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**Bringing technology to Post Offices
and Benefit Payment**

The business case for the automation of Post Offices

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1. Summary

This paper seeks MaPEC authority for Post Office Counters Ltd (POCL), in conjunction with the Benefits Agency (BA), to proceed to the contract award stage of the counter automation project.

The project includes the automation of all counter positions in all post offices, and the new card based benefit encashment service. The business case shows that there are strong strategic and commercial reasons for POCL to automate. The financial case, based on supplier responses, has a marginally positive net present value over the life of the contract. Automation provides a secure foundation for POCL to maintain and attract profitable business, provide opportunities for continued efficiency improvements, and to help secure the nation-wide network of offices.

Approval is therefore requested to proceed with the programme on the basis that:

- the case has a positive net present value,
- the risk to POCL continues to be at an acceptable level.

2. Background

POCL, together with the Benefits Agency (POCL's largest client), has established a joint programme to provide automated services to support the end-to-end process of paying benefits through post offices and support other existing and new POCL business. It is expected that these services will be procured through the Private Finance Initiative and will be available in all post offices. Each post office will have an integrated facility providing the new card based benefit payment service, automated payment terminal facilities (i.e. bill payment), Electronic Point of Sale (EPOS) capability, replacing ECCO+, and provide the capability to support other functionality as required (e.g. electronic scales). The objectives of the programme are summarised in Appendix 1.

Following BA pressure in late 1992 and early 1993 for mandatory ACT for the payment of benefits, BA and POCL worked together to establish the feasibility of cost savings through counter automation. In the summer of 1994 an advert was placed inviting expressions of interest in the automation project. From the eighty who expressed interest, three were eventually selected in July 1995 to discuss and negotiate POCL's and BA's requirements. An ITT was issued on 29 February 1996 and the three suppliers responded on 21 March. A number of issues arose from the evaluation and discussions were held with the suppliers. Suppliers were invited to retender on a small number of areas. Their responses, received on 22 April, have been incorporated.

3. Strategic and commercial impacts

The programme represents a major opportunity for POCL to modernise its operations and position itself as the leading nation-wide provider of automation-based retail services. Automation is a key enabler for POCL's future. It will provide a platform for POCL's commercial strategy of growing through gaining new business by exploiting technology, improving retail design, supporting agents, improving service to customers and clients and improving efficiency. It will help POCL to exploit the wider powers it has been given by Government. Automation will help defend its position against existing and new competition. In addition automation in post offices will support Post Office strategic objectives in the communication and distribution markets

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by providing accessible service points for new hybrid products, exploiting customer databases and exploiting customer footfall to the advantage of all Post Office businesses.

A majority of the product development opportunities identified in POCL's business plan proposals require, or will be enhanced by, automation (35% are considered to be highly dependent on automation, and a further 45% have a medium level of automation dependence).

With BA, automation realises two strategic goals. It reduces anticipated volume and income decline from BA's encouragement of ACT, and eases pressure on POCL prices where BA was unable to release substantial administrative and fraud savings. Indeed, as part of the programme, POCL and BA have negotiated a back-to-back deal which provides for an eight year contract. This includes a floor income level from BA irrespective of actual volume, a limited efficiency discount of 1% per annum and a sharing of residual fraud liability risk. The importance of the agreement, and a Memorandum of Understanding signed in April 1995 with BA, is illustrated by the recent attempt by Treasury to unpick parts of the deal which they regarded as too beneficial to POCL in the light of BA's target to save 25% of its administration costs over two years. An annually negotiated contract would provide BA with greater leverage for a lower price or encouragement of ACT.

To protect POCL's strategic and commercial position POCL defined a number of non-negotiables to guide the programme and judge the success of the project. These were endorsed by the Board on November 1995. All of the non-negotiables have been addressed (see Appendix 2).

Additionally, POCL sees this development as an opportunity to develop a strategic alliance with the private sector service supplier. POCL expects to benefit from this by bringing in commercial private sector culture and skills in product development and marketing as well as the potential for the supplier to bring in products from their own and associated businesses to use the service. However, in exploring these opportunities POCL has ensured it maintains control over its key business processes, and the use made of the services.

