

Jeff

14/1/98



enclosed minutes of last
week's meeting and copy of
lessons learned report. I've also
copied them to Nick and passed him
a disk copy of schedules 2, 3, 4 & 5.

Regards

GRO

with compliments

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Notes Of Legal Contingency Planning Meeting

<u>Attendees:</u>		<u>Date:</u>
Paul Rich	Jeff Triggs	8th January, 1998
Nick Grey	Joe Ashton	
Kevin Corrigan		

Action:

- | | | | |
|----|--|-------------|-------|
| 1. | Noted Stuart Sweetman had written to Peter Matheson setting out POCL's stance on termination of the Related Agreements. | - | - |
| 2. | Noted no formal reply had been received from Peter Matheson. It was felt better not to proactively pursue this matter at present. However, should DSS disagree with our interpretation on joint termination POCL should refute any suggestion to seek advice from say an Independent Treasury Lawyer as we believe the interpretation is clear. Only if pushed should POCL concede to use an Independent Queens Council for an opinion. Agreed that a list of potentially suitable QC's be drawn up. | - | JT/NG |
| 3. | Noted Stuart Sweetman had spoken to Peter Matheson in order to establish the BA position. It appears BA have been taking their own legal advice and are aware of "contract by behaviour" as well as written contracts. BA indicated that they viewed the Pathway response for a 30% prices rise and/or contract extension was made under Chatham House Rules - BA do not appear ready to enter negotiations until ministers have decided or given them a clear steer. Agreed that a draft question and answer sheet be drawn up to support any further discussions. JT/NG to review draft. | | KC |
| 4. | Agreed that a copy of the Post Office presentation to DTi (scheduled for 26th January 1998) regarding the Automation Programme be passed to JT, NG & JA. | Done | KC |
| 5. | Noted all major events and in particular all legal moves must be checkstepped with Chief Executive before actioning. | - | - |
| 6. | Noted POCL believed the DSS position/recommendation to their ministers to be to negotiate a termination settlement in order to avoid embarrassment to the Government. This, however, could lead to a further push for compulsory ACT. | - | - |
| 7. | Agreed that a copy of PR's note on Project "Deep Pink" be passed to JT, NG & JA. | Done. | KC |
| 8. | Agreed copies of the PDA, PSC and CASG minutes would be prepared, in particular the "lessons learned" paper to CASG would be copied to JT, NG and JA. Agreed copies of Schedules 2,3,4 and 5 be passed to JT and NG. | In Progress | KC |

Commercial: In Confidence

Notes Of Legal Contingency Planning Meeting

Action:

9. **Noted** all conversations and letters regarding termination or any matter regarding a commercial deal to keep the programme on track should be done on a "without prejudice, subject to contract basis". Similarly, any minutes of meetings should not be left with any misquotes in them. - -
10. **Noted** if we have made clear our disagreement with DSS to termination, POCL would be indemnified and protected from Pathway suing POCL. However, such a scenario is thought likely to be very messy and unlikely to be contained or controllable. Work to date suggests the close down costs to the Authorities would be of the order of £260m. Termination has significant risks for DSS as well. Therefore, it is generally thought that negotiation is more likely than termination at this point in time. **Agreed** that it would be prudent to have a draft letter dissociating POCL from any BA wrongful unilateral termination. - JT/NG
11. **Noted** if parties were agreeable Contract A could survive termination of the Related Agreements. Agreed that a paper outlining the circumstances under which Contract A could be terminated would be drawn up and the effects of the clause regarding "a change of Government policy on Contract A" amplified. - JT/NG
12. **Noted** no further communication had been received or discussion taken place regarding the Terms of Reference for an Independent Person to review the cause of slippage of the programme. - -
13. **Noted** the legal advice for any POCL response to Pathway's 30% price rise/contract extension is to refute the request as Pathway have no grounds. Should any informal discussions take place this would need to be on a "Without Prejudice" basis. - -
14. **Agreed** that the potential right for Pathway to terminate for non-agreement of schedules would be examined. TT/NG

Dates of following meetings: 16th January, 1998 12:00pm- 2:00pm, KEB, Room 15
29th January, 1998 10:00am-12:00pm, KEB, Room 17

BA/POCL

LESSONS LEARNED REPORT

**Bringing Technology to Post Offices
and Benefit Payments
24 October 1997**

**Mr J Cousins
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Bringing Technology to Post Offices and Benefit Payments

LESSONS LEARNED FROM THE PROCUREMENT

Authors: Dr C F Monahan and Mr J Cousins
Date: 24 October 1997
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1. PURPOSE

- 1.1. This report records the good practice and lessons learned during the procurement of services to automate Post Offices and the payment of benefits which was undertaken jointly by the Benefits Agency (BA) of DSS, who acted in tandem with the Northern Ireland Social Security Agency (SSA), and Post Office Counters Limited (POCL).
- 1.2. It is normal practice to conclude large procurement projects with a review to capture what lessons could be learned in order that future programmes can derive maximum benefit from the experience. A commitment to undertake such a review was given by the Secretary of State for Social Security to the Chancellor of the Exchequer on 25 February 1996.
- 1.3. Terms of Reference for the study, as summarised in Annex A, focus upon:
 - (a) a major joint procurement; and
 - (b) the application of Private Finance Initiative (PFI) policy.
- 1.4. The review was not commissioned as a case study (such as, for example, those for the Department of Social Security (DSS) NIRS2 and Home Office Immigration and Nationality Directorate procurements) and therefore distribution of the report will be restricted.
- 1.5. The study team comprised Chris Monahan and John Cousins from Kermon Limited, both of whom have an extensive experience of major IT services procurements within the public sector and services procurements which have been carried out under the PFI.
- 1.6. Each major procurement within the public sector is usually unique in that it is aimed at satisfying a large-scale business requirement particular to the purchasing organisation or organisations. Such procurements are therefore unsuitable for use as a straight template to be re-used. However, they do need to address many of the same type of generic issues. This report therefore does not provide a prescriptive approach to carrying out future procurements. Rather, it presents the particular issues addressed and problems encountered and overcome during the BA/POCL procurement with the expectation that other procurement exercises may find certain of the Lessons Learned to be useful.
- 1.7. In identifying the lessons learned, the reviewers have drawn on what is generally agreed to have been done well and on the areas where there was thought to have been room for improvement. Whatever the source of the lesson, what is considered to be 'best practice' has been recorded. The lessons learned comprise:
 - (a) approaches adopted which were found to be effective;
 - (b) problems encountered and solutions which resolved them;
 - (c) aspects of the procurement which with hindsight should have been tackled differently.

