

Bringing Technology to Post Offices and Benefit Payments

FINANCIAL EVALUATION OF TENDERS RECEIVED ON 22 APRIL 1996

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Contents	Page
1. INTRODUCTION	2
1.1. Purpose	2
1.2. Background.....	3
1.3. Report Structure.....	3
2. SUMMARY	4
2.1. Introduction	4
2.2. Full Life Costs	4
2.3. Supplier Charges	5
2.4. Attributable Costs.....	6
2.5. Sensitivity Analyses	7
2.6. Financial Conclusions	8
3. BASELINE RESULTS.....	9
3.1. Tender Evaluation Baseline.....	9
3.2. Full-life Costs	11
4. SUPPLIER CHARGES	13
4.1. Charging Structures	13
4.2. Supplier Transaction Charges.....	16
4.3. Off-Scorecard Charges	18
4.4. Charges for Change	18
4.5. Comparison with Previous Tenders.....	18
5. INTERNAL COSTS AND BENEFITS.....	19
5.1. Introduction	19
5.2. BA and SSA Internal Costs & Benefits.....	19
5.3. POCL Internal Costs & Benefits	21
6. SPRR QUANTIFIED RISKS AND BENEFITS.....	22
6.1. Risk Register	22
6.2. Benefits Register	23
7. SENSITIVITY ANALYSES	23
7.1. Introduction	23
7.2. Volume Sensitivities.....	23
7.3. Benefit Customer Behaviour	24
7.4. Roll-out Timescale and Strategy	24
7.5. Charges for Change	24
7.6. Attributable Costs Sensitivities	25

7.7. Combinations of Sensitivities.....	25
7.8. Summary.....	25
8. RISK TRANSFER.....	25
8.1. Introduction	25
8.2. Design and Service Construction Risks	26
8.3. Commissioning Risks.....	26
8.4. Operating Risks	26
8.5. Fraud Risks	26
8.6. Volume Risks	26
8.7. Technology Risks	26
8.8. Residual Value Risks.....	26
8.9. Regulation/Policy Risk.....	26
8.10. Project Financing Risks.....	26
8.11. Inflation Risk.....	26
8.12. Conclusions	26
9. SPONSOR COMMERCIAL ISSUES.....	26
9.1. Comparison of Costs for each Sponsor	26
9.2. Costs of OBCS.....	27
9.3. Card Distribution.....	27
9.4. Fraud Liability	28
ANNEX A - DISCOUNTED CASH FLOW TABLES.....	29
ANNEX B - SENSITIVITIES.....	30
ANNEX C - CASH FLOW CHARTS.....	31

1. INTRODUCTION

1.1. Purpose

- 1.1.1. This paper reports the findings of the financial evaluation of the revised tenders submitted by *Cardlink*, *IBM* and *Pathway* on 22 April 1996 in response to the invitation to re-tender (ITR) issued on 16 April. These were submitted following discussions with suppliers and updated their initial tenders submitted on 21 March 1996 in response to the BA/POCL invitation to tender (ITT) issued on 29 February 1996. This paper supports the overall evaluation results and recommendations set out in paper PWKP4-43, which also describes the re-tendering process.
- 1.1.2. The Evaluation Board are invited to approve this paper as presenting a true and fair view of the financial evaluation (but noting that in some areas it has not been possible to complete all the intended analyses, since some of the necessary data following clarification with two of the suppliers were not available until Saturday 27 April). And for the Board to consider the findings given in Section 2 with the recommendations given in the paper PWKP4-43 to select the winning supplier.

1.1.3. The BA, SSA and POCL commercial teams are directed to Section 9 which sets out factors for consideration in the sponsor commercial negotiations.

1.2. Background

1.2.1. The financial evaluation methodology was defined in papers PWKP4-4 and PWKP4-23. The financial evaluation forms a part of an overall evaluation process described in the paper PWKP4-9. These, and related, papers were lodged with the BA/POCL Programme lawyers in advance of the receipt of tenders on 21 March 1996.

1.2.2. In summary, the Financial Evaluation Team have focused on all financially quantifiable differentiators between the tenders. The main areas include suppliers' charges, residual risks on the Service Provider Risk Register (SPRR), internal costs and benefits arising from different solutions and risk transfer. Estimates of the full-life costs of the tenders have been calculated based on a best view estimate of business workloads (as provided in the Workload Brief in the ITT), and presented in the form of discounted cash flow (DCF) analyses over the proposed life of the contract resulting in a Net Present Value (NPV) figure for the full-life cost of each tender. Against this baseline scenario, various sensitivity analyses have been undertaken as set out in PWKP4-23 to test the validity of the initial assumptions and the results provided in this paper. The team has also considered the financial implications for risk transfer under the PFI agreement, and highlighted financial factors of relevance to the commercial agreements between BA, SSA and POCL.

1.2.3. The Financial Evaluation seeks to show the relative positioning of each tender, and not the business case position for each sponsor. However the detailed work on supplier charges and internal costs and benefits etc. also feeds into each of the sponsor's business cases.

1.3. Report Structure

1.3.1. The broad structure of the report is as follows:

- Section 1 provides the status and background of the report;
- in Section 2, the overall findings of the financial evaluation are brought to the front of the report;
- Sections 3 to 6 set out the baseline scenario costs and their composition;
- Section 7 looks at the sensitivity analyses of varying the baseline assumptions;
- Section 8 considers the financial implications for risk transfer; and
- Section 9 identifies commercial issues for the agreements between sponsors.

1.3.2. Annexes are provided with further detail and in particular the summary of the discounted cash flow (DCF) models.

2. SUMMARY

This section also appears in the overall evaluation report

2.1. Introduction

2.1.1. This section provides a summary of the results of the financial evaluation documented more fully in the financial evaluation report, paper PWKP4-42, attached. The summary is repeated verbatim in the full report.

2.2. Full Life Costs

2.2.1. The results of the relative costs of ownership of the tenders (comprising supplier charges and differential costs attributed to make them comparable) for the best view business workloads are shown in Table 1. These are shown as net present values (NPV) for the life of the contract discounted at 6% and 12% per annum. The table also shows the outline costs, not discounted, for the roll-out and initial Steady State services (from contract award to February 1999) and the average annual costs for the Steady State services.

Table 1 - Full Life Costs with Best View Workloads

Figures in £m	<i>Cardlink</i>	<i>IBM</i>	<i>Pathway</i>
Full Life Costs: NPV 6%	£1257m	£992m	£1041m
Difference (% of lowest)	27%	0%	5%
Full Life Costs: NPV 12%	£977m	£775m	£819m
Difference (% of lowest)	26%	0%	6%
Roll-out (total of 1996/7 - 1998/9)	£242m	£208m	£238m
Steady State typical year (average 1999/00 - 2004/05)	£237m	£183m	£187m

2.2.2. These figures show that *IBM* and *Pathway* offer substantially lower costs than *Cardlink* at the best view workloads, being around 20-25% less costly. *IBM* is around 5% lower cost than *Pathway*. The difference is less in the steady state than during roll-out, reflecting the fact that *Pathway*'s costs reduce year-on-year in both money and constant price terms, while *IBM*'s money prices increase over the contract due to partial RPI-linking.

2.2.3. Differences in the pricing structure result in a different split of these costs between sponsors as shown in the following table:

Figures in £m	<i>Cardlink</i>	<i>IBM</i>	<i>Pathway</i>
Full Life Costs: NPV 6%			
BA/SSA	847	589	663
POCL	410	404	378
Total	1,257	992	1,041

2.2.4. The next sub-sections drill-down to give explanation of:

- (a) the make-up of supplier charges
- (b) the main attributable costs that have been added to the charges to derive the above NPVs
- (c) sensitivity analyses
- (d) conclusions of the financial evaluation.

2.3. Supplier Charges

2.3.1. All three suppliers have submitted tenders with charging structures based on the common charging mechanism. There are differences in their approaches evident in the differing positions in terms of providing set prices for all or only a proportion of optional and additional transactions and setting caveats against guarantees and transaction volumes.

2.3.2. The NPV of the supplier charges over the life of the contract are shown in Table 2. While these illustrate the payments due to each supplier for the best view workloads, these figures are not directly comparable as different supplier solutions and contract terms have differing associated costs of ownership (discussed in section 5 below).

Table 2 - Supplier Charges with Best View Workloads

Figures in £m	<i>Cardlink</i>	<i>IBM</i>	<i>Pathway</i>
Supplier Charges:			
• NPV 6%	1,111	906	904
• NPV 12%	864	708	714

2.3.3. The *Cardlink* price is subject to significant uncertainty because their tender omitted information on discount bands which is required in order to calculate the price for the option in their tender which is nearest to meeting the sponsor directors' brief for the re-tendering exercise.