The automation programme has a high political profile. The political benefits are a net gain to the public sector from a reduction on social security spending and fraud; active support for the nation-wide network of post offices; and a major success for the PFI.

4. Evaluation

The bids were evaluated on both a financial and value basis. A summary of the evaluation process is at Appendix 3.

4.1 Financial evaluation

POCL evaluated a number of options against a base case:

1. Base case: automation based on the strategy of incremental expansion of ECCO+ and APT. Therefore, POCL would not do nothing, but the expansion of automation would be extremely limited. In this option, POCL would get some

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benefit from new business such as bill payment. The base case assumptions were independently reviewed by Coopers and Lybrand.

2. POCL procurement: full automation funded by the Post Office. In this scenario greater risks remain with POCL. A key assumption is that BA would go ahead, either with a separate PFI or funded by the public sector. In either case BA oppose a POCL funded and owned system, and it is likely that income and volume from BA would be affected.
3. PFI procurement: full automation funded by the supplier with payment based on a usage basis with significant risk transferred to the supplier. Under this option three suppliers proposals were evaluated.

The NPVs (at a 12% discount factor), including an assessment of additional risks, of the automation options against the base case are as follows:

	At best view	Including risks
1. Automation funded by the Post Office:		
Single capital investment:	£124m	£ 50m
Investment every four years	£ 55m	£ (19)m
2. Automation funded through the PFI:		
Tom	£ 47m	£ 30m
Dick	£ 65m	£ 45m
Harry	£ 52m	£ 35m

A more detailed analysis is at appendix 4.

Although the NPV of automation is positive over the base case, the cash flows are negative. These were taken account of in POCL's Business Plan for 1996/97-2000/01 and the target discussions with DTI. However, the suppliers' bids were higher than originally indicated, and therefore the impact on the Business Plan is greater than expected (see Appendix 4, section 2.2). In summary the worst case would be a 1% worsening of any RUC target and an adverse profit impact of £10m by year 5. We believe that this could be accommodated within the plan as discussed in Appendix 4, section 2.2. Without automation the overall business position would be significantly worse.

To quantify the strategic importance of automation to POCL, Charterhouse have prepared an evaluation of POCL with and without automation. This shows that automation would, in the view of Charterhouse, increase the worth of POCL.

The nature of the eight year Private Finance Initiative deal with the supplier means that POCL will only pay for the system as it uses it, reducing revenue/cost risk. The marginal positive return based on a 12% discount factor is made on a project that has no significant capital investment by the Post Office. Capital investment would be in the order of £150m.

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In March 1995, MaPEC gave authority to spend some £6m for development. Sunk costs to 31 March 1996 were £5.4m. It is anticipated that additional ongoing operational costs will be required to manage the implementation of the system and then to manage the contract, and to develop the partnership relationship with the supplier. These, based on programme costs to date, are not expected to exceed £5m a year. Part of the ongoing management costs will be recovered from BA. Approval in principle is required for the remaining programme costs of £10 over the next two years. A breakdown is at Appendix 5.

4.2 Value factor evaluation

Each of the three suppliers were assessed also against ten value factors. These included customer and staff acceptability, fraud free method of payment, credibility, innovation, flexibility, management capability, reliability and support and stability and coherence. All three suppliers exceeded the acceptable hurdle, although overall Tom and Harry had a higher score than Dick. A summary of the value scores is at Appendix 6. No detailed value analysis has been carried out for the PO funded option. However, areas of significant risk would include credibility of delivery, innovation, flexibility and management capability and would be likely to score less well than the PFI suppliers.

4.3 Key Performance Indicators

Overall it is expected to lead to significant improvements in terms of accuracy of transaction and client perceptions (summarised in Appendix 6). However, major risks are around customer and staff attitude, especially during roll-out, and the impact on the quality of service in terms of queuing time. These risks have been addressed in the training and roll-out plans, as well in the contract clauses (including Remedies) with the suppliers.