- 1.8. Inevitably, given an activity of this scale and complexity, there are areas where the benefit of hindsight has identified room for improvement. However, that should be set in context against the considerable achievement that conclusion of the procurement represented for all parties involved - the BA/POCL Programme, the sponsors and the service providers - and the enormous amount of hard work that went into it.
- 1.9. Section 2 summarises how the study was conducted. Section 3 sets out the lessons learned and guidelines for best practice and Section 4 provides a summary of critical success factors and conclusions.
- 1.10. Kermon wishes to thank all those who were interviewed and attended the workshops, and thereby contributed to this report.

2. CONDUCT OF THE STUDY

- 2.1. The review was carried out between August 1996 and October 1996. The initial task was to document the history of the procurement in summary form, using project documents and supporting information provided by Programme team members.
- 2.2. The early draft was circulated to all members of the management team and the core negotiating team, who (with one exception) were interviewed to validate the factual accuracy of the historical record and to comment on additional events which needed to be included. The BA/POCL Procurement History is provided at Annex C.
- 2.3. Following the issue of the revised historical summary, a workshop was held with members of the BA/POCL Programme to ascertain the team's view of the critical success factors, what went well and why, what could have been done differently and why, and the lessons learned which could be useful for other major procurement projects.
- 2.4. The next phase of the study involved a series of interviews with members of the Procurement/Evaluation Boards, the Programme Steering Committee, the three shortlisted service providers and the financial advisers.
- 2.5. The outputs from the workshop and the various comments and opinions expressed by interviewees have provided input to this report. The list of interviewees is provided at Annex B.

3. LESSONS LEARNED AND BEST PRACTICE GUIDELINES

3.1. Overview of the Programme

- 3.1.1. The Programme for 'Bringing Technology to Post Offices and Benefits Payments' moved from inception, when the Benefits Agency and Post Office Counters Limited agreed the need to work together to achieve automation of post office counters and fraud-free methods of payment, to contract award in under two years. The sponsors have moved a long way very quickly - something they would not have been able to achieve individually by 'going it alone'.

- 3.1.2. The Programme was highly successful in replacing an arms-length relationship based on an annual round of BA and POCL negotiations with a strong relationship based on the pursuit of agreed business aims and objectives. The sponsors now have a long term commercial agreement with clear obligations and commitments from both parties.
- 3.1.3. The contracting Authorities (Secretary of State for Social Security and Post Office Counters Limited) awarded the contract in May 1996, to the ICL Pathway consortium, who had demonstrated that their tender offered the best overall value for money, whilst accepting an appropriate transfer of risks.

3.2. Pre-Procurement Preparation

- 3.2.1. The Programme commenced the formal procurement by publishing the OJEC notice in August 1994, calling for interested parties to formally respond and register their interest. This process therefore commenced before all the following preparatory work had been completed:
- Heads of Agreement between the sponsors, setting out the principles of their relationship and the preconditions for agreeing the Memorandum of Understanding and the final Commercial Agreement;
 - Procurement Strategy outlining the procurement route, PFI issues and the various stages of the plan;
 - Outline Statement of Service Requirements (SSR) setting out the scope of the procurement, the main service requirements, requirements for transfer of risks and a realistic timetable.
- 3.2.2. It is recognised that circumstances demanded urgency in commencing and formalising the procurement programme, which was a key lever in bringing all parties (BA, POCL and potential bidders) together into one common plan of action. This purpose was successfully achieved. An alternative approach would have been to have published an indicative notice in the OJEC during August 1994, informing industry of the impending procurement and offering the opportunity for an exchange of views prior to commencing the procurement proper. This has the advantage of giving greater scope for informal dialogue without the timing and legal restrictions associated with the formal OJEC notice. This approach is not frequently used by HMG but it would be appropriate for further guidance on this approach to be made available from CITU/CCTA.

3.3. Importance of Sponsor Involvement

- 3.3.1. Sponsors played a vital role in the procurement. The Programme was set up to deliver the sponsors' respective business aims and objectives and therefore it needed the support of sponsors at all times and could not act in isolation.

- 3.3.2. The Programme recognised the importance of sponsor involvement since this procurement was primarily about the purchase of business services for the Benefits Agency, SSA and the Post Office, whereas many traditional programmes within the sponsor organisations had been concerned with the purchase of IT products with the application being developed in-house.
- 3.3.3. This recognition led to active and full sponsor involvement in all the key processes and boards within the procurement. For example, the Evaluation Board was chaired by a senior sponsor at Director level and the evaluation itself had a specific focus on the 'business fit' of the service solutions offered by service providers. Sponsors were actively consulted and involved with the requirements specification and set the bounds for contract negotiation with regard to the requirement. They chaired the Programme Steering Committee and Procurement Board and had further appropriate representation at these committees.
- 3.3.4. Best practice dictates that sponsor involvement should go hand-in-hand with a clear understanding on the level of authority delegated from sponsors to the project. Without this delegated authority the project will be unable to fulfil its obligations and delays will inevitably occur. It is important to address the working arrangements between the project and sponsors as well as delegated timescales and financial thresholds. The project must take a proactive role in framing and vetting sponsor requirements into a coherent picture. The principle of delegated authority should be established at the outset with the level and scope of delegated authority being established and agreed at the start of each stage as part of the stage plan and so endorsed by the project board.
- 3.3.5. The involvement of sponsors was not always without difficulty and conflict. Sponsors may be geographically remote from the Project itself and they still have to continue with their day-to-day operational duties. Such involvement, therefore, places a burden on sponsors, that needs to be recognised so that appropriate roles and groups within the sponsor organisations can be planned and co-ordinated to ensure an effective and essential contribution. Human nature is such that sponsors react well to being kept regularly informed of progress, and welcome face-to-face briefings.
- 3.3.6. From the outset of a procurement programme, a close and well-defined role for sponsor involvement should be established and agreed with the sponsor organisation. The sponsor organisation must assess the impact on its own resources and recognise that adjustment may need to be made before confirming commitment to its proposed role and involvement.
- 3.3.7. Early and active sponsor involvement is a critical success factor for any major business service PFI procurement.