2.3.4. To illustrate the composition of the suppliers' charges, Figure 1 - Composition of Supplier Charge shows the total charges for the component services over the life of

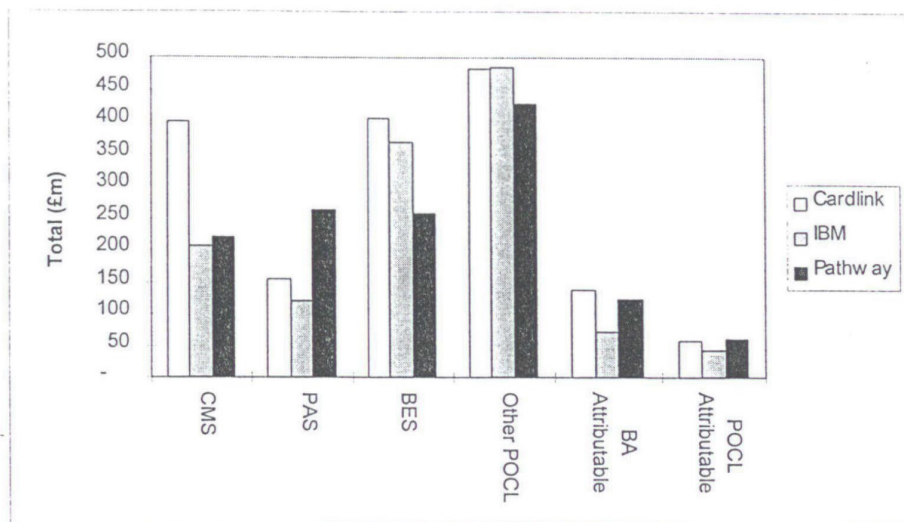


Figure 1 - Composition of Supplier Charge

the contract.

2.3.5. Although Cardlink's charges are consistently higher than the both of the other suppliers, the higher charges are particularly notable in the Card Management area. Pathway's higher charge for PAS is largely offset by lower charges for BES and this is a result of both a different system architecture and a different approach to allocating cost areas including the premium for fraud risk transfer. This would result in a smaller proportion of BA's total costs being charged via POCL.

2.4. **Attributable Costs**

2.4.1. The following summarises the attributable costs for each sponsor.

Table 3 - Attributable Costs

Figures in £m		Cardlink	IBM	Pathway
BA & SSA	6% NPV	102	53	91
	12% NPV	78	41	69
POCL	6% NPV	44	33	46
	12% NPV	34	26	36
Total	6% NPV	146	86	136
	12% NPV	112	67	105

2.4.2. The main cost areas included are:

- (a) Card Issue charges omitted from Cardlink's tendered price;
- (b) higher stationery costs of Pathway's solution for benefit receipts;
- (c) higher residual fraud risk for Pathway compared to the other suppliers;
- (d) differences in contracted transaction times, with Pathway's being significantly longer than times they had demonstrated and IBM's being shorter than any they had been able to demonstrate.

2.4.3. These exclude any cost arising from the transfer of the burden of proof of fraud to the authorities in IBM's and Cardlink's bids. It also excludes a possible lower cost option for consumables in Pathway's bid where sourcing benefit receipt stationery under existing BA contracts rather than using the option to purchase it from Pathway could reduce costs by around £6m per annum, equivalent to a reduction of £30m in the 6% NPV and £23m in the 12% NPV of costs.

2.5. Sensitivity Analyses

2.5.1. Sensitivities of the costs to changes in key assumptions have been tested. The following results are worthy of particular attention.

Benefit Transaction Volumes

	<i>Cardlink</i>	<i>IBM</i>	<i>Pathway</i>
10% increase	BA +3.1%	BA +2.9%	BA +3.2%
	POCL -0.5%	POCL -1.6%	POCL -0.7%
	Overall -1.9%	Overall +1.0%	Overall +1.8%
10% reduction	BA -3.2%	BA -2.9%	BA -3.3%
	POCL +0.5%	POCL +1.7%	POCL +0.7%
	Overall -2.0%	Overall -1.0%	Overall -1.9%

2.5.2. This shows that the variability of IBM's charges with benefit payment volume is around half that of the other two suppliers. This is achieved by setting a discount band break at the guarantee level which achieves a money guarantee of over 90%.

Extent of Automation of Other POCL Transactions

2.5.3. If only the Basic POCL transactions were to be implemented, charges would change as follows:

	Cardlink	IBM	Pathway
BA Charges	+0.7%	+0.6%	+0.8%
POCL Charges	-17.75%	-2.01%	-9.91%

- 2.5.4. This again shows the impact of the high revenue guarantee generated by the IBM pricing structure. Achieving the Cardlink price reduction at that level must be doubtful given the condition in their bid which they could use to trigger a review of prices if POCL withdrew any of the Optional transactions from the guarantee, or if volumes of work through the system differed from current forecasts.

POCL Volumes

- 2.5.5. The pattern is similar to BA volume changes, with IBM's prices being significantly less variable than those of the other suppliers. At the low-line forecasts, Pathway and Cardlink total charges would reduce by around 11.5% while IBM's would only be reduced by 5.6%.

BA and POCL Volumes both Reduced.

- 2.5.6. Again, IBM's prices are less variable than those of the other suppliers, also their pricing structure has the notable effect of increasing BA's total charge in these circumstances even though the BA volumes are lower. In this scenario, charges to BA would reduce by 2% for Cardlink, reduce by 1% for Pathway and increase by 5% for IBM. POCL charges would reduce in all three cases, by 37% for Cardlink, by 35% for Pathway and by 25% for IBM. Overall charges reduce by around 13.5% for Cardlink and Pathway and by 6.7% for IBM.

2.6. Financial Conclusions

- 2.6.1. The analysis shows that Cardlink are significantly more expensive than the other two suppliers for a service which approximates to sponsors' requirements for the retendering.
- 2.6.2. On supplier prices, there is little difference between IBM and Pathway. IBM is marginally lower cost at best view volumes but becomes more expensive at lower volumes. Above 110% of best view the IBM price is uncertain as they have not provided pricing information.
- 2.6.3. The IBM pricing structure achieves an income guarantee for them of over 90%.
- 2.6.4. IBM has lower attributable costs than the other two suppliers and this makes the total cost of their offer lower than that from Pathway. However, there could be a significant increase in the attributable costs as a result of the shift of burden of proof of fraud to the authorities which is still being investigated, and there are major downside risks as a result of the lower fraud liability limit and the annual limit of £50m for supplier's liability in the event of complete failure of the service.

- 2.6.5. Overall, therefore, Pathway and IBM are clearly lower cost options than Cardlink, which is not only the most costly of the offers but also has the highest risks of subsequent cost increases as a result of price review triggers.
- 2.6.6. Pathway appears to be around 5% more costly than IBM at best view workloads, but there is a greater degree of certainty about the Pathway prices than about those of the other suppliers. Also, the overall cost of the Pathway solution may be reduced by around £6m per annum by alternative sourcing of benefit receipt stationery. This would make it the lowest price option.
- 2.6.7. There are significant down-side risks associated with IBM's limits on fraud and general liability. IBM's position relative to Pathway may worsen as a result of additional attributable costs resulting from the changed burden of proof of fraud.

3. BASELINE RESULTS

3.1. Tender Evaluation Baseline

- 3.1.1. Each of the three suppliers submitted a single ("variant") bid in their re-tender documentation received on 22 April. All three have been evaluated, and the findings given in this report refer to these re-tenders and do not consider the initial tenders except as a top-level comparison of reduction in charges (see Section 4.5.). The overall differences between the re-tenders and how these compare with the invitations to re-tender for each supplier are documented in the Contract Assurance Report (PWKP4-40) and summarised in the overall evaluation report (PWKP4-43).
- 3.1.2. To ensure the evaluation produces comparable figures, a common set of assumptions have been used for the baseline evaluation scenario. These are the basis for the full-life costs of ownership given in Section 3.2. The subsequent sensitivity tests adjust some of these assumptions as explained later. The main attributes of the baseline evaluation are as follows:
- (a) **Volumes:** the business volumes (e.g. numbers of transactions, number of cardholders, growth of other POCL client transactions) are best view estimates taken from the Workload Brief issued with the ITT on 29 February 1996. The baseline evaluation includes POCL Basic and Optional transactions as communicated to suppliers through an Annex to Schedule A6 in the Invitation to Tender; it does not include Additional transactions.
 - (b) **Universal Functionality:** the option of a reduced functionality counter terminal in small post offices was considered and rejected by sponsor directors prior to ITR, hence the evaluation is on the basis of the same equipment and functionality to all automated counter positions. The number of automated counter positions is as per Workload Brief, 39,507. The solutions now exclude inventory management functionality in post offices, as agreed with sponsor directors.