5. Risk management

The aim of the risk management approach is to achieve best value for money, by balancing the costs and the benefits of reducing risks. A key element of the approach is the appraisal of alternative options or strategies for managing risks in terms of their costs and benefits. Risk management is undertaken at a number of levels:

- programme risks: risks associated with the programme fall broadly under three classifications:
 - local risks of a specifically defined activity or event,
 - pan programme risks likely to impact across the breadth of activities,
 - external risks outside the direct control of the programme.
- supplier risks: as above but specific to a supplier,
- business specific risks: as above but specific to either BA or POCL.

The approach to managing these risks is based on the following principles:

- risk monitoring is supported by an electronic risk register maintained by the Programme Risk Management Group within the programme team,
- risk details are categorised to reflect risk accountability,
- risks are reported regularly to senior management within the programme team and POCL,

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- each risk is prioritised. Out of a total risk complement of 200, some 10 to 20 are expected to be high priority at any one time,
- ownership of risks resides with the managers accountable for their mitigation.

The programme team were assisted by PA Consultants in setting up the risk management approach, and POCL used KPMG to undertake the initial risk assessment from a POCL perspective which was fed into the programme process.

Charterhouse have undertaken a risk evaluation to quantify the risks associated with each supplier. The risks taken into account in the business case include fraud and liability, cost of developing additional products, and technical risks .

6. Benefit management

At Appendix 7 is a summary of how the way forward will be managed. A Programme Delivery Authority is being established which will have responsibility for delivering the programme. Within POCL, a Development Director has been appointed to oversee the PDA and be responsible for, inter alia, delivering the key strategic benefits.

The costs and benefits are also included within the commercial and business plans of POCL, and therefore, the management of delivering the benefits of new business and realise cost savings have been embedded in the management process of delivering the business plan targets.

7. Next steps

In parallel with this submission the BA are similarly seeking the necessary authorities to proceed from their Secretary of State and the Treasury. As this is high profile procurement the Prime Minister's office is also involved. The planned timetable once authorities are granted is:

Announcement by Secretary of State for Social Security	15 May 1996
Contracts signed	End May 1996
Operational trials	September 1996
Roll out commences	Spring 1997
Roll out complete in post offices	Spring 1999
Roll out complete	Spring 2000

7. MaPEC approval

MaPEC is asked to:

1. note that authorised sunk costs of £5.4m have been incurred to date,
2. that the case has strategic and commercial benefit to POCL,
3. to note that the case is marginally positive in NPV terms,
4. to approve POCL's decision to proceed with the programme if the evaluation of prices and risks of the revised bids shows that:
 - the case has a positive net present value,
 - the risk to POCL continues to be at an acceptable level,
5. give authority in principle for the remaining programme costs of £10m.

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Appendix 1

Objectives

The objectives of the project are:

- A fraud-free method of paying benefits at post offices that is automated, has lower end-to-end costs than the current paper-based process, with continuously reducing overall administration costs year on year.
- Extending automation to POCL's other client transactions, its products and its support processes to improve competitiveness, increase efficiency, and to enable greater commercial opportunities for POCL.
- Full and speedy reconciliation of benefit payments, with accounting arrangements consistent with recognised accountancy practices.
- An improved overall service to the parties' customers.

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Appendix 2

Non negotiables

Seven non-negotiables were defined by POCL to provide parameters for negotiations and for assessing the options. These were agreed by the Post Office Board in November 1995. Each non-negotiable is a deal breaker in its own right.

Non negotiable	Comment
1. Acceptable business case for POCL and Post Office	<i>The business case shows a positive NPV at a 12% discount rate</i>
2. Customers perceive no material worsening of service	<i>The proposed solution's impact on transaction times is within acceptable bounds</i>
3. No damage to Post Office brand	<i>There is no immediate evidence that PO brand damage will occur</i>
4. POCL retains control of critical operations and key commercial relationships	<i>Achieved (subject to final AEU clearance of contract terms)</i>
5. Capability for POCL to automate all clients and develop new services	<i>Achieved</i>
6. Automation of all post offices within reasonable time	<i>All post offices should be automated within three years of contract award</i>
7. Chosen supplier has financial and technical capability to develop and deliver the services.	<i>Evaluation conclusions are that these conditions have been met.</i>

