

25/1/95  
① Copy to Stuart as background info to Chairman please  
enforce from original CEE type agreement behind sheets  
Commercial in confidence  
Paper AC 3/95  
PO Social Sec Negotiables

② My Strategic Services Plan file  
**Post Office Counters Ltd's non-negotiables** HCN/120W

**Purpose of this paper**

1 The purpose of this paper is to invite the automation committee to agree our non-negotiables for the commercial relationships to be established as part of the programme Bringing Technology to Post Offices and Benefit Payments.

It is intended to focus on areas of principle as opposed to financial negotiatiabes at this stage.

**Introduction**

2 Our non-negotiables represent the absolute minimum position that we, as a business, should accept from the automation programme. They must hold in whatever contractual structure is reached. They must hold whether the relationship is with Benefits Agency, the private sector or some hybrid arrangement and under any financing method used.

3 In order to reach these non-negotiables, the commercial team drew up a list of must haves which were provided to you as supplementary reading, memo 9 January 1995, for paper number 3 taken at the last meeting. This list was used as the basis for the commercial must haves in the 31 January 1995 presentation to Bill Cockburn.

4 The latest version of the Statement of Service Requirement, issued 24 January 1995 contains updated Benefits Agency objectives from those contained in the prospectus and outlined at earlier commercial meetings. These are due to be discussed and agreed at the next commercial meeting on 31 January 1995. We have also produced a revised set of objectives for the Statement of Service Requirement and both of these are set out in tables 1 and 2 annex A. In addition we have set out our view of supplier objectives and the political drivers on the programme, tables 3 and 4 annex A. A verbal update will be given at the meeting on the latest position as far as agreement of the Benefits Agency and our objectives are concerned.

**Non-Negotiables**

**Benefits Agency's non-negotiables**

5 The commercial team have taken the Benefits Agency objectives, the political drivers and previous contractual negotiations and attempted to simulate the Benefits Agency's non-negotiables. These are:-

- Cost reduction in total process (one of the terms of reference of the joint report February 1994)
  - Benefits Agency internal costs
  - Fraud
  - External costs e.g. Post Office Counters Ltd costs

- Retain ownership/ control of
  - Benefit payment process
  - Benefit payment card
- Single instrument of payment for non-ACT customers
- Fully reconcilable and auditable customer accounting system
- Interface with Benefits Agency's systems e.g. CAPS

#### Definition of our non-negotiable

6 The key issue is seen as control and not necessarily ownership in that we may be content to allow ownership to reside with either the service provider or other third parties providing that our non-negotiable principles are not compromised. The following list does not attempt to specify ownership and this is an area that may require further work after the basic principles have been agreed.

7 The criteria used to reach our non-negotiables are:-

- deliver our strategic objectives
- fundamentally undermines our competitive position e.g. threatens the integrity of our business
- lose control of our core competencies e.g. replace the value we add to our clients' work
- cause us to operate outside of our legal and political framework

#### **Our non-negotiables**

i) **The overall commercial deal must be acceptable and be within our current policy and guidelines** i.e. we will not automate at any price and we must contract directly for the Post Office Counters Ltd automated infrastructure. Pricing will be consistent and reflect policy i.e. no open book and above long run marginal cost.

ii) **We must retain control of our relationship with customers and clients, specifically**

**Product Design** e.g. to minimise QPA error rates and ensure accuracy of transactions

**Product development:** i.e. we must retain the freedom to develop and market products to clients and to add products to the automated infrastructure, without either Benefits Agency or the service provider having a right of veto.

**Access to clients:** i.e. suppliers will not be allowed access to our existing and potential clients without our consent. We will be willing to develop partnerships with service providers and clients to automate products but service providers will not be able to develop our client's automated products for post offices nor offer them outside of our outlets without our consent.

**Branding:** i.e. control of our brand and supplier/ other brands in our outlets

**Customer Choice** to be maintained and no perceived service degradation

iii) **We must retain control of our Retail Value Chain, specifically**

**Service quality:** i.e. queuing time, customer perception, security. It is highly desirable that the current overall quality of service to customers in post offices is not adversely impacted. As far as benefit transactions are concerned, account will be taken of the current payment distribution profile (i.e. by day of week and time of day). The Statement of Service Requirement contains various references to improving our service quality, copy attached annex B

**Network planning:** i.e. we manage and decide on outlet location, number of outlets, times of opening.

**Number of outlets to be automated,** i.e. the Statement of Service Requirement currently reflects the need to automate all post offices though not necessarily with the same equipment or to the same functionality.

**Ergonomics:** i.e. we manage and decide on outlet layout, specify physical size of automation equipment in each outlet and improvements identified by our users to the equipment or system.

**Non-Retail support systems:** i.e. value added processes and distribution. The current decision is that "ownership" of the transaction management service (polling authorisation) could reside with the service provider. But we would control access to outlets.

iv) **We must retain control of our financial integrity, particularly to clients, specifically**

**accuracy** i.e. invoicing and settlement

**payments**

**cash flow management**

**Reconciliation process**

**Probity** - audit and internal controls

v) **We must retain ownership and control of our relationship with agents:** i.e. suppliers will not be allowed access to our agents except through and with us. Suppliers will not be able to market their other products through our outlets except through and with us.

vi) **Minimum criteria as agreed by the automation committee:** i.e. from the last meeting - minimum functionality, benefit payment product, APT and EPOS (ECCO+ replacement), - from this meeting our approach to cards and card management

vii) **The benefit payment card is for exclusive use in our outlets**

8 There will be levels of detail under each of the non-negotiables listed above. For instance under Service Quality whether we would accept a longer automated transaction time for an increased price to offset the cost of extra staffing would be a decision for the committee to make. This would follow suppliers demonstrating and pricing their solutions and us establishing what the Benefits Agency will pay. However, by retaining overall control of our Service Quality we will not let outside parties dictate our Service Quality.