- (c) **Roll-out Timetable:** during the pre-ITR discussions with suppliers and sponsors it was agreed to extend the contractual period for roll-out by seven months, with implications for remedies during roll-out and the contract end-date. The baseline evaluation scenario uses the same roll-out profile for all three suppliers as previously established and documented in the Workload Brief. This assumes roll-out starting in January 1997 and all post offices being automated by December 1998 (after two years). The migration of benefit payments from order books to cards would be nearly 80% complete by this date and fully complete by August 1999. In addition to the baseline assumptions, section 7 includes sensitivity tests to show the effect of delays to roll-out. Later in this report, figures are provided to illustrate the comparative costs of roll-out. For simplicity, and transparency of the calculation, this is taken as the sum of the charges for the years 1996/97, 1997/98 and 1998/99.
- (d) **Period of Contract:** as the contractual period for roll-out was extended by seven months by the pre-ITR discussions, and the period of the contract was advertised in the OJEC notice as five years from the planned end of roll-out, the overall period of the contract was also extended by seven months to end in February 2005. In the financial evaluation, the discounted cash flows (DCF) show the payments and costs falling due each financial year (i.e. from 1 April to 31 March) between 1996/97 and 2004/05. The contract identifies "payment years" as running from 1 March to the end of February, with payment due within a month. Hence the volumes given between March and February in the Workload Brief correlate with the charges for each financial year on the DCFs; and the last year of the contract (2004/05) shows charges for a full twelve month's workload.
- (e) **Benefit Card Issue:** the baseline evaluation includes all costs for issue of benefits cards. The default position is that the supplier sub-contracts POCL to provide part of this service, and then includes these costs within their CMS charges to BA. From the POCL perspective, card issue is treated as being cost neutral for evaluation purposes as they would recover their costs from the supplier. The report notes where suppliers have deviated from this model and adjusts the costs to be comparable as far as is possible.
- (f) **CAPS Gateway:** the tenders are evaluated on the basis of there being four gateways between the suppliers' systems and CAPS, one to each DSS Area Computer Centre (ACC). Where suppliers have not included this in their tenders, an attributable cost to BA has been added.
- (g) **OBCS:** the Order Book Control Service is included within the baseline calculations. The additional costs and benefits of including OBCS are discussed in Section 9.2.
- (h) **Receipt Storage and Retrieval:** the requirement for the suppliers to provide a receipt storage and retrieval service was withdrawn by the ITR. *Cardlink* did submit an additional proposal to provide this service and takeover the Lisahally facility. However this is outside the scope of the current draft agreements, and would be progressed if required after contract award.

- (i) **Asset Transfer:** the baseline position on asset transfer is that no assets would be transferred on award of contract, and that asset transfers (such as for Lisahally or ALPS equipment) would be addressed post-award.
- (j) **Inflation:** the baseline evaluation assumes a constant RPI of 3% over the period of the contract. This is included in the suppliers' charges as directed in their tenders and added to the attributed sponsors' internal costs as appropriate. Section # considers the effects of increases in inflation.
- 3.1.3. Where a supplier's tender deviated from the common baseline, costs have been attributed or the charges adjusted (e.g. by adjusting the volumes or applying a costed option declared in the tender) to make the full costs of ownership comparable. These adjustments are identified in later sections.

3.2. Full-life Costs

- 3.2.1. This section gives the overall relative costs of ownership of the tenders, comprising supplier charges and differential costs attributed to make them comparable, for the baseline scenario. Details of the discounted cash flow (DCF) analyses are provided in Annex A. Towards the bottom right corner of each DCF, the net present value (NPV) of the cost of ownership for each tender is shown. These are given in Table 4 below (rounded to the nearest £10m), with the percentage increase of the two higher values over the lowest. These are shown as net present values (NPV) for the life of the contract discounted at 6% and 12% per annum.

Table 4 - Full Life Costs with Best View Workloads

Figures in £m	<i>Cardlink</i>	<i>IBM</i>	<i>Pathway</i>
Full Life Costs: NPV 6%	£1257m	£992m	£1041m
Difference (% of lowest)	27%	0%	5%
Full Life Costs: NPV 12%	£977m	£775m	£819m
Difference (% of lowest)	26%	0%	6%

- 3.2.2. These figures show that *IBM* and *Pathway* offer substantially lower costs than *Cardlink* at the best view workloads, being around 20-25% less costly. *IBM* is around 5% lower cost than *Pathway*.

Cost Profiles

- 3.2.3. To illustrate what these figures mean in terms of costs for roll-out and steady state, Table 5 shows the broad costs, not discounted, for the initial roll-out and Steady State services (the sum of 1996/97, 1997/98 and 1998/99) and the average annual costs for the Steady State services.

Table 5 - Roll-out and Steady State Costs (Undiscounted)

Figures in £m	<i>Cardlink</i>	<i>IBM</i>	<i>Pathway</i>
Roll-out (total of 1996/7 - 1998/9)	£242m	£208m	£238m
Steady State typical year (average 1999/00 - 2004/05)	£237m	£183m	£187m

- 3.2.4. Again, this shows Cardlink consistently more costly than the other two suppliers. The difference between IBM and Pathway is less in the steady state than during roll-out. This reflects the fact that Pathway's costs have a 10% reduction in money terms over the contract while IBM's are constant. In addition Pathway accept inflation risk in full up to 6% per annum whereas IBM would require annual price increases of around two thirds of the increase in RPI up to a maximum of 3% for a 5% RPI increase.
- 3.2.5. The suppliers' charges grow significantly during the roll-out period as the number of post offices and transactions are automated, and then subsequently plateau or in some cases decline as future price reductions apply. This profile is shown in the charts at Annex C which show annual and cumulative annual charges for each of the suppliers over the contract life.

Split of Costs of Ownership between Sponsors

- 3.2.6. The split of overall costs between the sponsors is shown in Table 6. This shows the total NPVs discounted at 6% and at 12%. BA and SSA costs are combined here; however the split of the supplier charges between BA and SSA is given in Section 9.1.

Table 6 - Split of Costs between Sponsors

NPVs in £m	<i>Cardlink</i>	<i>IBM</i>	<i>Pathway</i>
BA/SSA costs at 6%	£847m	£589m	£663m
BA/SSA costs at 12%	£655m	£459m	£520m
Split (%)	67%	59%	64%
POCL costs at 6%	£410m	£404m	£378m
POCL costs at 12%	£321m	£316m	£299m
Split (%)	33%	41%	36%

- 3.2.7. The Benefit Encashment Service charges which POCL would re-charge to BA/SSA are included in the BA/SSA costs in this table. The higher percentage charge by IBM for POCL's other transactions seems to have arisen because IBM have sought to recover a higher proportion of their charges for the benefit services through BES and a lower proportion through PAS and CMS than the other suppliers. Combined with

the small number of columns in their scorecard this has resulted in higher charges for simpler POCL transactions such as basic EPOS products.

Presentation of Charges and Costs on the DCFs

3.2.8. The DCFs show the figures in three groups relating to BA/SSA, to POCL and to the overall totals. Each set of rows shows supplier charges separately from the attributable costs relating to the suppliers' solutions. The initial columns across the DCFs show the years of the proposed term of the contract (covering the cash flows arising in the period 1 April to 31 March each year). The summary columns to the right hand side of the table give totals across the contract, raw and discounted at 6% and 12% per annum and also show (as supporting information) the undiscounted totals for "Roll-out" and an average "Steady State" year as described above.

3.2.9. Further breakdowns of the supplier charges is available from the evaluation team, and a further explanation of the sponsors internal costs and benefits can be found in the respective confidential reports to each sponsor.

4. SUPPLIER CHARGES

4.1. Charging Structures

4.1.1. The charges payable to suppliers are considered under three categories:

- transaction charges (based on the common charging mechanism scorecard);
- off-scorecard charges, covering any additional charges due; and
- charges for change.

4.1.2. These are discussed further under sections 4.2 to 4.4. All three tenders received on 22 April were based on the common charging mechanism. This had been defined to suppliers by the Programme in discussions before the invitation to tender and was confirmed in the ITT documentation (in Schedule A6 and the associated guidance notes). There are, however, significant differences between the approaches taken in the different bids. To illustrate the degree of detail and conformance, the following table indicates the relative performance of the suppliers' approaches (where ✓ is worst, and ✓✓✓✓✓ is best). The position on payment period is also shown.

Table 7 - Comparison of Charging Mechanisms

	<i>Cardlink</i>	<i>IBM</i>	<i>Pathway</i>
Score Card Detail	✓ ✓	✓	✓ ✓ ✓ ✓ ✓
Guarantee Levels	✓ ✓ ✓	✓	✓ ✓ ✓
Discount Bands	✓ ✓	✓	✓ ✓ ✓
Score-card Coverage	✓ ✓	✓	✓ ✓ ✓ ✓ ✓
Change Control Triggers	✓	✓ ✓	✓ ✓ ✓ ✓
Price Trends	✓ ✓	✓ ✓ ✓	✓ ✓ ✓ ✓ ✓
Payment Period	Quarterly	Quarterly	Monthly

4.1.3. The main points arising from the tenders are summarised below for each of these headings.

	Advantages	Disadvantages	Comments
Score Card Detail			
Cardlink	easy to understand - very few transaction types; separates out some DSS/POCL activities e.g. Smart key	not enough service separation to assure fair allocation between DSS and POCL services No discount bands specified for the "menu" of priced options	Mid-way between the other suppliers in terms of the column-level detail.
IBM	simple to understand	very few columns and therefore not possible to verify fairness between sponsors and/or between transactions	
Pathway	clearly defined service components; minimises unfair allocation of charges	rather complex	now basing DSS charges on "per customer session" metric like the other suppliers.
Guarantee Levels			
Cardlink	Guaranteed income approximately in line with volume percentages; best view volumes are within the basic price band.	Approach on reviewing volumes and rebasing scorecard after first steady state year could result in effective 100% guarantee for that year.	
IBM		Set first discount band at guarantee levels. Pricing structure results in income guarantees in excess of 90%	
Pathway	Guarantee percentages broadly acceptable	Income guarantees approximately 5% higher than volume guarantees as result of discount structure.	
Discount Bands			
Cardlink	Basic service plus 6 discount bands. First band starts at just above best view volumes	No discount band information provided for compliant options in the tender	