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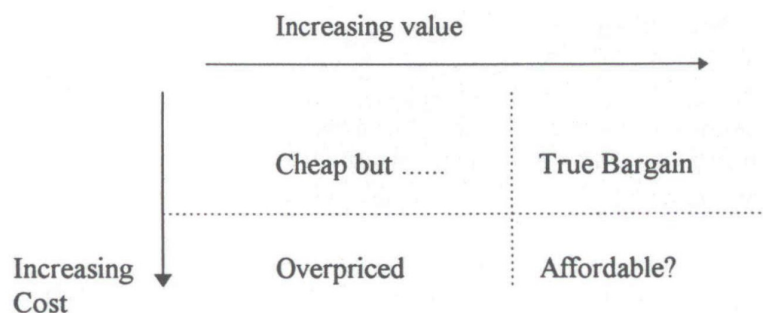
Appendix 3**Evaluation Process**

The procurement and evaluation process has been designed and administered on behalf of the sponsors by experts drawn from their respective organisations. Additional external support has been provided by specialist procurement consultants and commercial lawyers.

The evaluation process has essentially consisted of two elements:

1. Qualitative scoring of a range of factors which are not able to be analysed in financial terms - The "Value" Factors;
2. Detailed financial analysis of suppliers best prices, including costs borne by sponsors, attributable costs relating to risks, and differential levels of PFI risk transfer - The "Financial" Factors;

The evaluation has then been carried out using the following conceptual grid:



The final stages of the evaluation have been conducted as follows:

1. Report of evaluation teams drawn from sponsors (and supported as appropriate by external consultancy expertise) to Evaluation Board;
2. Evaluation Board, chaired by POCL, decision;
3. Endorsement by Programme Steering Committee, co-chaired by Chief Executive BA and MD POCL, and including representatives from sponsors, DSS, DTI and Treasury.

Appendix 4

Financial evaluation results**1. Background**

The business case is dependent on three areas:

- cost reduction:
This is limited because the main area of cost affected is the network cost and:
 - in Crown offices ECCO+ has already delivered a number of savings to be expected from counter automation,
 - POCL does not pay specifically for back of office time in the subpostmaster network where most of the savings are to be gained,
 - cash account processing savings are not generated by automation, but by the TIP project which will exploit further the potential of automation in this area.
- new business development:
The automation of counters is expected to lead to additional opportunities for new business. Indeed, a majority of the development opportunities identified in POCL's commercial proposals require, or will be enhanced by, automation (35% are considered to be highly dependent on automation, and a further 45% have a medium level of automation dependence).
- income maintenance:
Without automation it is expected that there will a fast drift of business away from POCL, or that there will be greater pressure on prices and contribution. Of significant importance is benefit volume and price without automation.

All of these require an assessment of what would happen with automation and what would happen with an alternative. However, for the last three years of business and commercial planning POCL has worked on the basis of an increase in commercial powers and counter automation. Therefore, the income, costs and profit under the automation scenario were an integral part of business as usual.

The options evaluated were:

1. Base case: automation based on the strategy of incremental expansion of ECCO+ and APT. Therefore, POCL would not do nothing, but the expansion of automation would be extremely limited. In this option, POCL would get some benefit from new business such as bill payment .
2. POCL procurement: full automation funded by the Post Office. In this scenario greater risks remain with POCL.
3. PFI procurement: full automation funded by the supplier with payment based on a usage basis with significant risk transferred to the supplier. Under this option three suppliers proposals were evaluated.

Sensitivity analysis has been undertaken based on commercial proposal pessimistic and optimistic forecasts. In the case of supplier related charges pessimistic costs are based

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on the most expensive supplier, while optimistic costs are based on taking at face value what suppliers included in their tenders.

2. Summary of results

The assumptions and results behind each option are included in supporting working papers. The results are summarised in the annex to this appendix.

