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MP(94)...

MAJOR PROJECTS EXPENDITURE COMMITTEE

BRIEFING ON THE AUTOMATION OF BENEFIT PAYMENT AT POST OFFICES**Background**

The Benefits Agency (BA) is Post Office Counters Limited's largest client, accounting for over 33% of business volume and value. Most beneficiaries (85%) are paid through post offices using order books or Green Girocheques. The rest are paid by automated credit transfer (ACT) to a bank account. Payment through post offices costs the BA more (in both their internal costs and POCL and Girobank fees) than ACT and is viewed as more prone to fraud. Last year the Department of Social Security proposed making ACT compulsory for all beneficiaries with a suitable bank account. This would have meant a major loss of Counters' business and would have resulted in outlet closures. After extensive public and parliamentary debate these options were rejected and BA and POCL were asked to develop an option for modernising benefit payment through post offices, which the Post Office and Department of Trade and Industry had put forward.

Medium Term Plans

A joint BA/POCL feasibility study reported in February 1994, recommending a two stage approach: bar-coding of order books as a first phase followed by the introduction of plastic card based payment once all post offices have been automated. These proposals have a timescale which would result in all post offices being automated and all beneficiaries paid via plastic cards by the year 2000. Both systems would use counter terminals with access to payment details; only payments authorised by the BA could be made and so fraud would be substantially reduced. The plastic card system would also allow the BA to make administrative savings.

Verification of payee identity via biometrics (such as finger print scanners) has received considerable press attention. It was considered in the feasibility study but use at the counter was ruled out at present on grounds of customer acceptability, reliability and cost.

This feasibility report has been distributed to Ministers and senior officials in DSS, DTI and the Treasury.

Short Term Plans - Alert

In parallel with this investigation of medium term options, the BA have been looking at ways of combating fraud now. A less sophisticated system, "Alert", using bar codes and an automated stop list (but without access to full payment details at the counter) has been on trial in 180 North London post offices. This uses equipment leased by the BA from a private sector supplier, HTEC, who also manage the system. Alert prevents the use of books reported as stolen or cancelled by the BA and put on the stop list and allows such books to be retained if they are presented for payment. The trial has been successful and BA estimate that extension to the whole London area (inside the M25) would prevent fraud worth £40m per annum.

A joint BA and POCL review of the Alert trial and the feasibility study proposals has concluded that Alert should be extended in order to make some early fraud savings, while the medium term systems are under development. To ensure that short term solutions do not compromise the strategic developments, the current HTEC type of equipment would not be used; instead a PC-based system would be implemented. This would be able to support the medium term strategic developments once the BA have made necessary enhancements to their central computer systems and once the required telecommunications infrastructure is in place.

BA have now proposed the implementation of Alert on PC-based equipment in 1478 London post offices with 4200 serving positions. (Around 10% of the UK total.) They published a notice in the European Journal inviting expressions of interest for providing and running all or part of such a system. There have been around 60 respondents including major clearing banks, facilities managers, telecommunications companies, computer manufacturers, An Post, Girobank, SSL - and iT who have been added at POCL's request (and who will maintain separation between staff seconded to POCL to work on requirement specification and staff preparing any IT tender).

Current Position

BA and POCL are jointly developing an Operational Requirement against which tenders could be invited. It is still uncertain whether the DSS will go ahead and issue this, or whether - at least in the short term - they may decide to ask POCL and iT to provide the service based on the Farnborough System Management Centre and Postline.

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The current position is complex. Politically, BA would find it difficult to follow any other route than issuing the Operational Requirement to European Journal respondents, though this is not a legally binding requirement. However they now accept that this will result in a longer timescale and greater risk than using existing Post Office call-off contracts which have already been subjected to tendering. It is also not clear whether they will have the necessary funding to go ahead.

This means that a short term arrangement with the Post Office providing a system for the London area, but with options for subsequent market testing and possible transfer to a private sector contractor, may be agreed in the next few weeks.

Strategic Issues

Potentially this is a very important strategic development for both Counters and The Group as a whole. The facilities provided for the Benefits Agency could put a terminal on every post office counter position, supported by an extensive telecommunications infrastructure. This would realise a long-standing POCL strategic objective with assured support from our largest client.

These facilities would be available for developing automated products for other clients, developing new business including hybrid products (in collaboration with other parts of The Group), and would help achieve efficiency savings in outlets and centrally.

It will be important for POCL to achieve a sound contractual framework for the developments, so as to ensure effective commercial control of core business processes including:

- acceptability of the retail service provided to customers including providing other clients' products;
- control of retail standards including outlet equipment and change control for the new systems;
- control of associated processes including the management of converging data streams and providing a single interface to clients;
- financial integrity for the client and associated controls;
- a stable contract with the BA, long enough to assure POCL of a return on any investment for BA.

Investment requirements

Current best estimates for the recommended option, as shown in the joint BA/POCL feasibility report are at Annex A. (Because of the restricted scope of the feasibility study and for commercial reasons, this assessment does not include any costs or benefits for other Post Office applications sharing the facilities. This is currently being examined by POCL.)

There are many issues still to be resolved and so these estimates are very provisional, however they do show a project which is highly effective in public expenditure terms; and so suggest that, provided funding issues can be resolved, it should be possible to devise a way forward which is mutually beneficial for the Post Office and the DSS.

The Next Steps

POCL will continue discussions with BA with the objectives of safeguarding our commercial position and obtaining a satisfactory return on any investment.

Issues currently being discussed include the following:

- Who will fund Alert and/or medium term systems: the BA or POCL (recovering costs in higher fees);
- Possible use of private sector financing; whether BA or POCL or both would hold any contract with a private sector partner;
- Boundaries between BA and POCL control of the parts of the system, especially as regards support for other clients and agents;
- Migration of existing POCL applications, especially ECCO+ and Automated Payments, onto the new equipment; there is only room for one terminal at a counter position.

When agreement in principle has been reached, a proposal will be put to MaPEC. Given the negotiating climate, it may then be necessary to reach a decision quickly, while the agreement with BA is on the table.

R People
POCL Resources Director
April 1994

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Annex A

SUMMARY COSTS & SAVINGS
FOR THE BA/POCL DEVELOPMENT REPORT
RECOMMENDED IMPLEMENTATION

| | | £m |
|---|---|--------------------------|
| 1 | Set up costs a) Capital b) Non-recurring revenue | (87.82) (39.99) |
| 2 | Annual running costs | (72.81) |
| 3 | Savings a) Fraud b) BA administration c) POCL administration | 109.40 77.67 19.58 |
| 4 | Cumulative NPV by year 6 | 361.46 |
| 5 | Steady state cash flow | 133.84 |

Notes

Savings/costs are to total project including both POCL and BA components. Capital includes £4.31m for BA systems and NRR includes £16.15m.

Discount rate used for NPV is 6% (i.e. agreed to use BA assumptions.)

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