	Advantages	Disadvantages	Comments
IBM		only 2 price bands. Breakpoint is at guarantee level. No further reductions above best view.	Price not defined above 110% of best view. This would not accommodate the POCL high line forecasts.
Pathway	2 price bands for CMS, 6 for other services.		
Scorecard coverage			
Cardlink	Clear transaction definitions	Many transactions omitted or provided as indicative only. Card distribution sub-contract not included in scorecard charges.	
IBM		Many transactions omitted or provided as indicative only.	
Pathway	Most transactions included and priced.	Transaction definitions less developed than for other suppliers	
Change Control Triggers			
Cardlink		Many physical limits and review points which could result in price increases through change control.	
IBM		A number of physical limits and review points (though fewer than for Cardlink) which could result in price increases through change control	
Pathway	Generally fewer limits and more realistic levels than for the other suppliers.	Prices would be increased in the event of any reduction in frequency of benefit payments.	
Price Trends			
Cardlink		Level prices with RPI-1% indexing	
IBM		Level prices with indexing of around 2/3 of RPI up to maximum increase of 3% p.a.	Doubling of prices in original tender has been eliminated
Pathway	10% price reduction over the steady state period. Absorb inflation up to 6% p.a.	Prices would rise by half of any excess RPI increase above 6%	

4.1.4. The effect of monthly payment to *Pathway* has been taken into account in the calculation of NPVs by increasing the discounted costs to allow for the fact that on average payments would be 2 months earlier than under quarterly invoicing.

4.2. Supplier Transaction Charges

4.2.1. The suppliers' charges are broken down into component services and summarised in Table 8 and Table 9 which give the NPV (discounted at 6% and 12%) over the life of the contract and the average annual steady state charges (not discounted) respectively.

Table 8 - NPV Supplier Charges with Best View Workloads

NPV at 6% (£m)	<i>Cardlink</i>	<i>IBM</i>	<i>Pathway</i>
CMS Charges	301	155	168
PAS Charges	137	101	203
BES Charges	307	279	200
POCL Charges (excl. BES)	366	370	332
Total Transaction Charges	1,111	906	904
Difference (% of lowest)	22%	0%	0%

NPV at 12% (£m)	<i>Cardlink</i>	<i>IBM</i>	<i>Pathway</i>
CMS Charges	233	121	130
PAS Charges	105	79	161
BES Charges	239	219	159
POCL Charges (excl. BES)	287	290	264
Total Transaction Charges	864	708	714
Difference (% of lowest)	22%	0%	1%

Table 9 - Annual Charges for Steady State (Average, Undiscounted)

Figures in £m	<i>Cardlink</i>	<i>IBM</i>	<i>Pathway</i>
CMS Charges	59	30	32
PAS Charges	27	19	35
BES Charges	57	51	34
POCL Charges (excl. BES)	66	67	58
Total Transaction Charges	209	167	159
Difference (% of lowest)	31%	5%	0%

- 4.2.2. A further illustration of the relative charges for each supplier is shown in Table 10, which gives examples of charges per transaction for various types of transaction. These represent the marginal charges that would apply for increases and decreases in transaction volumes, prior to application of volume guarantees, discount bands and charge review triggers.

Table 10 - Charges for Typical Transactions (per transaction in 2001/02)

Figures in pence	<i>Cardlink</i>	<i>IBM</i>	<i>Pathway</i>
Benefit Encashment at Nominated Office	10.3	12.8	9.6 13.1*
Benefit Encashment at foreign office	10.3	12.8	11.3 14.8*
APS Smartcard Transaction	8.1	6.5	5.8
Sale of Stamps	3.3	3.4	2.8

* Pathway transactions using extended procedures with them accepting fraud liability on customer verification failures.

Reconciliation with Suppliers own Totals

- 4.2.3. The evaluation team found the total charges for the best view volumes calculated by the suppliers differed from those calculated by the team. These differences and the underlying reasons were as follows.

Table 11 - Differences between Supplier and Programme Calculations

Figures in £m (outturn prices)	<i>Cardlink</i>	<i>IBM</i>	<i>Pathway</i>
Charges calculated by Evaluation Team	1517	1242	1120
Charges calculated by Suppliers in their tenders	*	1207	1034†
Difference	*	35	85

* Comparisons were not possible with Cardlink's totals because they only provided them on the basis of a longer contract.

† Pathway comparison related to the steady state period only as no totals were provided by them for the roll-out period.

- 4.2.4. The main differences were due to basic and/or optional transactions being omitted from the suppliers' models and to suppliers' use of volumes which were different from those in the Workload Brief. The two most significant cases were resolved during clarification of retenders. IBM had mis-calculated the number of OBCS transactions and this had resulted in over-statement of volumes and charges during

the roll-out period. They provided new phasing of the charges which corrected this while maintaining the same total price. Pathway had misunderstood the benefit transaction data in the workload brief as referring to individual payments rather than to customer visits to the post office. Review of the information they had been given confirmed that their interpretation had been based on a reasonable alternative reading of the information, and they were asked to correct their prices in the affected services.

4.3. Off-Scorecard Charges

4.3.1. Some elements of supplier charges are not included in the scorecard. The main areas are:

- staff training (in addition to the initial training provided during the roll-out)
- training manuals and guides
- customer education and publicity

4.3.2. These all relate to optional services for a specific sponsor and have been included in the internal costs and savings sections of the analysis described in section 5 below.

4.4. Charges for Change

4.4.1. The contractual position is to transfer the risk of design and development, and to some extent maintenance, to the suppliers. This is evident from the approach to contract for services against a predefined set of business requirements and service levels with payments not becoming due until an accepted service is in operation. While it is likely that there will be some amendments to the requirements after contract award, it is difficult to justify a differential between suppliers when the nature of such changes is as yet unclear. Where the extent to which requirements for change were met, differed between suppliers, compensating amounts were included in the internal costs of BA or POCL as appropriate.

4.4.2. In addition, each of the suppliers was asked to provide resource rates for staff that would be taken into account when considering changes. This is considered under the sensitivity tests in Section 7.5.

4.5. Comparison with Previous Tenders

4.5.1. The evaluation of the initial tenders submitted on 21 March was incomplete as this was superseded by the re-tendering process. However, the broad level of improvements in suppliers' charges is shown in Table 12, which compares the NPV supplier charges (discounted at 6%) for the best view volumes.

Table 12 - Comparison of ITT and ITR NPV Charges (6%)

Figures in £m	<i>Cardlink</i>	<i>IBM</i>	<i>Pathway</i>
Initial tenders (ITT 21/3/96)	1,550	1,530	1,270
Latest tenders (ITR 22/4/96)	1,111	906	904
Difference	439	624	366
% improvement	28%	41%	29%

4.5.2. These figures show that, as well as clarifying specific terms with the suppliers, the re-tendering exercise improved the baseline supplier charges by between 29% and 41%. In the case of IBM part of the improvement was a result of them correcting an error in their previous pricing model and of correction of their misunderstanding of the intended contract end date in the ITT. These improvements are significant and although they have to an extent been offset by increased internal costs in sponsors as a result of transferring work back into sponsor domains, there has been a significant overall improvement in the position.

5. INTERNAL COSTS AND BENEFITS

5.1. Introduction

5.1.1. The Financial Evaluation Team included two sub-teams to focus on the internal costs and benefits arising from the tenders for:

- BA and SSA, and
- POCL.

5.1.2. This was primarily to retain the confidentiality of sponsor-specific matters, as well as to focus the staff with the appropriate background and experience.

5.1.3. In order to maintain confidentiality, each team have reported the net value of the costs and benefits with associated commentary for inclusion in this report. Hence readers should take note of the relative values between suppliers, and no inferences should be taken from any individual figures as the baseline is not disclosed. The details of the individual cost and benefit items are documented separately in an Internal Costs and Benefits Report for each sponsor respectively. The summary of net costs is provided below.

5.2. BA and SSA Internal Costs & Benefits

5.2.1. The specific items costed are detailed in the separate BA/SSA Internal Costs and Benefits report. In summary, the main items contributing to these differences are as follows:-

- Consumables for BES services.

- Estimated fraud levels inherent in suppliers solutions.
- Service level attributable costs.
- Card issue restrictions.
- CAPS interface issues.
- Allowance for migration to Integrated Circuit (IC) card technology.
- Provision in score cards for publicity & training.

5.2.2. Consumables figures have been included for BES related stationery & the provision of starter packs. BES consumables calculations have used supplier quotes for both usage rates & unit costs. The main differential is around Pathway's solution which uses a relatively expensive BA slip. However, we have received a more competitive quote for BA slips from HMSO. Given all suppliers treat the provision of consumables as an optional service, there could be further scope for savings. Although the Pathway slip is relatively expensive, there may be benefits (not included in the figures) of reduced handling costs for receipts, compared with the till rolls used by IBM & Cardlink.