2.1 NPV impacts

1. **Base case:** the base case shows a fall in volume and income, significantly so in the case of benefit payment transactions over that included in the business plan. This is caused by clients going elsewhere, lack of new business and pressure on prices for a lower service standard to clients. This results in a significant negative NPV. This would significantly worsen profit such that POCL may be forced into a strategy of managed decline.

The baseline has been reviewed and verified by Coopers and Lybrand. It is our belief that we have taken a prudent view. The automation case includes only additional contribution from volume over and above that from an expansion of the present bill payment network. In the case of BA volumes and income, we have not revisited the baseline following the imposition on BA of a 25% cost reduction target over two to three years. We have assumed an RPI-3%, rather than an implied RPI-7.5% to RPI-12.5% over the relevant years

Following Counter Automation, POCL's IT strategy concentrated on small incremental change based on ECCO+ and APTs. Counter Automation demonstrated that a more extensive automation programme could not be successful without the support of key clients, such as BA. The base case is therefore based on POCL's original strategy of incremental change.

2. **PO procurement:** under this option volume and income would grow. However, BA are strongly against POCL funding and owning the system and therefore it is expected that there would be additional pressure on prices with BA. The cost of the system would be lower under this option, although this is partly offset by lower income from BA for the system charges. In addition risk is likely be higher than under a PFI option, including greater exposure to fraud risk, project failure and delays and cost overruns.

This option has the highest NPV, although at some £124m over eight years it is still marginal. After taking account of risks around fraud etc. the NPV worsens considerably to £50m. If POCL replaced the capital investment after four years in line with PO policy, the NPVs would be £55m and £(19)m respectively. However, there would be risks around BA's ability to fund their part of the project or to proceed with a separate PFI. In the case of the latter, this could pose serious commercial risks to POCL, in that BA and their supplier may have greater freedom to use non-POCL outlets.

3. **PFI procurement:** three suppliers have been evaluated. On reasonable case assumptions NPV's range from £47m to £65m. All three suppliers prices produce positive NPVs. After taking account of risks the NPVs range from £30m to £45m.

2.2 P&L impact

The evaluation was not an appraisal of POCL's entire business plan, rather an evaluation of the areas where there would be changes between the base case, a public procurement and a PFI option.

The Business Plan for 1996/97-2000/01 includes both the benefits and costs relating to automation. However, since the preparation of the Plan a number of changes have occurred:

- resolution of negotiations with BA on card issue and back office savings which has resulted in additional contribution over and above that included in the Plan,
- identification of further savings related to existing automated platforms,
- higher than expected supplier charges,
- significant VAT impact.

This has had the following impact on the Business Plan:

	96/97	97/98	98/99	99/00	00/01
Business plan:					
• profit	37	35	37	44	46
Base case:					
• revised profit	30	-17	-27	-32	-33
• additional RUC	0.6	4.6	5.7	6.8	7.0
PO procurement:					
Single investment:					
• revised profit	33	21	60	78	81
• additional RUC	0.3	1.3	0	0	0
PO procurement:					
Replacement after 4 yrs:					
• revised profit	33	21	42	62	66
• additional RUC	0.3	1.3	0	0	0
PFI procurement:					
• revised profit	40	37	28	32	38
• additional RUC	0	0	0.8	1.11	0.8

However, in managing this shortfall a number of actions are being considered:

- VAT: POCL has a low VAT recovery percentage, some 22%. If POCL charged BA VAT on the main contract this would increase recovery to over 60%. This would increase recovered VAT by some £7m a year. However, there are a number of issues to be resolved, including the impact on subpostmasters and other clients,
- Contract management costs: these have been estimated at £5m a year based on current programme costs. However, it is unlikely that ongoing costs will be at this level,

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- Additional products: the system related costs of developing additional products is included. However, each new product will be appraised on a case by case basis, and POCL may not proceed with all products, thus reducing development costs, system charges at the same time as income,
- Fraud: fraud liability has been included. Good fraud management should help to ensure that actual liability does not reach the level included in the business case.

In addition POCL may need to review whether the investment needs to be funded out of other measures such as delaying investment, maintaining income levels higher, through pricing action, than that forecast in the Business Plan.

