes given by the Authorities were inaccurate'

This issue was first raised in Keith Todd's letter of 1st June 1998 when he stated that: *'The facts are that in bidding for the contract, Pathway relied upon volumetric information supplied by the DSS which was represented to be the product of proper and thorough analysis.'* This sentence appears to suggest that there was some fault with the 'volumetric information', but contains no further clarification.

In Keith Todd's letter of 9th July, he states: *'this information (designated by the DSS as 'Best View Volumes' and yet apparently negligently prepared) was relied upon by Pathway.'* He then refers to the 6th March position paper which contains no reference to volumes other than to present the contract volume implications of the delayed conversion schedule.

In Keith Todd's letter of 27th July, he states: *'...our reliance on many of the Sponsors' representations.....as to the accuracy of transaction volumes turned out to be ill-founded'.*

We understand that the volumes of DSS transactions given in the 'Workload Brief' prior to contract were based on the same information as was used by DSS for their own projections. We understand that a recent increase in the number of recipients opting voluntarily for payment by ACT has somewhat reduced the numbers to be paid through Post Offices, but we are not aware of any other major changes to the projections. We do not understand the substance of this claim, but will investigate further.

411 Release 1c extension

'Release 1c is sufficiently robust for a roll out to several thousand offices'

This claim, made in the Keith Todd letters of 1st June, 9th July and 27th July 1998, was refuted in a meeting between George McCorkell and John Bennett of ICL Pathway in August 1998. In a letter dated 7th August 1998, John Bennett sets out the work that would be necessary to extend release 1c to enable roll out to more offices. He identifies several weeks work but then states: *'I do not necessarily recommend that we change the current plan.'* In the past there was no need to roll out release 1c to more offices, as it was expected that release 1e, or later release 2, would follow shortly after 1c. It is only the delay to these releases that has caused Keith Todd to suggest further roll out of 1c.

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conflict has had a serious impact on the programme. We also take an initial view that it would have been naïve of ICL Pathway to expect complete agreement between the two Authorities on all issues, particularly given the extensive experience which ICL have of working with UK Government Departments, which was emphasised as a positive benefit in the ICL Pathway proposal of 8th June 1995.

408 PDA

'The operation of the PDA has hindered Pathway'

The complaints about the PDA take two forms:

- the 6th March Position Paper contains a number of direct criticisms of the operation of the PDA, stating that:
 - *'the PDA has sought to manage the Contract as a joint agent of the Authorities but has lacked the competence and proper authority to do so to the extent that no decision could be taken by the PDA without the direct agreement of both Authorities. This has caused delay, ...'*
 - *'The imposition of the PDA between Pathway and the Authorities has acted as a hindrance to the proper understanding of the Authorities' requirements in circumstances where direct access to the Authorities has been denied.'*
 - *'Regrettably, delay has been the hallmark of the Project inscribed by the PDA, which, without its own business case or incentive to expedite the Project, has acted as if there was no correlation between time and money.'*
- the 1st June 'Examples' paper repeats a number of the comments made by PA Consulting in their October 1997 report.

Our view is that, as should be expected, there is always scope to find fault in a project organisation and experience will show better ways in which it could be managed. This process has been followed by the Authorities in the Payment Card programme, with regular reviews and subsequent reorganisations to implement improvements.

It is our view that any supplier wishing to develop systems for two, very large, Government organisations would demand that there was a single, central, body to which they could interface. The PDA was set up to carry out this role. It is an interesting debate as to whether ICL Pathway would have benefited from more direct interaction with members of the sponsoring Authorities, as opposed to working through members of the PDA responsible for the relevant area, but it is a debate to which there can be no definitive answer.