3.4. Project Management

- 3.4.1. From the outset, the Programme established a Steering Committee at the appropriate level for a programme of this scale and importance. This committee was co-chaired on an alternate basis by the respective chief executives of the two main sponsoring organisations.

- 3.4.2. Progressively, a number of boards were identified and established, starting with the Procurement Board and the Evaluation Board, and then eventually a Sponsor Director Group. In some cases it would have been beneficial to have established these board structures at the outset of the Programme. Nevertheless, these boards were an essential effective ingredient to the decision making process throughout the procurement. Careful consideration needs to be given to both membership and chairmanship of such boards, particularly, for joint programmes where there are business and relationship sensitivities.
- 3.4.3. As discussed above, for a procurement programme of this scale it was necessary to establish a range of decision making boards. With new procurement processes being developed it was found necessary to have a Procurement Board, whose function was to authorise procurement process which was progressively developed. In hindsight, it may have been more appropriate for this board to have been chaired by the senior procurement professionals, so giving sponsors more time to focus on the Sponsor Director Group and Evaluation Board, which were specifically concerned with commercial factors, requirements and solution selection.
- 3.4.4. Within the Programme itself the organisational structure was based on the setting up of a number of parallel workstreams each with a specific focus and responsibility, for example business requirements, negotiations, evaluation. The Programme recognised that a parallel stream approach was essential for a programme of this scale. The conventional PRINCE approach to stages was adopted and it was recognised that many stream activities spanned more than one stage. Therefore some key activities, although not all, were particularly well planned in advance of the actual stage when they were called in to play. For example the business case stream developed much of its thinking during the early stages of the Programme and was, therefore, able to document a highly complex business case and achieve sign-off during a very short period.
- 3.4.5. In practice the Programme found that the complexity of dealing with joint sponsors, particularly in relation to parallel activities and processes proved more complex and time consuming than anticipated. In addition, the sponsors underestimated the difficulty of the degree and range of issues involved in changing their relationship from a one year to an eight year arrangement, consideration of which was needed prior to the agreement of the MoU (the BA/POCL and SSA/POCL contractual agreements subsequent to that process) whilst contributing to the formation of business requirements and reviewing the resulting procurement documentation.
- 3.4.6. The Programme's plan for the production of SSR was delayed due to the need for detailed review and refinement. The parallel activity of MoU agreement took significantly longer than anticipated and this had become a dependency on the issue of the SSR. This resulted in a two and a half month delay to the Programme.
- 3.4.7. One critical success factor was the seniority, calibre and commitment of the Programme's management team, many of whom had previously tackled IT service procurements of comparable magnitude for other organisations. Once formed, the management team remained stable, thereby providing continuity throughout the procurement and was responsive to sponsor needs. The management team maintained

a high level of integrity when dealing with the politically sensitive issues of all sponsors involved in this joint undertaking.

- 3.4.8. A second critical success factor was the deployment of external professional advisers for financial, legal and procurement aspects of the Programme. All advisers were brought on board at the earliest opportunity and all contributed substantially, particularly in recognising the path-finding aspects of, and problems encountered by, the Programme and formulating methods to overcome them. Support was particularly required in the areas of tariffing using a scorecard approach, contract terms and conditions and evaluation processes for shortlisting and dealing with variant tenders.
- 3.4.9. In summary, major programmes, particularly where there is joint sponsor involvement, will benefit from considering at the outset of the programme the range of approvals and decisions that will be necessary throughout the duration of the programme. On this basis an appropriate board structure can be developed and dependent on the main purpose of each board, suitable chairman and members nominated. Parallel streams of activity, together with flexibility regarding conventional stage management leads to a more efficient and effective form of project working. Much of this has been recognised within the recently announced PRINCE 2 methodology.

3.5. Service Requirements

- 3.5.1. The Programme's approach to the development of the service requirements was based on defining a service architecture which identified the main services and their boundaries, and then the development of a detailed SSR. The approach was not prescriptive, enabling service providers to respond with significantly differing IT architectures, viz distributed and centralised plus a range of payment card schemes.
- 3.5.2. The Benefits Payment Service was well understood by all parties and hence was defined in the form of an exemplar requirements specification together with data flows at the boundaries. The model was tested in draft form against a number of candidate technical architectures, and in particular it was proved to be technically neutral between centralised and distributed solutions. This offered a model from which service providers were able to develop specific solutions within their proposal.
- 3.5.3. With regard to other counter automation applications, of which there were many, both current and future, these were specified at the business level in the anticipation that this would give maximum opportunity for service providers to come up with innovative solutions. In the event it was found that more information was required prior to contract schedule development. This led to a recommendation that requirements should be embodied within a detailed requirements catalogue which would then form the basis for tenders.
- 3.5.4. The approach, therefore, did not wholly follow the PFI convention of developing an output-based specification. The selected service provider was required, as part of the early contract deliverables, to agree a set of detailed output-based service schedules developed from the requirements catalogue.

- 3.5.5. This approach had the benefit of sponsor commitment and was key to achieving contract award within the timescales required.

3.6. Evaluation of Service Provider Offerings

- 3.6.1. The Programme broke new ground in the approach to evaluation and selection under PFI. Early recognition was given to the fact that past practice, which focused primarily on assessing price differentiation of bids, required modification. For a PFI deal, it was anticipated that the potential for variant bids, with differing levels of risk transfer and variation in both the scope of solutions to the requirement and terms and conditions, would give rise to the need for a more sophisticated and structured evaluation method to aid the making of balanced judgements and well-informed selection decisions.
- 3.6.2. A consistent approach to analysis and decision-making was established at the outset of the programme and progressively developed and employed at each of the three stages of selection (i.e. longlisting, shortlisting and final winner).
- 3.6.3. The evaluation process enabled comparison of bids from a number of differing perspectives, for example business fit, viability, commercial and cost. The evaluation models were developed to enable these aspects of each bid to be assessed with one another and in relation to each of the other bidders. The aim in the early stages was to establish a balanced portfolio of service providers, whilst in the later stage the objective was to facilitate the selection of a well-rounded solution that offered best value for money overall.
- 3.6.4. In summary, a major PFI deal needs to recognise that the evaluation process is a key management and selection tool and one that needs to cope with a wide range of evaluation parameters. Each PFI needs to define its decision process at the outset and identify and construct appropriate tools. Relying on past methods may lead to an over-simplified analysis and wrong selection decision.
- 3.6.5. More advanced evaluation methods and processes are a critical success factor for enabling better decisions to be made within the context of PFI.