Against this, there are a number of risks which may worsen the impact, and care needs to be managed to ensure they do not materialise.

3. Risk assessment

In each case an assessment of risk has been made. These include:

- consumables: cost of till rolls, printer cartridges etc.,
- product development: the development cost of additional products to bring them onto the scorecard (scorecard costs are already included in supplier charges),
- fraud: increase in fraud exposure,
- printers: POCL to buy its own printers under Tom,
- service levels:
- longer opening hours: costs of supporting out of hours opening. Probably higher under Tom,
- additional fraud: increased fraud exposure arising from different solutions etc.. In the case of PO procured solution, the entire annual fraud risk of £15m would remain with POCL,
- onus of proof: The cost of proving liability. Under the PO procured option the onus of proof in fraud cases will rest with POCL as it would be operating as a supplier. Dick has accepted the onus of proof. Under Tom and Harry the onus of proof will rest with BA,
- kit installation: the cost of installing kit where office are not up to an acceptable level. In the case of the PO option, these costs have been included in the main costs,
- powers: loss of contribution if Government refuse an extension of powers.

The risks included are:

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NPV at 12%	PO procured	Dick	Tom	Harry
Best view:				
Consumables	15.32	15.32	15.32	15.32
Product development	10.10	10.10	10.10	10.10
Fraud	10.56	10.56	10.56	10.56
Printers	n/a	n/a	2.33	n/a
Additional risks:				
Service levels	n/a			
Longer opening hours support	n/a	0.33	0.33	0.33
Additional fraud risk	47.00	10.19	5.05	5.34
Onus of proof	27.02			
Kit installation	n/a	7.67	9.13	9.13
Powers	2.04	2.04	2.04	2.04

Separate analysis has been undertaken on quantifying programme risks such as delays to EPOS functionality, overall slippage etc. Given the nature of the programme, i.e. PFI and negative cash flows, and that much of the benefits are connected with income and volume protection, delays of up to six months will not have a significant impact on the NPV.

NPV Summary	Base case	Options						Other PFI options					
		Post Office: single & 4 yearly			PFI funded - Dick			Harry		Tom			
		NPV	NPV	Difference	NPV	Difference	NPV	Difference	NPV	Difference	NPV	Difference	
Income													
Benefits Agency	2,119	2,069	-50			2,119	0			2,119		2,119	
Volume change	-203	77	280			77	280			77		77	
Price change	-196	107	303			107	303			107		107	
Sub total	1,720	2,253	533	2,253	533	2,303	583			2,303	583.00	2,303	583.00
DSS Girocheques	325	325	0			325	0			325		325	
Volume change	-21	-188	-167			-188	-167			-188		-188	
Price change	6	2	-4			2	-4			2		2	
Sub total	310	139	-171	139	-171	139	-171			139	-171.00	139	-171.00
Post office business													
Other clients		77	77			77	77			77		77	
Savings on existing automation		40	40			40	40			40		40	
Sub total	0	117	117	117	117	117	117			117	117.00	117	117.00
Total	2,030	2,509	479	2,509	479	2,559	529			2,559	529.00	2,559	529.00
Expenditure													
Total operating costs:													
Benefits Agency	-1,889	-2,112	-223			-2,112	-223			-2,112		-2,112	
Girobank	-297	-140	157			-140	157			-140		-140	
Time increases		-15	-15			-15	-15			-15		-15	
Card issue/back office savings		73	73			73	73			73		73	
Training		-23	-23			-3	-3			-3		-3	
Programme costs: sunk	-4	-5	-1			-5	-1			-5		-5	
Contract management		-25	-25			-25	-25			-25		-25	
Fraud	-1		1				1			0		0	
Total	-2,191	-2,247	-56	-2,247	-56	-2,227	-36			-2,227	-36.00	-2,229	-38.00
Net discounted cash flow before option costs and risks	-161	262	423	262	423	332	493			332	493.00	330	491.00
Option costs													
System charges:													
BES		-122		-191		-145	-145			-145		-145	
POCL		n/a				-220	-220			-233		-236	
Other		-177		-177		-36	-36			-36		-36	
VAT						-27	-27			-27		-27	
Sub total	0	-299		-368	-368	-428	-428			-441	-441.00	-444	-444.00
Total NPV before risk	161	37	124	109	65	36	65			109	62	114	47.00
Assessment of risks		-74	-74	-74		-20	-20			-17		-17	
Sub total	0	-74	-74	-74	-74	-20	-20			-17	-17.00	-17	-17.00
Total NPV (including risks)	161	-111	50	180	19	116	45			126	35.00	131	30.00