It has also been suggested to us that ICL Pathway failed to use the PDA effectively in designing their solution, not involving members of the PDA who believe that they could have made a valuable contribution that would have

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Appendix 1 People interviewed

John Cook	BA/POCL	12/8/98
Colin Oudot	BA/POCL	13/8/98
George McCorkell	BA	14/8/98
Peter Crahan	BA	14/8/98
Derek Brown	BA	14/8/98
Ken Davenport	BA COBAP	14/8/98
Steph Fowler	BA COBAP	14/8/98
Andrew Stott	DSS	17/8/98
Dave Miller	POCL Horizon	17/8/98
Val Curran	BA CAPS	19/8/98
Pary Jenkins	BA CAPS	19/8/98
Vince Gaskell	BA CAPS	19/8/98
Peter French	BA CAPS	19/8/98
Pat Kelsey	BA/POCL	21/8/98

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BA/POCL Programme Steering Committee Minutes	1/5/96 ('Evaluation' meeting)
Programme Management Board Minutes	(from 7/95 - 5/96)
PDA Board Minutes	(from 6/96 - 4/98)
PDA Pre-Board Minutes	
CAPS Programme Steering Committee	
CAPS/Pathway Technical Interface Minutes	(May-July 96)
CAPS Programme Board Minutes	
Demonstrator meeting minutes	(from 5/95 - 7/95)

Reports and specifications

Contract	15/5/96
Statement of Service Requirements	13/4/95
Pathway ITT	29/2/96
Pathway proposal	8/6/95 (including 9/10/95 update)
Functional Specification Version 6	26/7/96
Emst & Young 'Review of CAPS'	12/96
Andersen Consulting 'Review of CAPS and PDA	7/3/97
Organisational Structure and Functions'	
CAPS Component Release Strategy	28/2/96
CAPS Migration Strategy	28/3/97
Horizon Programme Replan Summary	23/7/98
HM Treasury Independent Panel Report	July 1998
PDA Master Plan Version 1	16/8/96
PDA Master Plan Version 3	10/4/97
Bird and Bird (Project Mentors) Independent Consultant	8/6/98
Review of BA/POCL Programme	
Bird and Bird (Project Mentors) Independent Consultant	25/6/98 and 1/7/98
Review of responses to ICL Pathway examples	

Miscellaneous

Correspondence between ICL and HMG	1998
Various CAPS and ITSA papers, memos and letters	1995-1997
CAPS Submission to Ministers (Jane Rintoul)	11/10/96

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Appendix 3 List of ICL Pathway allegations and replies to these

Document type	From	To	Date
Presentation	Keith Todd	Peter Mathison	15/1/98
		H M Treasury	27/2/98
Letter	Peter Mathison	Keith Todd	23/2/98
Letter	Keith Todd	Peter Mathison	2/3/98
Position Paper	Keith Todd	Peter Mathison	6/3/98
Letter	Peter Mathison	Keith Todd	22/4/98
Letter	Pat Kelsey	John Bennett	14/5/98
Letter	Keith Todd	Peter Mathison	1/6/98
Position Paper	Keith Todd	Peter Mathison	1/6/98
Letter	Peter Mathison	Keith Todd	26/6/98
Letter	Keith Todd	Peter Mathison	9/7/98
Letter	Keith Todd	Secretary of State	27/7/98
Paper	Keith Todd	Secretary of State	27/7/98
Letter	Peter Mathison	Keith Todd	8/98
Letter	John Bennett	George McCorkell	7/8/98
Letter	George McCorkell	John Bennett	12/8/98

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Appendix 4 Terms of reference

Terms of Reference

Expert review of BA/POCL Payment Card Programme

Carry out an expert review of the BA/POCL Payment Card Programme to support negotiation and potential litigation between the Sponsoring Authorities and ICL Pathway, including:

- (1) Assess the strengths and weaknesses of the Sponsoring Authorities' case.
- (2) Prepare a report, by August 28th 1998, giving an initial assessment of those areas where ICL Pathway have alleged that there was Sponsor culpability for delays that occurred before the replan in February 1997.
- (3) Coordinate the preparation of a quantum of costs, incurred by BA and POCL in their preparations for the Payment Card Programme, that would substantiate a claim for damages resulting from termination of the Programme.
- (4) Work in the negotiation team, carrying out such components of the expert review as are agreed by the team to be needed at each stage of the negotiation.
- (5) Plan and direct the work that will be needed to identify, retrieve and review all the documents that will support the negotiation and potential litigation.
- (6) Prepare such reports as are deemed necessary by the negotiation team to support ongoing negotiation and potential litigation.
- (7) Report to Bird and Bird, the Benefits Agency and Post Office Counters Limited.