3.7. Risk Transfer

- 3.7.1. The critical areas where risk transfer would be negotiated were set out clearly in early documents such as the Prospectus, Request for Statement of Capability and the SSR. The experience of the Programme demonstrates how vital it is to identify early on the main areas of risk. It is therefore important to commence discussions and negotiations with service providers, once they have been shortlisted, on the details of which aspects of the risk areas are appropriate for transfer.
- 3.7.2. Projects should recognise that the transfer of major and unique risks such as benefit instrument of payment fraud risk, will be new ground for service providers. Hence there will be significant work involved in assessing the probability of occurrence, impact and cost of the risk. Once the risk has been quantified, and this is not always possible, the service provider must consider how to finance or obtain insurance cover

for the risk, whilst convincing senior management, often within European, Japanese and American based parent companies, that the risks are both worth taking and adequately financed.

- 3.7.3. The risks that the Programme sought to transfer were both sizeable and difficult to quantify. Some service providers claimed they needed more time to obtain their internal approvals of their case to accept the risk transfer requirements of BA and POCL. Without such approvals being obtained, and with no option of continuing negotiation, this inevitably results in variant tenders and significant potential for not achieving value for money.
- 3.7.4. Service providers found that the negotiation of transfer of risk was complicated by the need to deal with joint sponsors and their different priorities for risk transfer. Despite the clear statements in the SSR and previously, service providers' understanding of the sponsors' business was such that detailed discussions were required much earlier in the procurement process, so that they could have better understood the full scope and nature of the risk prior to the negotiation period leading up to issue of the ITT. It is also recognised, with hindsight, that final agreement on the extent of risk transfer has a major impact on price and hence cannot be finalised without price information".
- 3.7.5 In future similar circumstances, where significant risk transfer requirements prevail, consideration should be given to holding service provider Board level discussions on fundamental requirements for risk transfer at a very early stage in the procurement. These discussions would complement the written statements on risks to be transferred in documents such as the Prospectus, which may not have been seen at Board level. All parties would then be clear on the expectations, feasibility and implications of such risk transfer requirements. This should result in mutually agreed action to properly explore and negotiate risk transfer in the context of achieving value for money.

3.8. Business Case and Indicative Prices

- 3.8.1. Separate business cases were maintained by each of the sponsors because the business relationship between the parties is such that certain aspects had to remain confidential to each organisation. It would, however, have been advantageous to have developed a 'Programme business case' combining the key aspects of the individual cases as this would have made it easier to share relevant aspects of the business case with service providers. This would have enabled them to gain a better understanding of the key business drivers, and to tailor their solutions to achieve a better value for money business fit.
- 3.8.2. In the context of the above, indicative prices are provided as a basis for informing the business case. However, within a PFI procurement it is particularly important to establish the basis of the indicative prices in terms of the inclusion, or otherwise, of the cost of transferred risks and the underlying assumptions covering the degree of risk to be transferred.

- 3.8.3. The indicative prices supporting service providers' responses to the SSR were in all cases in excess of expectations based on in-house estimates of equipment, operational and financing costs and in turn on which the business case would be based. The Programme Steering Committee instructed the Programme Director to write to all three shortlisted service providers to 'signal' that their indicative prices were unacceptable in that they exceeded the business case tolerances. The procurement was in its early stages as clarifications of requirements, terms and conditions and detailed negotiations on risk transfer had still to take place. With the greater understanding on all sides of these issues, as the procurement process evolved, the prices, from all suppliers, following the Invitation To Tender (ITT) of 29 February 1996 were further increased. These prices were helpful in focusing on areas of greatest cost and enabled sponsors to prioritise their requirements prior to the final ITT.
- 3.8.4. Dialogue was maintained with each service provider on their main cost drivers and whether particular requirements were driving up prices disproportionately. Where necessary the programme invited the relevant sponsor to review the requirement and either confirm it or modify it to be more cost effective. However, it could also have been useful to have requested revised indicative prices at a suitable milestone to indicate whether the service providers' better understanding of the business needs and the cumulative effect of negotiations was having an overall effect on the eventual likely prices.
- 3.8.5. It is only necessary to have rough estimates of the costs and impact on prices in order to understand what are the major and minor issues. For a major programme such as BA/POCL, estimates to within plus or minus £1m would have been sufficient.
- 3.8.6. The objective is to be able to warn service providers and sponsors at the earliest point of the impact of requirements and risk transfer on the business case and overall affordability of any prospective deal. It would also help the negotiators to better judge when to call for 'real' prices by commencing the tendering stage and final negotiations as discussed below.
- 3.9. Timing of ITT and Post-Tender Negotiations**
- 3.9.1. The service-based approach enshrined in PFI has proved beneficial to BA, SSA and POCL, in terms of achieving value for money and significant risk transfer. In order to achieve these benefits, it was necessary to continue negotiations post receipt of tenders. Past practice within central government has not advocated this approach but has recommended conclusion of all negotiations prior to inviting a best and final offer (BAFO).
- 3.9.2. In practice, a number of major areas of negotiation could only be concluded once service providers had tendered prices. Against these prices ('real' not 'budgetary') the Programme was then, through intensive negotiations and in consultation with sponsors, able to:

- (a) optimise the service boundary - checking that, at the margin, tasks were being done in the most cost-effective place, i.e. sponsor or with service provider organisations;
 - (b) assess the balance between risk transfer and prices and adjust where appropriate to do so;
 - (c) validate those requirements that appeared to be cost-saving or which appeared to have costs in excess of their benefits.
- 3.9.3. As a result of the competitive procurement the Programme succeeded in reaching an acceptable PFI deal with ICL Pathway. However, sponsors have expressed the view that original expectations were not fully met (due to unaffordability) in so far as:
- (a) the degree of risk transferred to the service provider;
 - (b) the scope of the solution, with shortfalls during roll-out and operation of the services to be funded by sponsors.
- 3.9.4 Future PFI negotiations should give consideration to what is the optimum timing for inviting tenders and hence when to bring prices into play within the negotiations. By choosing the timing carefully, this will optimise timescales and resource requirements for both purchaser and service provider as well as optimising the 'deal'.
- 3.10. Post-Contract Requirements**
- 3.10.1. The Programme broke new ground in agreeing to a requirements 'drop down' process post contract with the selected service provider. This has meant that a level of detail is required to be developed by both parties in completing the Service Schedules post contract without giving rise to price escalation.
- 3.10.2. In terms of optimising the overall timescale for a major PFI procurement such an approach has merit. Normal past practice has favoured a full service definition to be agreed pre-contract which includes detailed definition of inputs/outputs, volumes and quality criteria at the service boundary, together with associated purchaser/service provider responsibilities.
- 3.10.3. The reasons for the Programme adopting the post-contract requirements 'drop down' approach were twofold:
- (a) The sponsors' requirements continued to evolve as the procurement progressed, not least as a result of discussions with the suppliers. These changes resulted in a new process, the Requirements Catalogue, which succeeded the SSR and which constituted a definitive set of requirements for the invitation to tender. It was impractical to develop the service schedules of the draft contracts at a time when the final requirements were still being developed.

- (b) the sponsors' need to eradicate benefit fraud, combined with the service provider's requirement to control bidding costs, meant that further slippage was unacceptable. The benefit gained from additional time to accommodate further work refining the sponsors' requirements and producing the contract service schedules, was outweighed by the costs to all".
- 3.10.4 In identifying the level of detail required within the contract, the key consideration should be to establish that which is necessary for the service provider to agree firm prices. It is also important to agree on how the further level of detail is to be developed either pre or post-contract with the preferred service provider into the full service specification. Whenever this process is undertaken post-contract, clear groundrules must be set out on the procedures and mechanisms for reaching agreement between the parties. The precedence and relationships between the requirements, solutions and supporting comments must be clearly stated and accepted by all.
- 3.10.5 Where service providers genuinely wish to reduce timescale and cost of bid, they must offer a view at an early stage as to what they consider would be an appropriate level of detail for a specification for which they would be prepared to set a fixed tariff. They must accept, as a form of risk transfer, the risk of discovering aspects of detail during their development of the full service specification. Such aspects of detail may give rise to variation in service provider original cost projections which must then be absorbed without subsequent price escalation.

4. CONCLUSIONS

- 4.1. The Programme for 'Bringing Technology to Post Offices and Benefits Payments' moved from inception to contract award in under two years. The sponsors have moved a long way very quickly - something they would not have been able to achieve by 'going it alone'. Furthermore, they have replaced an arms-length relationship by a strong relationship underpinned by a commercial agreement with clear obligations and commitments from both parties.
- 4.2. The Programme was obliged to 'trail blaze' in many areas because of the uniqueness of PFI and of the joint sponsorship. With the benefit of hindsight - including the knowledge that it was possible to get a solution - it is possible to see areas where certain processes could have been improved upon. However, a key lesson to be learned is that major procurements such as this require innovation and adaptation along the way and it is to the Programme's credit that they recognised this and acted appropriately.
- 4.3. The critical success factors for the Programme included:
- (a) strong political support - supporting two key Government policies, the elimination of fraud and the maintenance of a nationwide network of Post Offices;
 - (b) strong top management support from the BA Chief Executive and the POCL Managing Director, each of whom made the project a key objective of their business;

- (c) clear business objectives which were maintained throughout the procurement phase;
- (d) good potential for a 'win-win' outcome with the only losers being those defrauding the current social security system;
- (e) several substantial and key risks to be considered for transfer to the private sector - fraud risk, volume risk, project risk, technology risk - and so no one of these could undermine the deal;
- (f) the Programme ensured that the procurement process was transparent to the service providers: project plans, evaluation criteria, service provider risk assessment and so on, thereby maintaining the credibility of the Programme team with the service providers even in conditions of great stress.

4.4. General conclusions regarding the lessons learned included:

- (a) many people in the public sector have an unrealistic expectation of PFI, and in particular the extent to which the private sector is willing to accept risk;
- (b) allowing the design to be the responsibility of the PFI service provider - and so not clear until contract award - introduces the risk of having a 'planning blight' with associated in-house developments. This risk may be reduced by careful definition of the service boundary;
- (c) where the service to be contracted out is essentially unique to the public sector, it is important to ensure that the service provider can move quickly up the learning curve so that they understand the risks involved and are in a position to submit an operational and commercially feasible solution. This process requires considerable effort and resource;
- (d) in the IT field, many established suppliers are as conditioned to the traditional public sector approach as the civil servants. Getting an acceptable deal under PFI requires flexibility and innovative thinking by both sides and the BA/POCL Programme has certainly generated its fair share of new thinking in this respect from which many in the future will benefit.

ANNEX A: TERMS OF REFERENCE

LESSONS LEARNED REVIEW - TERMS OF REFERENCE

Review objectives:

- (a) Establish the lessons to be learned from:
- a major joint procurement
 - the application of PFI policy
- so that they are available for the benefit of future major procurements.
- (b) Document the overall procurement process in summary form, as a template which could be considered by future procurements and as a starting point for any future audit.

Review baseline:

The Review identifies the overall procurement process as a number of parallel streams of activity in terms of the progressive development and refinement of the:

- requirements
- solutions (including Demonstrator and Risk Register)
- business case (including Risk Transfer)
- contract; and
- selection and decision parameters (including processes).

Review approach:

For each stream, the underlying process will be established as a number of steps. For each step, the following will be examined:

- what went well, and why
- what would be done differently, and why
- what was different from previous practice, and could be useful to others in future
- what were the Critical Success Factors.