5.2.3. There are further issues around internal costs not included in cash flows, given the problems of measurement. They are summarised as follows:-

- The reasons for BA staff requiring help desk support. This is heavily reliant on the on line interfaces provided by CAPS. All suppliers have placed limits on the number of calls within their score cards, without defining costs over & above these limits.
- The provision for MIS.
- Proposals rejected by Sponsor Directors but still incorporated in retender. This is relevant for Cardlink. For example: some element of scope changes; risk of loss/damage to equipment to be taken by Authorities; exclusion of implied requirements.
- The costs of non-compliance with the Welsh Language Act 1993.
- Costs of change control over life of contracts.
- Costs of posts award negotiation & clarifications.

Table 13 - BA Internal Costs and Benefits

	Cardlink	IBM	Pathway
	£m	£m	£m
Total Cashflow	136	71	123

NPV@ 6%	102	53	91
NPV @ 12%	78	41	69

5.3. POCL Internal Costs & Benefits

5.3.1. The major differentiators included in the evaluation of POCL internal costs relate to contracted transaction times, fraud liability and an analysis of Service Level Agreements. Several other material areas have been evaluated through adjustments in the scorecard pricing structure and are reflected in the supplier charges.

- A summary of the results is shown below:

Table 14 - POCL Internal Costs and Benefits

	Cardlink	IBM	Pathway
	£m	£m	£m
Total Cashflow	57	43	60
NPV@ 6%	44	33	46
NPV @ 12%	34	26	36

5.3.2. The major reason for the large benefit of IBM for internal cost purposes is that they are contracting for a significantly shorter BES transaction time.

Other items included in the attributable costs are:

- Losses on encashment fraud
- Service Level Agreements (SLAs)
- Site Modifications
- Back office printers not provided by IBM

5.3.3. Although IBM shows the lowest cost to POCL in the above evaluation, there is an issue surrounding whether they are able to deliver the transaction times in the SLA Schedule. They have been credited for this benefit above, even though they have been unable to demonstrate their ability to achieve the proposed SLA target time.

6. SPRR QUANTIFIED RISKS AND BENEFITS

6.1. Risk Register

- 6.1.1. The Service Provider Risk Register (SPRR) was maintained throughout the Stage 3 Contract Development and Demonstrator process. It was made clear to suppliers from the start that severity "B" risk items on the SPRR would lead to a cost being attributed to their tender, at the Programme's discretion.
- 6.1.2. At the end of Stage 3, there were five severity "B" risks outstanding against *Pathway* and none for *Cardlink* or *IBM* as documented by the Risk Assessment Panel (RAP) in paper PROD4-08. The RAP also quantified attributable costs against *Cardlink* and *IBM* arising from the findings of the Security Review with respect to "Fraud and Risk management", already addressed for *Pathway* by one of its "B" risks.
- 6.1.3. Since the end of Stage 3, each of the supplier's positions on fraud has moved on causing the Evaluation Team to revisit the Fraud-type attributable costs for each. As a result, the following attributable costs are included against each supplier:

Risk Quantified	Quantification
<i>Cardlink</i>	
Residual Fraud	£2.6m 3 year total during roll-out £2.3m p.a. in steady state
<i>IBM</i>	
Residual Fraud	£2.2m 3 year total during roll-out £1.9m p.a. in steady state
<i>Pathway</i>	
Residual Fraud	£5.9m 3 year total during roll-out £4.5m p.a. in steady state
DICK066: Strong sequence numbering in Riposte (Severity B3, Probability 5)	£900,000 one-off cost during implementation, incurred in proportion to number of automated counter positions, to upgrade counter equipment.
DICK002: Size of Escher (Severity B3, Probability 4)	£10,000 per annum to cover additional contract management time to manage relationship.
DICK057: Contractual relationships (Severity B3, Probability 5)	

- 6.1.4. The "Residual Fraud" figures are based on:

- (a) the assessment by the Security Review of the residual fraud that is likely to occur after taking account of the security attributes of the card, system and payment procedures that were established prior to ITT; and

- (b) modifying the residual fraud by the liability accepted by the suppliers in their tenders.

6.1.5. The figures for the other items are explained further in paper PROD4-08.

6.2. Benefits Register

6.2.1. The Benefits Register process identified one financially quantified benefit. This was for an optional service offered by *Cardlink* with respect to fraud monitoring and management. This is an optional service in addition to the contracted requirements and at an additional charge. In the event that *Cardlink* were selected, it is assumed that this option would be pursued. The provisional net saving after additional charges were of the order of £4.8m with a probability of 25%. Therefore £1.2m is included for this benefit in the internal costs and benefits for BA.

7. SENSITIVITY ANALYSES

7.1. Introduction

7.1.1. The Financial Evaluation Model, PWKP4-23, set out a range of sensitivity tests to be undertaken during the financial evaluation. Due to the time taken to establish the suppliers' charges for the baseline evaluation scenario, which were needed before the sensitivities could be looked at, there has been limited time to complete these. This section reports the outcome of these analyses, in as far as it has been possible by this stage. Readers should note that the baseline evaluation scenario includes the Order Book Control Service; and the exclusion (and costs) of OBCS are covered later under Section 9.2.

7.1.2. Annex B provides details of the sensitivity results. It shows the percentage effect on BA and POCL charges for each of the tests, which are defined in PWKP4-23. The sections below highlight the main points.

7.2. Volume Sensitivities

7.2.1. The volume sensitivities show that each of the sponsors' charges, not surprisingly, are most sensitive to changes in their respective transaction volumes. A slight "see-saw" effect can be seen in some cases, where one sponsor's charges decrease (due to few transactions) and the other's increases slightly. This is caused by the discount bands; whereby an overall drop in volume can increase the service-point price for all transactions. This is most marked in the case of *IBM's* charging structure which has only two bands with a five-times difference in cost between them.

7.2.2. The BA (and SSA) charges are influenced most by the tested changes in the number of cardholders (+/-20%), closely followed by the tested changes in the number of benefit payment transactions (+/-10%). The combined effect of these two parameters effects their charges from between +12% to -6% for *Cardlink* and *Pathway*, and to a much lesser extent for *IBM*.

- 7.2.3. In POCL's case, their charges are most effected by changes to other POCL transactions, varying by some +/-10% or by as much as -35% for the lowest estimates of future automated transaction volumes.
- 7.2.4. In comparing the suppliers' performance, *Cardlink's* charges vary the most. This is consistent with the fact that they have the highest annual Steady-State transaction charges given in Section 4.2.1.
- 7.2.5. Also of note, is the fact that *IBM's* charges vary least with volume. This is evident from their guarantee structure which in effect guarantees over 90% of their baseline charges.

7.3. Benefit Customer Behaviour

- 7.3.1. The sensitivities for benefit customer behaviour showed relatively small effects on overall charges. The biggest influencer was the permanent to casual agent mix for all three suppliers, but with widely varying effect:

- for Cardlink +/- 3.8%
- for Pathway +/- 0.4%
- for IBM +/- 0.04%

- 7.3.2. These differences concur with points made above about *Cardlink's* higher level of charges and *IBM's* emphasis on volume guarantees.

7.4. Roll-out Timescale and Strategy

{to be provided}

7.5. Charges for Change

- 7.5.1. The successful supplier may negotiate additional charges for changes to the contract after award. The main structures and payment methods are:
- to use the extant scorecard service-point prices as a basis for establishing the transaction prices for new transactions;
 - to agree a change to the service-point prices, discount bands or volume guarantees to fund, for example, a change to the core functionality of the infrastructure; or
 - to use resource time rates as a basis for agreeing a fixed payment, or payments.
- 7.5.2. On the latter point, the suppliers were asked to provide resource rates in their tenders. Both *Cardlink* and *Pathway* provided day-rates for specific grades of resource, but *IBM* did not. The Financial Evaluation Model paper, PWKP4-23, set out a sensitivity

for adding 10 man-years and 20 man-years effort each year for BA and POCL respectively. The comparative totals for Cardlink and Pathway are an estimated £2.0 m and £1.9m per annum, or some £16m over the period of the contract.

7.6. Attributable Costs Sensitivities

- 7.6.1. The costs attributed for the SPRR risks and the sponsors internal costs and benefits are estimates. These estimates have been varied as appropriate when considering the other the sensitivity tests such as for changes in business volumes. While the accuracy of the attributable costs could be tested by considering optimistic and pessimistic variations, the values are relatively small in comparison with the overall level of supplier charges and so would not show anything material. In considering other potential costs in addition to the suppliers' charges, the more significant areas are those for which it has not been possible to quantify costs. These are discussed in the business cases as, by and large, they are not differentiators.

7.7. Combinations of Sensitivities

{to be provided}

7.8. Summary

- 7.8.1. In summary, the sensitivity tests undertaken show that Cardlink's charges are most influenced by changes in parameters as they have the highest transaction charges. In contrast, IBM's show little variation downward due to the high effective level of guarantee (over 90% of best view volumes), and soon meet an upper threshold beyond which prices are not clearly defined in their charging structure. Pathway's charges do vary with parameters, but do not give cause for concern and provide the volume incentive to the supplier which should benefit both POCL and BA.

8. RISK TRANSFER

Work is still in progress on this section. There are no major supplier selection issues that have not been covered elsewhere in this report or in the contract assurance report. However, it is recognised that this section will be required in order to demonstrate the PFI compliance of the selected supplier's solution.