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Appendix 6

Remaining programme costs

Estimate of costs required up to completion of roll out:

	1996/97 £000's	1997/98 £000's	1998/99 £000's	Total £000's
Staff & consultants	3,500	2,000	1,500	7,000
Goods and services	1,000	500	200	1,700
Accommodation	200	200	200	600
IT	300	200	200	700
Total	5,000	2,900	2,100	10,000

Appendix 7

Value factor evaluation and KPI impact**Value factors**

The value factors against which the three suppliers were assessed are:

1. Customer acceptability: the service provider needs to ensure that the services are viewed favourably by customers at post offices, and that the benefit payment services are acceptable to all benefit customers choosing to be paid at post offices,
2. Staff/agent acceptability: the service provider's services need to be Post Office and BA local office staff friendly; for example, by being easy to use, responsive and supportive of their job functions,
3. Fraud free method of payment: the measures proposed to make the service for benefit payment fraud free and to maintain the fraud free level,
 - a. fraud free systems for POCL: the measures proposed to make the service for POCL fraud free and to maintain that fraud free level,
4. Credibility of delivery in steady state: the service provider's designs, procedures, tools, methods, resources and organisation need to ensure that the steady-state services will be delivered to time and quality, showing understanding of and empathy with the BA and POCL requirements and objectives,
5. Start-up: the service provider's design, development, acceptance and initial implementation services need to be credible, showing appropriate controls, management interfaces and capability for managing, controlling and delivering the start-up of the services,
6. Innovation: the service provider needs to be proactive, change orientated and demonstrate a genuine "can do" attitude. He should generate creative ideas and understand how to apply technology profitably building upon his initial services, complementing rather than competing with POCL's core competencies. He should seek to do existing things better and better new things.
7. Flexibility: the service provider and his services need the ability to react to external change and to meet a diverse range of existing and potential needs, thereby maximising value for money and faster delivery of new products and services,
8. Management capability: the service provider management needs to be competent, customer focused, accountable, with evidence of well defined internal controls enabling a proper external focus. Suitable quality processes must be in place, and key resources must have skills and experience appropriate to their roles,
9. Reliability and support: the service provider needs to anticipate and prevent problems, with robust fallback procedures for benefit payments and other customer services in the event of system failure. He should regard his first priority as

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maintaining continuity of service rather than referring to the contract in the event of unforeseen problems,

10. Stability/coherence: the prime service provider and his associated consortium members and/or main subcontractors need to have a stable relationship from which to provide the services. The member organisations should balance each others' skills and resources to match those needed to deliver the services. The prime service provider should show his competence to successfully lead such a group of organisations to deliver similar services.

Programme value factors	Tom	Dick	Harry
1. Customer acceptability	5.3	5.3	5.8
2. Staff/agent acceptability	5.0	5.5	6.0
3. Fraud free payment method	5.4	4.0	5.5
3a. Fraud free systems for POCL	5.9	5.1	5.7
4. Credibility of delivery	5.5	4.1	5.7
5. Start-up	5.1	4.4	5.4
6. Innovation	5.8	5.4	5.3
7. Flexibility	4.2	4.4	4.7
8. Management capability	4.5	3.7	4.7
9. Reliability and support	5.2	4.5	5.3
10. Stability and coherence	6.0	4.4	6.2

Impact on KPIs and objectives

The effect of introducing the automated service on POCL objectives is summarised in the following table which also shows which of the non-financial KPIs are supported by each objective.