ANNEX B: STAFF INTERVIEWED

The following staff were interviewed during the review:

- **BA/POCL Programme Team**

Robert Albright
Keith Baines
Mike Dolan
Pat Dugdale
Tony Johnson
Pat Kelsey
Bob King
Stuart Riley
Derek Selwood
Andrew Stott

- **BA**

Derek Brown
Ken Davenport
Peter Mathison
George McCorkell
David Riggs

- **DITA**

Larry McCaffrey

- **SSA (Northern Ireland)**

Jim Fleming
Nigel McCormack
Alec Wylie

- **POCL**

Richard Dykes
Bob Peaple
Jeff Prince
Paul Rich

- **Legal Advisers**

Hamish Sandison

- **Financial Advisers**

Guy Pigache

- **CITU**

Brian Standen

Service Providers

Cardlink - Nick Billington
IBM - Hirsch Cashden, John Evered, Helen Mundy
Pathway - John Bennett, John Jones, Tony Oppenheim.

BA/POCL PROCUREMENT - HISTORY SUMMARY

Milestones/Events	History
1993 - 1994 - THE CONCEPT TAKES SHAPE	
<p>1. BA-POCL Discussions and Feasibility Studies</p>	<p>In 1993 the Benefits Agency (BA) and Post Office Counters Limited (POCL) established a development group to investigate causes of the current payment system deficiencies and to develop a solution. The feasibility report was presented in February 1994; key aspects included:</p> <ul style="list-style-type: none"> • positive authorisation of benefit payments at point of encashment • electronic transmission of payment details from a central payments database to terminals at each post office counter position • tokens (plastic cards) with no intrinsic value for accessing the system to be held by the customer • infrastructure would support work for other Post Office Counters Limited clients and provide platform for development of new services.
<p>2. Related Initiatives ALPS and CAPS</p>	<p>Benefits Agency and POCL were developing other systems to address deficiencies:</p> <ul style="list-style-type: none"> • Automation of London Post Offices (ALPS) / Electronic Stop Notice System (ESNS) to bar code order books and combat benefit fraud • CAPS - Customer Account and Payment System to provide a single benefit account from which to authorise payments.
<p>3. Senior Management Structures Established</p>	<p>Programme staff consisted of a mix of POCL, BA, Northern Ireland Social Security Agency (SSA) and consulting staff. The senior management structures evolved to consist of:</p> <ul style="list-style-type: none"> a) Programme Management Team (PMT) - the Programme Director and his direct reports b) Programme Management Board (PMB) - as PMT plus head of CAPS team c) Joint BA/POCL Programme Steering Committee (PSC). Chaired alternately by Chief Executive of BA and Managing Director of POCL with representatives from SSA, Department of Trade and Industry, DSS Finance, DSS Policy, Treasury and the Private Finance Panel Executive.

BA/POCL PROCUREMENT - HISTORY SUMMARY

Milestones/Events	History
AUGUST 1994 - NOVEMBER 1994 - STAGE 1 - ESTABLISH THE PLAYING FIELD	
<p>4. 30 August 1994 OJEC Notice Published</p>	<p>The OJEC notice was issued on 17 August 1994 and published 30 August. The description of services indicated POCL as the procurer of computer and other services, a major function of which was to be support of payments for DSS and other Government Departments. The DSS and DHSS Northern Ireland requirements for 'complementary' services were to be in addition to the (POCL) services. Further information on the procurement was to be provided to service providers later.</p>
<p>5. September 1994 Procurement Strategy Agreed</p>	<p>The options for the procurement strategy were reviewed during September 1994. A five stage procurement project was proposed:</p> <p>Stage 1: Establish Playing Field</p> <p>Stage 2: Innovation & Clarification</p> <p>Stage 3: Contract Negotiation</p> <p>Stage 4: Evaluation & Award</p> <p>Stage 5: Pilot Evaluation.</p>
<p>6. 23 September 1994 Responses to OJEC Notice</p>	<p>92 responses to the OJEC Notice received.</p>
<p>7. 5 October 1994 Prospectus Issued</p>	<p>The Prospectus entitled 'Bringing Technology to Post Office and Benefit Payments' provided a brief to industry on the background to the opportunity, the organisations, their existing IS strategies and a vision of the future for benefit payments and POCL applications.</p> <p>Significant guidance was offered regarding the solution envisaged:</p> <ul style="list-style-type: none"> • design of token/plastic card system to take account of susceptibility to fraud, public acceptability and speed of transaction • signatures and photographs to be considered on their merits • intrusive biometrics (eg fingerprints) unlikely to be cost-effective and contentious in terms of public acceptability • migration to smart card required long term • need to support transactions for other POCL clients.

BA/POCL PROCUREMENT - HISTORY SUMMARY

Milestones/Events	History
<p>8. 19 October 1994 Request for Statement of Capability Issued</p>	<p>The Request for Statement of Capability issued on 19 October served the purpose of the familiar request for information questionnaire but importantly:</p> <p>a) requested responses from potential prime contractors or consortia only;</p> <p>b) specified that an evaluation would be undertaken based on the responses to the questionnaire and the proposed approach to be taken to the technical solution, and acceptance of risks (particular emphasis placed on fraud risk).</p> <p>The project's published timescales were:</p> <p>Stage 1: Establish Playing Field August 1994 - November 1994</p> <p>Stage 2: Innovation & Clarification November 1994 - March 1995</p> <p>Stage 3: Contract Negotiation March 1995 - September 1995</p> <p>Stage 4: Evaluation & Award September 1995 - December 1995</p> <p>Stage 5: Pilot Evaluation December 1995 onwards.</p>
<p>9. 3 November 1994 Industry Briefing Conference</p>	<p>A service provider briefing conference was held to present the opportunity to industry; explain the procurement process, including how offers would be evaluated and service providers shortlisted; provide a forum for service providers to ask questions.</p>
<p>10. 19 November 1994 Receipt of Statements of Capability</p>	<p>Nine Statements of Capability were received and evaluated in accordance with the paper entitled Statement of Capability Evaluation Process. The objective was to select a 'portfolio' of service providers with a variety of approaches to allow innovation.</p> <p>The long-list selected comprised:</p> <ul style="list-style-type: none"> • BT with Citibank • EDS • IBM • Cardlink - a Special Purpose Vehicle (SPV) comprising Andersen Consulting and Unisys • Pathway - a consortium led by ICL.