8.1. Introduction

- 8.1.1. This section considers the financial implications of the risks that would be transferred under the agreements with each supplier. These are addressed under risk headings introduced in the paper "Risk Transfer Criteria" PWKP4-13. Further consideration of risk transfer is covered in the overall evaluation report, PWKP4-43, which incorporates the analysis of the commercial position.

8.2. Design and Service Construction Risks

8.3. Commissioning Risks

(Commissioning equals roll-out)

Explain incentives of Guarantee structure during roll-out

Note *Cardlink* intention to re-base volumes at end of first year

Remedies

Implications of Timescale interlock.

8.4. Operating Risks

SLAs - remedies, limits, liability

Cardlink - position on SLA remedies

Transaction Times, Service Availability sensitivities

8.5. Fraud Risks

Summarise standing for Fraud risks

sensitivity results

Pathway - extended procedures for fraud risks on cardholder verification

Pathway - cost of migrating to IC card within charges.

8.6. Volume Risks

Refer back to Volume sensitivity tests, vol guarantees, limits on validity of charges

8.7. Technology Risks

Refer to incentives given by operating risks and residual value risks

Note *Pathway* card upgrade?

8.8. Residual Value Risks

Set out basis for payment for each supplier

Give values for a comparative set of assumptions = Transfer Payment sensitivity

8.9. Regulation/Policy Risk

Termination of convenience charges

Cessation of CMS from 1999/2000 onwards sensitivity

Pathway - changes in benefit payment frequency - refer back to volume sensitivity

8.10. Project Financing Risks

8.10.1. There are no specific factors arising from the financial evaluation that determine the ability of the suppliers to finance their costs. Factors, such as parent company guarantees, are covered in the commercial report.

8.11. Inflation Risk

Inflation risk with each supplier

Effect on NPV - sensitivity using growing inflation up to a plateau (realistic)

8.12. Conclusions

summarise financial implications on risk transfer

9. SPONSOR COMMERCIAL ISSUES**9.1. Comparison of Costs for each Sponsor**

9.1.1. Annex A shows the components payable by each sponsor and their attributed costs. The following table shows the percentage costs payable by each sponsor for each supplier, with the total NPV figures at 6% given in brackets.

Figures in £ millions	BA/SSA	POCL
<i>Cardlink</i>	67% (745)	33% (332)
<i>IBM</i>	59% (536)	41% (370)
<i>Pathway</i>	63% (572)	37% (332)

Charges for SSA

The following table estimates the charges to SSA based on the forecast proportion of benefit payment transactions.

£000s	1996/7	1997/8	1998/9	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Cardlink	21	1074	4212	6002	5794	5722	5654	5576	5522
IBM	33	1027	3198	4394	4237	4077	3924	3769	3623
Pathway	34	1413	3851	4845	4525	4254	3944	3649	3386

Fairness

9.1.2. A key premise of the Common Charging Structure was to demonstrate fairness (in terms of no cross-subsidy) between the sponsors. As stated previously, all three suppliers have tendered using the common charging structure. However, there are significant differences in the number of columns and hence in the precision with which cost areas can be allocated to the transactions incurring them. There are particular concerns with the IBM scorecard where there are very few columns and the discount structure seems to result in cross-subsidy between sponsors at volumes different from the best view.

9.1.3. Section 4.2 above gives further details of supplier charges.

9.2. **Costs of OBCS**

The following table compares costs with and without OBCS for the three suppliers in terms of the total charges over the contract.

	BA/SSA Costs			POCL Costs		
	Inc.	Exc.	Difference	Inc.	Exc.	Difference
Cardlink	989	977	12	482	482	0
IBM	706	623	83	487	487	0
Pathway	746	728	18	430	432	-2

9.3. **Card Distribution**

Suppliers have not been consistent in their treatment of costs associated with card distribution and issue. Although they have been told that they will contract with BA for this card distribution service and use POCL as a subcontractor at their own choice, charges have been included by IBM in the POCL section of the scorecard. This would imply IBM invoicing POCL who would add staff costs and re-invoice to IBM who would then include it in the CMS charges to BA.

9.4. **Fraud Liability**

There are significant differences between suppliers' acceptance of fraud risk and therefore the amount of residual risk to be carried by sponsors. This may have implications for the contracts between BA/SSA and POCL.

ANNEX A - DISCOUNTED CASH FLOW TABLES

Restricted - Commercial

Anne

Summary of Cash Flows and Totals

	1996/7	1997/8	1998/9	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	Total	NPV @ 6%	NPV @ 12%	Total roll-out	Steady State Average
Cardlink														
BA Charges	488,130	25,097,539	108,284,581	144,622,210	144,133,701	143,041,277	142,054,941	141,171,723	139,809,721	988,703,822	744,770,430	577,219,891	133,870,249	142,472,262
BA Internals	183,091	2,898,072	12,277,075	17,563,570	20,739,961	20,739,961	20,739,961	20,739,961	20,739,961	136,621,615	101,943,106	78,274,036	15,358,239	20,210,563
BA Total	671,221	27,995,611	120,561,656	162,185,780	164,873,663	163,781,238	162,794,902	161,911,684	160,549,683	1,125,325,437	846,713,536	655,493,928	149,228,488	162,682,825
POCL Charges	984,201	24,160,693	57,939,383	67,036,642	67,614,387	66,942,006	66,277,537	65,620,864	64,964,655	481,540,368	366,332,597	286,915,329	83,084,277	66,409,349
POCL Internals	500,119	2,778,188	6,419,801	7,886,264	7,928,254	7,944,176	7,965,406	7,991,943	7,991,943	57,406,095	43,617,021	34,136,529	9,698,108	7,951,331
POCL Total	1,484,321	26,938,881	64,359,183	74,922,907	75,542,642	74,886,182	74,242,943	73,612,807	72,956,598	538,946,463	409,949,618	321,051,857	92,782,385	74,360,680
Total Charges	1,472,331	49,258,232	166,223,963	211,658,852	211,748,089	209,983,282	208,332,478	206,792,586	204,774,376	1,470,244,190	1,111,103,027	864,135,220	216,954,526	208,881,611
Total Internals	683,211	5,676,260	18,696,876	25,449,835	28,668,215	28,684,138	28,705,367	28,731,904	28,731,904	194,027,710	145,560,126	112,410,565	25,056,347	28,161,894
Overall Total	2,155,541	54,934,492	184,920,840	237,108,686	240,416,304	238,667,420	237,037,845	235,524,491	233,506,281	1,664,271,900	1,256,663,153	976,545,785	242,010,872	237,043,505
IBM														
BA Charges	796,582	23,985,462	82,216,566	105,872,075	105,396,033	101,916,236	98,594,571	95,417,007	91,723,643	705,918,175	535,641,923	418,081,989	106,998,609	99,819,928
BA Internals	174	1,212,565	7,135,699	10,294,201	10,387,951	10,387,951	10,387,951	10,387,951	10,387,951	70,582,394	52,877,976	40,752,058	8,348,437	10,372,326
BA Total	796,755	25,198,026	89,352,265	116,166,277	115,783,984	112,304,187	108,982,522	105,804,958	102,111,594	776,500,569	588,519,899	458,834,047	115,347,047	110,192,254
POCL Charges	1,014,941	24,664,303	57,729,334	68,136,087	68,530,976	67,809,498	67,094,997	66,387,421	65,690,353	487,057,911	370,490,271	290,139,580	83,408,578	67,274,889
POCL Internals	525,256	3,112,821	5,776,027	5,598,003	5,617,994	5,624,455	5,633,071	5,643,841	5,643,841	43,175,309	33,221,197	26,341,854	9,414,104	5,626,867
POCL Total	1,540,197	27,777,124	63,505,361	73,734,091	74,148,969	73,433,953	72,728,068	72,031,262	71,334,194	530,233,219	403,711,468	316,481,435	92,822,682	72,901,756
Total Charges	1,811,522	48,649,765	139,945,900	174,008,163	173,927,009	169,725,734	165,689,568	161,804,428	157,413,996	1,192,976,086	906,132,195	708,221,569	190,407,187	167,094,816
Total Internals	525,430	4,325,385	12,911,726	15,892,205	16,005,945	16,012,406	16,021,022	16,031,792	16,031,792	113,757,702	86,099,173	67,093,913	17,762,542	15,999,193
Overall Total	2,336,952	52,975,150	152,857,626	189,900,368	189,932,954	185,738,141	181,710,590	177,836,220	173,445,788	1,306,733,788	992,231,367	775,315,482	208,169,729	183,094,010
Pathway														
BA Charges	817,951	33,014,089	99,000,470	116,738,051	112,561,698	106,346,454	99,098,909	92,369,047	85,722,776	745,669,447	571,791,611	450,799,702	132,832,510	102,139,489
BA Internals	-35,664	-2,513,054	11,793,817	18,752,721	18,918,089	18,918,089	18,918,089	18,918,089	18,918,089	122,588,265	90,744,286	69,010,507	9,245,099	18,890,528
BA Total	782,287	30,501,036	110,794,287	135,490,773	131,479,787	125,264,543	118,016,998	111,287,136	104,640,865	868,257,712	662,535,897	519,810,208	142,077,610	121,030,017
POCL Charges	1,198,958	27,623,195	58,817,393	65,340,054	63,314,322	59,264,981	55,263,900	51,535,634	48,049,886	430,408,322	332,283,832	263,842,147	87,639,546	57,128,129
POCL Internals	475,147	2,367,311	6,156,362	8,511,708	8,549,065	8,565,130	8,586,550	8,613,325	8,613,325	60,437,923	45,691,856	35,573,489	8,998,821	8,573,184
POCL Total	1,674,105	29,990,506	64,973,756	73,851,761	71,863,387	67,830,111	63,850,450	60,148,959	56,663,211	490,846,245	377,975,688	299,415,636	96,638,367	65,701,313
Total Charges	2,016,909	60,637,284	157,817,864	182,078,105	175,876,021	165,611,435	154,362,809	143,904,681	133,772,661	1,176,077,769	904,075,443	714,641,848	220,472,057	159,267,619
Total Internals	439,483	-145,742	17,950,179	27,264,429	27,467,154	27,483,219	27,504,639	27,531,414	27,531,414	183,026,188	136,436,142	104,583,996	18,243,920	27,463,711
Overall Total	2,456,392	60,491,542	175,768,043	209,342,534	203,343,175	193,094,654	181,867,448	171,436,095	161,304,075	1,359,103,957	1,040,511,584	819,225,844	238,715,977	186,731,330