	Objective	Impact	KPIs Supported				
			QoS	SMART	QPA	Staff	Agents
(a)	customer choice	maintained for benefits, enhanced for other products		√			
(b)	branding	supported		√		√	√
(c)	maintain customer base	supported		√			
(d)	nation-wide network	supported		√	√	√	√
(e)	in all post offices	supported		√	√	√	√
(f)	support commercial and financial integrity	supported		√	√		
(g)	cost effective	supported subject to satisfactory outcome of supplier negotiations			√		
(h)	support agents' business	supported					√
(i)	acceptable to staff and agents	current indications are that agents will welcome the automation and staff will not oppose it				√	√
(j)	facilitate other POCL automation	supported, more so by the generic solution, less by bespoke ALPS-like solution		√	√		
(k)	retain and gain new business	supported			√	√	√
(l)	flexibility to meet client needs	supported, more so by the generic solution, less by bespoke ALPS-like solution			√		
(m)	stability for POCL network as payer of benefits	supported - 8 year contract			√	√	√

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(n)	flexible, efficient it systems approach	supported, more so by the generic solution, less by bespoke ALPS-like solution			√		
(o)	retain customers' trust in POCL integrity	supported; preferred contract structure will maintain POCL's role in providing the customer interface		√			
(p)	facilitate new added value services	supported, more so by the generic solution, less by bespoke ALPS-like		√	√	√	√
(q)	to implement without service quality suffering	this will depend on the design and implementation of the chosen solution. Increased transaction times are seen as a significant risk	√				
(r)	future competitiveness and viability	supported			√	√	√

Appendix 8**Managing the way forward**

1. The Programme is being managed jointly whilst it is being delivered. A new dedicated unit - called the "Programme Delivery Authority" (PDA) - will be set up and empowered to deliver the Programme on behalf of its joint sponsors, POCL and BA/SSA.
2. The PDA's key purpose is to provide a single focus for the chosen supplier to implement the business solution it has put forward in its bid to meet the requirements catalogue specified by BA and POCL. PDA exists to deliver effective end-to-end processes, systems and procedures, through the supplier, that are integrated with the sponsors' day-to-day management and operation.
3. It will be led by a Programme Director who will run a business unit drawn from multi-skilled teams from both organisations. Its scope will include the planning and management of the technical design and architecture, a security authority, a roll out and implementation plan, service management and contract administration with the supplier, change control, and customer education during the implementation period (say, up to 3 years).
4. The PDA will report to a Programme Steering Committee, consisting of lead directors from each sponsor organisation.
5. For POCL, a new Counters Executive Committee member (a Development Director) reporting to the POCL MD, will be dedicated to the sponsorship of the Programme via the PDA. Within POCL, this director will also take accountability for managing the key strategic business benefits that are outside the PDA's scope (such as the scheduling of more products and services from other POCL clients), as well as ensuring that POCL's dependencies and responsibilities are ready in time to enable the PDA to deliver. This will include any commercial contract changes between BA and POCL that need to align with supplier contract changes.
6. In addition, this director will take on accountability for developing a new partnership with the supplier to identify and explore new potential strategic benefits. These may include, for example, improvements in customer service, business processes, or development of new business streams internationally or through new customer relationship strategies. The related benefits are speculative at present and so have not been included in the business case's financial impact.
7. The PDA is not intended to be a permanent unit, and so service management processes and skills will need to be transferred back to the sponsors in an ordered way. It is intended to conduct regular reviews to ensure this is done optimally.
8. POCL has also widened its Resources Director's portfolio to add the accountability of co-ordinating all its major technology projects, through a transformational approach, to ensure that the main components of its key business strategies (such as IS, HR and commercial) are aligned and managed together.

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9. Most of the benefits are around income protection and new business development. The level of benefits have been identified within POCL's commercial planning and strategic planning processes. Therefore, they have been reviewed at business centre and CEC level and are included in the business plan approved by Group. The benefits have, therefore, been signed up to by the individual account managers responsible for the detailed proposals, the business centre directors and CEC. POCL is committed through this process to delivering the business plan forecast profit of which the automation related benefits are a significant part. In short delivering the automation benefits is part of "business as usual" in delivering the business plan forecasts.