BA/POCL PROCUREMENT - HISTORY SUMMARY

Milestones/Events	History
NOVEMBER 1994 - JULY 1995 - STAGE 2 - INNOVATION AND CLARIFICATION	
<p>11. November 1994 to February 1995 Development of SSR</p>	<p>Work on the Statement of Service Requirement (SSR) had started during Stage 1, and built upon the information provided in the Prospectus. Some sections of the draft SSR were issued to prospective service providers in December 1994 as part of an information pack, which included summaries of two joint BA/POCL reports entitled "Order Book Report" and "Girocheque Report". Work on the final version was substantially completed on 6 February 1995, subject only to minor amendments arising from quality assurance comments.</p> <p>The SSR made a clear distinction between:</p> <p>a) strategic IT infrastructure for POCL</p> <p>b) solutions to existing BA and POCL business requirements, particularly benefit payments.</p> <p>The SSR set out the separate objectives for BA and POCL as well as the following joint objectives of the Programme:</p> <ul style="list-style-type: none"> • fraud-free method of paying benefits, with continuously reducing overall administration costs • automation of other POCL transactions • full and speedy reconciliation of benefits payments • improved service to both parties' customers. <p>The procurement scope was represented diagrammatically to show BA and POCL services and the service boundaries.</p> <p>The Implementation programme was to commence Spring 1996.</p>
<p>12. November 1994 to April 1995 Agreement of BA/POCL Memorandum of Understanding</p>	<p>Once work had progressed to the stage where Statement of Service Requirement (SSR) issue was in prospect it was vital for BA and POCL to cement their relationship by agreeing the Memorandum of Understanding (MoU). The SSR could not be issued to service providers until the MoU was agreed. The MoU was signed on 13 April 1995.</p> <p>Edited copies of the MoU were given to service providers for information after the SSR had been issued.</p>
<p>13. April 1995 Issue of SSR</p>	<p>The SSR, dated 6 March 1995, was issued to the five longlisted service providers on 13 April 1995.</p>

BA/POCL PROCUREMENT - HISTORY SUMMARY

Milestones/Events	History
<p>14. January 1995 Set up of Procurement Board and Evaluation Board</p>	<p>A Procurement Board was established to oversee the procurement, give guidance on policy issues and approve the methodology by which evaluation for shortlisting and eventual award would be conducted.</p> <p>Chairmanship would alternate between the two main parties' business sponsors - Director of Resources, POCL and Head of BA's Banking and Accounting Branch.</p> <p>The Evaluation Board, comprising a sub-set of the Procurement Board members, was responsible for considering the evaluation reports from the shortlisting and final selection exercises and making the decisions. The chairman was POCL's Director of Resources.</p>
<p>15. 8 June 1995 Receipt of Proposals</p>	<p>The five responses received on 8 June 1995 were evaluated in accordance with the paper entitled Proposal Evaluation Process, which had been approved by the Procurement Board. The Proposal Evaluation Grid focused evaluators on the Characteristics vs Viability aspects of each proposal.</p> <p>The Proposal Evaluation Model paper described the model structure, provided guidance on scoring for evaluators and the evaluation weights for low-level criteria. A separate paper (not available to evaluators) set out the full weights which were approved by the Evaluation Board.</p>
<p>16. July 1995 Evaluation Board agrees shortlist</p>	<p>The evaluation team's report presented the results of the evaluation in tabular and various diagrammatic forms including the Proposal Evaluation Grid.</p> <p>On 19 July, the Evaluation Board agreed the shortlist as Cardlink, IBM and Pathway.</p>
<p>17. July 1995 PSC Endorse Shortlist</p>	<p>The PSC endorsed the shortlist of three on 21 July.</p>
<p>18. July 1995 Update of Business Case</p>	<p>The indicative prices in the proposals were used to update the Business Case.</p>
<p>19. June 1995 to August 1995 Development and Issue of Service Provider Risk Registers (SPRR)</p>	<p>During the evaluation, SPRRs were drawn up in respect of all risks identified against each service provider. These were issued to shortlisted service providers during August and September 1995 and provided the foundation for much of the Stage 3 discussions with service providers as they strove to resolve or eliminate the risks.</p> <p>The SPRRs were reviewed regularly by the Risk Assessment Panel (RAP).</p>

BA/POCL PROCUREMENT - HISTORY SUMMARY

Milestones/Events	History
JULY 1995 - FEBRUARY 1996 - STAGE 3 - CONTRACT NEGOTIATION	
<p>20. July 1995 Demonstrator and Negotiation Streams Commence</p>	<p>The SSR stipulated a two stream approach to Stage 3, ie:</p> <ol style="list-style-type: none"> a. discussions and demonstrations aimed at addressing technical risks and improving understanding of solutions such that concerns over technical and viability aspects were cleared; and b. negotiation, by the time of issue of ITT, of a draft contract with each service provider which was acceptable to BA and POCL.
<p>21. October 1995 Stage 3 Re-plan and Initiation of Requirements Stream</p>	<p>In the course of the stage, it was concluded that further work was needed to update and clarify those requirements which had not been finalised at the SSR stage.</p> <p>A re-plan was undertaken resulting in a third 'Requirements and Solutions' stream of activity to develop a 'Requirements Catalogue' focusing on 5 groups:</p> <ul style="list-style-type: none"> • POCL Infrastructure • Benefit Processing Applications • POCL Applications • Implementation • End to End.
<p>22. October 1995 Sponsor Directors Group Set Up</p>	<p>The Sponsor Directors Group (SDG) was set up to give the Programme direction on business issues as and when needed. The chairman was the Chief Executive of the SSA.</p>
<p>23. November 1995 Financial Evaluation Planning</p>	<p>The financial evaluation methodology was approved in principle by the Procurement Board. The Financial Adviser's proposals for a common charging structure were approved as the basis for inviting tenders and service providers were notified accordingly.</p>
<p>24. November 1995 to December 1995 Three Contract Structure Adopted</p>	<p>Senior management reviewed the contract options and adopted a three contract structure comprising a common over-arching service agreement, changes to which need to be agreed by both sponsors, and separate BA and POCL service agreements.</p> <p>The draft contracts were issued to service providers on 21 December 1995.</p>