ANNEX B - SENSITIVITIES

Sensitivities Summary - % Change - Total Charges and IC/B

Restricted - Contracts

Annex B

	Transaction Volumes												
	Baseline	Benefit Transactions - High	Benefit Transactions - Low	Enrolment Rate - High	EnrolmentRate - Low	Cardholders - Increased	Cardholders - Decreased	No. of Cardholders and Payments - Increased	No. of Cardholders and Payments - Decreased	POCL - Basic, Optional and Additional Transactions	POCL - Basic Transactions Only	POCL - Alternative View of Basic and Optional Only	POCL - Alternative View of Basic, Optional and Additional Transactions
PWK4-23 Reference		61	61	54	54	51	51	51,61	51,61	23-45	23-45	23-45	23-45
Harry													
BA Charges	1,125,325,437	3.10%	-3.16%	0.58%	-0.58%	15.17%	-7.61%	11.18%	-5.69%	-0.01%	0.68%	0.37%	0.41%
POCL Charges	538,946,463	-0.52%	0.53%	0.00%	0.00%	0.00%	0.00%	-1.09%	0.53%	0.18%	-17.75%	-9.22%	-10.45%
Total Charges	1,664,271,900	1.92%	-1.95%	0.41%	-0.41%	10.52%	-5.27%	7.16%	-3.65%	0.05%	-5.36%	-2.77%	-3.15%
Dick													
BA Charges	868,257,712	3.18%	-3.29%	0.00%	0.00%	5.56%	-2.79%	11.82%	-6.08%	-0.06%	0.79%	0.58%	0.58%
POCL Charges	490,846,245	-0.66%	0.66%	0.00%	0.00%	0.00%	0.00%	-1.33%	0.66%	0.79%	-9.91%	-7.60%	-7.60%
Total Charges	1,359,103,957	1.78%	-1.85%	0.00%	0.00%	3.53%	-1.77%	7.01%	-3.62%	0.25%	-3.12%	-2.41%	-2.41%
Tom													
BA Charges	705,918,175	2.87%	-2.94%	0.01%	-0.01%	0.17%	-0.08%	5.83%	-3.03%	-0.08%	0.61%	0.08%	0.40%
POCL Charges	487,057,911	-1.61%	1.72%	-0.01%	0.01%	-0.10%	0.05%	-3.22%	1.77%	0.27%	-2.01%	-0.27%	-1.34%
Total Charges	1,192,976,086	1.04%	-1.04%	0.00%	0.00%	0.06%	-0.03%	2.13%	-1.07%	0.06%	-0.46%	-0.06%	-0.31%

Sensitivities Summary - % Change - Total Charges and IC/B

Restricted - Contracts

Annex B

Transaction Volumes

	Baseline	POCL - Lowest Volumes Scenario	POCL - Highest Volumes Scenario	BA and POCL Volumes - High	BA and POCL Volumes - Low	Immediate Payments - High	Immediate Payments - Low	Counter Positions - High	Counter Positions - Low	Post Offices - High	Post Offices - Low	Help Desk Enquiries - High	Help Desk Enquiries - Low
PWKP4-23 Reference		23-45	23-45	23-45,51,61	23-45,51,62	50	50	4	4	1,4	1,4	57	57
Harry													
BA Charges	1,125,325,437	1.20%	-0.43%	2.63%	-2.16%	0.12%	-0.12%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
POCL Charges	538,946,463	-37.80%	9.57%	8.95%	-37.68%	-0.02%	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Charges	1,664,271,900	-11.57%	2.85%	4.70%	-13.79%	0.08%	-0.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Dick													
BA Charges	868,257,712	2.66%	-0.67%	2.47%	-0.81%	0.17%	-0.17%	0.94%	-1.73%	0.00%	0.00%	0.00%	0.00%
POCL Charges	490,846,245	-35.59%	8.76%	8.02%	-35.22%	-0.02%	0.02%	2.20%	-4.02%	0.00%	0.00%	0.00%	0.00%
Total Charges	1,359,103,957	-11.34%	2.79%	4.50%	-13.40%	0.10%	-0.10%	1.40%	-2.57%	0.00%	0.00%	0.00%	0.00%
Tom													
BA Charges	705,918,175	8.28%	-2.01%	0.84%	5.32%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
POCL Charges	487,057,911	-25.76%	6.95%	5.36%	-24.04%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Charges	1,192,976,086	-5.62%	1.65%	2.69%	-6.67%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Sensitivities Summary - % Change - Total Charges and IC/B

Restricted - Contracts

Annex B

Benefit and Customer Behaviour

	Baseline	Foreign Encashment - High	Foreign Encashment - Low	Agents - High	Agents - Low	Permanent/Casual Mix - High	Permanent/Casual Mix - Low	Alternative Payees - High	Alternative Payees - Low
PWKP4-23 Reference		55	55	63	63	64	64	52	52
Harry									
BA Charges	1,125,325,437	0.00%	0.00%	0.31%	-0.31%	3.83%	-3.83%	3.40%	-3.40%
POCL Charges	538,946,463	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Charges	1,664,271,900	0.00%	0.00%	0.21%	-0.21%	2.65%	-2.65%	2.35%	-2.36%
Dick									
BA Charges	868,257,712	0.12%	-0.13%	0.04%	-0.04%	-0.38%	0.43%	0.00%	0.00%
POCL Charges	490,846,245	-0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Charges	1,359,103,957	0.08%	-0.08%	0.02%	-0.02%	-0.24%	0.27%	0.00%	0.00%
Tom									
BA Charges	705,918,175	0.00%	0.00%	0.00%	0.00%	0.04%	-0.04%	0.04%	-0.04%
POCL Charges	487,057,911	0.00%	0.00%	0.00%	0.00%	-0.03%	0.03%	-0.02%	0.02%
Total Charges	1,192,976,086	0.00%	0.00%	0.00%	0.00%	0.02%	-0.02%	0.01%	-0.01%

Sensitivities Summary - % Change in NPV @ 6% - Total Charges and IC/B

Restricted Contracts

Annex B

Transaction Volumes

	Baseline	Benefit Transactions - High	Benefit Transactions - Low	Enrolment Rate - High	EnrolmentRate - Low	Cardholders - Increased	Cardholders - Decreased	No. of Cardholders and Payments - Increased	No. of Cardholders and Payments - Decreased	POCL - Basic, Optional and Additional Transactions	POCL - Basic Transactions Only	POCL - Alternative View of Basic and Optional Only	POCL - Alternative View of Basic, Optional and Additional Transactions
PWKP4-23 Reference		61	61	54	54	51	51	51,61	51,61	23-45	23-45	23-45	23-45
Harry													
BA Charges	846,713,536	2.95%	-3.00%	0.56%	-0.56%	15.20%	-7.62%	10.88%	-5.54%	-0.01%	0.67%	0.36%	0.40%
POCL Charges	409,949,618	-0.49%	0.50%	0.00%	0.00%	0.00%	0.00%	-1.02%	0.50%	0.14%	-17.70%	-9.21%	-10.48%
Total Charges	1,256,663,153	1.82%	-1.85%	0.39%	-0.39%	10.49%	-5.26%	6.96%	-3.55%	0.04%	-5.39%	-2.80%	-3.19%
Dick													
BA Charges	662,535,897	3.02%	-3.12%	0.00%	0.00%	5.49%	-2.76%	11.44%	-5.88%	-0.06%	0.78%	0.58%	0.58%
POCL Charges	377,975,688	-0.61%	0.62%	0.00%	0.00%	0.00%	0.00%	-1.24%	0.62%	0.75%	-9.86%	-7.64%	-7.64%
Total Charges	1,040,511,584	1.69%	-1.75%	0.00%	0.00%	3.47%	-1.74%	6.78%	-3.49%	0.24%	-3.13%	-2.44%	-2.44%
Tom													
BA Charges	535,641,923	2.70%	-2.77%	0.01%	-0.01%	0.16%	-0.08%	5.51%	-2.86%	-0.08%	0.60%	0.08%	0.41%
POCL Charges	370,490,271	-1.52%	1.61%	-0.01%	0.01%	-0.10%	0.05%	-3.04%	1.67%	0.26%	-1.97%	-0.27%	-1.35%
Total Charges	906,132,195	0.98%	-0.98%	0.00%	0.00%	0.06%	-0.03%	2.01%	-1.01%	0.06%	-0.45%	-0.06%	-0.31%

Sensitivities Summary - % Change in NPV @ 6% - Total Charges and IC/B

Restricted Contracts

Annex B

Transaction Volumes

	Baseline	POCL - Lowest Volumes Scenario	POCL - Highest Volumes Scenario	BA and POCL Volumes - High	BA and POCL Volumes - Low	Immediate Payments - High	Immediate Payments - Low	Counter Positions - High	Counter Positions - Low	Post Offices - High	Post Offices - Low	Help Desk Enquiries - High	Help Desk Enquiries - Low
PWKP4-23 Reference	23-45	23-45	23-45,51,61	23-45,51,62	50	50	4	4	1,4	1,4	57	57	
Harry													
BA Charges	846,713,536	1.18%	-0.42%	2.49%	-2.02%	0.12%	-0.12%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
POCL Charges	409,949,618	-37.76%	9.55%	8.96%	-37.64%	-0.02%	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Charges	1,256,663,153	-11.66%	2.87%	4.62%	-13.76%	0.08%	-0.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Dick													
BA Charges	662,535,897	2.61%	-0.65%	2.33%	-0.69%	0.17%	-0.17%	0.96%	-1.75%	0.00%	0.00%	0.00%	0.00%
POCL Charges	377,975,688	-35.61%	8.75%	8.07%	-35.27%	-0.02%	0.02%	2.22%	-4.05%	0.00%	0.00%	0.00%	0.00%
Total Charges	1,040,511,584	-11.44%	2.81%	4.44%	-13.40%	0.10%	-0.10%	1.42%	-2.60%	0.00%	0.00%	0.00%	0.00%
Tom													
BA Charges	535,641,923	8.28%	-2.01%	0.68%	5.49%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
POCL Charges	370,490,271	-25.66%	6.92%	5.43%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
Total Charges	906,132,195	-5.59%	1.65%	2.62%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%

Sensitivities Summary - % Change in NPV @ 6% - Total Charges and IC/B

Restricted Contracts

Annex B

Benefit and Customer Behaviour

	Baseline	Foreign Encashment - High	Foreign Encashment - Low	Agents - High	Agents - Low	Permanent/Casual Mix - High	Permanent/Casual Mix - Low	Alternative Payees - High	Alternative Payees - Low
PWKP4-23 Reference		55	55	63	63	64	64	52	52
Harry									
BA Charges	846,713,536	0.00%	0.00%	0.31%	-0.31%	3.79%	-3.79%	3.36%	-3.37%
POCL Charges	409,949,618	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Charges	1,256,663,153	0.00%	0.00%	0.21%	-0.21%	2.61%	-2.62%	2.32%	-2.32%
Dick									
BA Charges	662,535,897	0.14%	-0.14%	0.04%	-0.04%	-0.38%	0.42%	0.00%	0.00%
POCL Charges	377,975,688	-0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Charges	1,040,511,584	0.08%	-0.09%	0.02%	-0.02%	-0.24%	0.27%	0.00%	0.00%
Tom									
BA Charges	535,641,923	0.00%	0.00%	0.00%	0.00%	0.04%	-0.04%	0.04%	-0.04%
POCL Charges	370,490,271	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
Total Charges	906,132,195	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%

Sensitivities Summary - % Change in NPV @ 12% - Total Charges - IC/B

Restricted Contracts

Annex B

Transaction Volumes

	Baseline	Benefit Transactions - High	Benefit Transactions - Low	Enrolment Rate - High	EnrolmentRate - Low	Cardholders - Increased	Cardholders - Decreased	No. of Cardholders and Payments - Increased	No. of Cardholders and Payments - Decreased	POCL - Basic, Optional and Additional Transactions	POCL - Basic Transactions Only	POCL - Alternative View of Basic and Optional Only	POCL - Alternative View of Basic, Optional and Additional Transactions
PWKP4-23 Reference		61	61	54	54	51	51	51,61	51,61	23-45	23-45	23-45	23-45
Harry													
BA Charges	846,713,536	2.81%	-2.85%	0.53%	-0.53%	15.23%	-7.64%	10.60%	-5.39%	-0.01%	0.65%	0.35%	0.39%
POCL Charges	409,949,618	-0.46%	0.46%	0.00%	0.00%	0.00%	0.00%	-0.95%	0.46%	0.11%	-17.65%	-9.21%	-10.51%
Total Charges	1,256,663,153	1.72%	-1.75%	0.37%	-0.37%	10.46%	-5.25%	6.76%	-3.45%	0.03%	-5.42%	-2.82%	-3.23%
Dick													
BA Charges	662,535,897	2.87%	-2.97%	0.00%	0.00%	5.42%	-2.72%	11.08%	-5.69%	-0.06%	0.77%	0.58%	0.58%
POCL Charges	377,975,688	-0.57%	0.58%	0.00%	0.00%	0.00%	0.00%	-1.15%	0.58%	0.72%	-9.82%	-7.68%	-7.68%
Total Charges	1,040,511,584	1.60%	-1.66%	0.00%	0.00%	3.42%	-1.72%	6.56%	-3.38%	0.23%	-3.14%	-2.47%	-2.47%
Tom													
BA Charges	535,641,923	2.55%	-2.61%	0.01%	-0.01%	0.16%	-0.08%	5.21%	-2.70%	-0.08%	0.59%	0.08%	0.41%
POCL Charges	370,490,271	-1.43%	1.52%	-0.01%	0.01%	-0.10%	0.05%	-2.87%	1.57%	0.25%	-1.94%	-0.27%	-1.36%
Total Charges	906,132,195	0.92%	-0.92%	0.00%	0.00%	0.06%	-0.03%	1.90%	-0.95%	0.06%	-0.45%	-0.06%	-0.31%

Sensitivities Summary - % Change in NPV @ 12% - Total Charges - IC/B

Restricted Contracts

Annex B

	Transaction Volumes																								
	Baseline	POCL - Lowest Volumes Scenario		POCL - Highest Volumes Scenario		BA and POCL Volumes - High		BA and POCL Volumes - Low		Immediate Payments - High		Immediate Payments - Low		Counter Positions - High		Counter Positions - Low		Post Offices - High		Post Offices - Low		Help Desk Enquiries - High		Help Desk Enquiries - Low	
PWKP4-23 Reference		23-45	23-45	23-45,51,61	23-45,51,62	50	50	4	4	1,4	1,4	57	57												
Harry																									
BA Charges	846,713,536	1.15%	-0.41%	2.35%	-1.88%	0.12%	-0.12%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
POCL Charges	409,949,618	-37.71%	9.52%	8.97%	-37.60%	-0.02%	0.02%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Charges	1,256,663,153	-11.75%	2.89%	4.55%	-13.74%	0.07%	-0.07%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Dick																									
BA Charges	662,535,897	2.55%	-0.64%	2.20%	-0.58%	0.17%	-0.17%	0.97%	-1.78%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
POCL Charges	377,975,688	-35.63%	8.74%	8.11%	-35.31%	-0.02%	0.02%	2.24%	-4.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Charges	1,040,511,584	-11.55%	2.82%	4.38%	-13.40%	0.10%	-0.10%	1.44%	-2.63%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Tom																									
BA Charges	535,641,923	8.29%	-2.00%	0.53%	5.66%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
POCL Charges	370,490,271	-25.55%	6.89%	5.49%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
Total Charges	906,132,195	-5.77%	1.64%	2.56%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%

Sensitivities Summary - % Change in NPV @ 12% - Total Charges - IC/B

Restricted Contracts

Annex B

Benefit and Customer Behaviour

	Baseline	Foreign Encashment - High	Foreign Encashment - Low	Agents - High	Agents - Low	Permanent/Casual Mix - High	Permanent/Casual Mix - Low	Alternative Payees - High	Alternative Payees - Low
PWKP4-23 Reference		55	55	63	63	64	64	52	52
Harry									
BA Charges	846,713,536	0.00%	0.00%	0.31%	-0.31%	3.75%	-3.75%	3.33%	-3.33%
POCL Charges	409,949,618	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Charges	1,256,663,153	0.00%	0.00%	0.21%	-0.21%	2.57%	-2.57%	2.28%	-2.29%
Dick									
BA Charges	662,535,897	0.15%	-0.15%	0.04%	-0.04%	-0.38%	0.42%	0.00%	0.00%
POCL Charges	377,975,688	-0.01%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Charges	1,040,511,584	0.09%	-0.09%	0.02%	-0.02%	-0.24%	0.26%	0.00%	0.00%
Tom									
BA Charges	535,641,923	0.00%	0.00%	0.00%	0.00%	0.04%	-0.04%	0.04%	-0.04%
POCL Charges	370,490,271	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
Total Charges	906,132,195	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%	-0.01%

ANNEX C - CASH FLOW CHARTS

But card issue $\frac{2}{40m}$ pa
+ No interest wts