BA/POCL PROCUREMENT - HISTORY SUMMARY

Milestones/Events	History
25. December 1995 New Timetable Agreed	The BA Chief Executive and POCL Managing Director committed to issue of the ITT by end of February 1996. Service providers were advised, and were subsequently told of the intention to award contracts by end May 1996.
26. November 1995 to February 1996 Seals of Approval (SOAs) obtained	The BA Seals of Approval process in respect of non-financial matters was modified to accommodate the special needs of the Programme and certificates were signed by BA users and non-BA users. The certificates were reviewed by the Benefits Agency Steering Committee for Information Strategy (BASCIS).
27. January 1996 to February 1996 Value Factors Assessments	<p>The principle of including non-monetary value factors in the evaluation had been agreed by the sponsors in October 1995. Descriptions of the ten factors were included in the notification of award criteria given to service providers on 6 November. Separate value factor assessments were carried out by the Core Negotiating Team (CNT) and the Demonstrator stream.</p> <p>The reports comprised marking grid assessments of performance against the factors, supported by references to evidence and appropriate rationale and evaluation material - providing an audit trail.</p> <p>The results were combined into a Programme Value Factors (PVF) report. The PVF report was subsequently quality assured by the sponsors and approved by the Evaluation Board before receipt of tenders.</p>
28. January 1996 to February 1996 Negotiation of Risk Transfer	<p>The Procurement Board approved the Programme's approach to "Risk Transfer" to service providers.</p> <p>Additional negotiation meetings were held with shortlisted service providers to discuss the transfer of risk, particularly fraud risk.</p>
29. February 1996 - Pre-ITT Hurdles Review	<p>In order to receive the ITT, each service provider had to clear a number of hurdles to prove that they had met or exceeded:</p> <ul style="list-style-type: none"> • minimum service requirements acceptable to sponsors • minimum requirements for partnership with POCL and for development of new business opportunities • sufficient transfer of risk (particularly fraud risk) • acceptable funding method and financial structure. <p>The mechanisms were:</p> <ul style="list-style-type: none"> • no category A 'critical' risks or unacceptable profile of 'serious' risks • agreement to draft contracts acceptable to both BA and POCL.

BA/POCL PROCUREMENT - HISTORY SUMMARY

Milestones/Events	History
<p>30. 27 February 1996 Meeting Between Chancellor of the Exchequer and Secretary of State for Social Security</p>	<p>The Chancellor of the Exchequer and Secretary of State for Social Security, plus the Deputy Prime Minister, President of the Board of Trade and other ministers, met with BA's Chief Executive and POCL's Managing Director to agree the plans leading to award of contract, and to obtain all parties' commitment to their achievement.</p> <p>The Chancellor circulated the key milestones to all parties.</p>
<p>31. February 1996 to April 1996 POCL Approval Process</p>	<p>The POCL Programme approval process involved endorsement by the Major Projects Expenditure Committee (MaPEC) in respect of Operational, Financial and Technical aspects of the project. The POCL business case covered both the counter automation programme and the Chesterfield-based Transaction Information Processing (TIP) system which processes outputs from counter transactions in order to produce management information.</p>

BA/POCL PROCUREMENT - HISTORY SUMMARY

Milestones/Events	History
MARCH 1996 - MAY 1996 - STAGE 4 - EVALUATION AND AWARD	
<p>32. 29 February 1996 Issue of ITTs</p>	<p>The Procurement Board reviewed the evidence regarding the ITT hurdles and approved issue of ITTs to all three shortlisted service providers.</p> <p>A Common Charging Structure, as discussed during Stage 3, was obligatory for all service providers as per Financial Adviser's recommendations.</p> <p>However, tenderers were given the option to offer variant bids with reduced levels of accepted risks and/or alternative bids using alternative charging structures. Variant and alternative bids were referred to as non-compliant bids.</p>
<p>33. 21 March 1996 Tenders Received</p>	<p>The tenders were evaluated in accordance with the procedures described in the paper Processing Tenders from Receipt to Award: This included an initial "walk-through" to measure compliance with the ITT before all tenders (both compliant and non-compliant) were evaluated.</p> <p>The evaluation team was divided into several streams (eg Finance, Contracts, Technical) plus facilitators. Access to priced tenders was strictly limited in view of the involvement of some evaluators in reviewing value factor scores.</p> <p>The value factor scores were reviewed and some pre-ITT scores were amended to take account of experience since ITT issue. (The revised results were endorsed by the Evaluation Board on 19 April.)</p> <p>The Sponsor Directors Group was briefed by the evaluation team on 28 March that prices exceeded acceptable levels for both the BA and the POCL business cases. The SDG agreed that further talks be held with all service providers to discuss how prices could be reduced by negotiating revised 'packages'.</p>
<p>34. 1 April 1996 Negotiations Restart</p>	<p>The Core Negotiating Team met with service providers to negotiate reduced cost options.</p>
<p>35. 16 April 1996 Invitations to Retender Issued</p>	<p>The Sponsor Directors Group met with the CNT on 16 April to reach decisions on each element of the revised packages proposed by the service providers and to approve issue of the Invitation to Retender (ITR) to all three service providers.</p> <p>The ITR requested tenders that were compliant with each service provider's revised draft contract, but allowed one variant bid with a commitment that all bids would be evaluated.</p>
<p>36. 22 April 1996 Retenders Received</p>	<p>The Retenders were evaluated in accordance with the Processing Tenders procedures, tailored to the actual information provided by tenderers.</p>

BA/POCL PROCUREMENT - HISTORY SUMMARY

Milestones/Events	History
37. 29 April 1996 Evaluation Board Decision	The results of the Retender evaluation were presented by the evaluation team to the Evaluation Board on 29 April 1996. The Board unanimously agreed that award to Pathway should be recommended to the PSC.
38. 15 May 1996 BA/POCL Sign Commercial Agreement	BA and POCL signed the Commercial Agreement which was based upon the MoU agreed in April 1995.
39. 15 May 1996 Award to Pathway	<p>The Programme Steering Committee endorsed the Evaluation Board's recommendation on 1 May 1996 and following various Treasury, POCL and ministerial approvals, the contract was awarded to Pathway.</p> <p>The award was announced on 15 May by the Secretary of State for Social Security at the National Federation of SubPostmasters conference.</p>