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Paul Rich has agreed this list of non-negotiables and the approach has been endorsed by Dick Wheelhouse and the Benefits Agency commercial team.

### **Mandatory Requirements**

9 At the time of writing this paper the Statement of Service Requirement contains a list of mandatory requirements that a supplier must meet or they will be excluded from the procurement process. In most procurements the requirements are split into mandatory and desirable. With the Private Finance Initiative, the private sector need to be able to exercise innovation and propose alternative solutions to the problem and therefore a new approach had been proposed using mandatory, highly desirable, desirable and information only classifications.

10 It has now been suggested to allow the private sector even more flexibility by not classifying requirements as mandatory at all. Instead a scoring or grading scheme will be employed (e.g. one star requirement, two star requirement etc.). This certainly has advantages as far as the Statement of Service Requirement is concerned and does not prevent us from having or maintaining our minimum negotiating position. But in our view, this means reaching formal agreement with Benefits Agency would assume greater importance in order to protect our commercial position. A verbal update will be given to the committee on this area at the meeting.

### **Agreement required**

11 The automation committee are invited to:

- 1) Agree the non-negotiables
- 2) add any other non-negotiables that are strategically important.

Linda Hanratty

**GRO**

Annex A

**POCL OBJECTIVES**

- \* To provide continued customer choice and be acceptable to customers.
- \* To retain and strengthen our clear branding links with our customers.
- \* To maintain our customer base.
- \* To support government policy of a nation-wide network of post offices.
- \* To be capable of introduction in all post offices
- \* To retain and enhance POCL's commercial and financial integrity.
- \* To improve overall efficiency for POCL and its clients.
- \* To support and help agents in the development of their private business.
- \* To be acceptable to staff and agents.
- \* To facilitate automation of other areas of POCL infrastructure  
e.g. accounting and distribution, and support wider business information  
needs.
- \* To retain and gain new business by improving our quality of service to all clients.
- \* To provide the flexibility to meet a diverse range of existing and potential client  
needs and applications.
- \* To provide long term stability for the Post Office network as a retail outlet for  
benefit payments.
- \* To ensure an "open systems" approach and adherence to industry standards.
- \* To be a key enabler in helping POCL achieve its competitive ambitions in  
its various market places.
- \* To retain customers trust in the integrity of POCL and improve the quality  
of service to customers.
- \* To facilitate the provision of additional infrastructure support services e.g.  
card issue and management.
- \* To allow for the migration of appropriate automated systems without any  
reduction in service levels.
- \* To improve POCL's competitiveness, to be able to better meet its business  
partners needs, and to enhance future business viability.

Table 1

## Annex A

**BA OBJECTIVES****Policy Objectives**

The automation of the benefits payment system is seen as a major element to re engineering the overall administrative process and the attainment of the BA Business Vision. All objectives will embrace that Vision and in particular the payment system through post offices will:

- provide a method of payment which allows payment of the right money, to the right person at the right time and is acceptable to all groups of customers.
- minimise opportunities for fraud;
- reduce administration costs;
- provide a system which is flexible to meet future changes in policy;
- make maximum use of private funding for the administration of delivering payments, where this is compatible with the Government's Private Finance initiative;
- maintain automated credit transfer (ACT) as the preferred method of payment whilst offering customers an alternative choice of how and where to receive payments.
- enable all of a person's benefit entitlement(s) to be paid in one transaction using a single token or card for the identification of all benefits;
- ensure that any token or card identification system can migrate to a multi purpose SMART card;
- encourage the use of the National Insurance Number (NINo) as the prime reference number for communications between the DSS and its customers, their employers, or other Government Agencies.

**Operational Objectives**

- deliver benefits promptly and accurately.
  - deliver benefits to the right person, where relevant through the provision of appointee or agent arrangements. Ensure arrangements are available to deal with special situations e.g. urgent payments for distress problems, holiday payments.
  - deliver a more secure method of paying customers who choose to have their benefit(s) paid through post offices. This will be achieved by:
    - minimising the potential for instrument of payment (IOP) fraud encashment;
    - improving information systems to detect and monitor unauthorised activity;
    - supplying evidence to prosecute illegal action;
- and wherever possible assist in the prevention of other types of fraud.

Table 2 Cont'd

- provide a service which is accepted by customers, is understood by them and by POCL staff and agents and minimises encashment problems.
  - enable the end-to-end payment process to have lower administrative costs, by being simple to operate with minimum maintenance and produce readily available transaction records.
  - establish a transaction database, provide full reconciliation of all benefit payments to BA and meet all Accounting Officer requirements.
  - provide flexibility to cope readily with changes to the population of customers, amounts to be paid and the volume of transactions.
  - where IT is used:
    - interface with existing IT systems;
    - be capable of development;
    - be robust in providing continuity of performance;
    - and
    - provide a secure environment against fraud, unauthorised disclosure of information, civil unrest or "Acts of God".
  - support the review, at appropriate intervals, of the operational objectives and requirements of the payment system to ensure that they remain consistent with any developing needs of customer service, accounting or security.
  - coordinate the DSS position so that the new contract(s) with POCL/PFI suppliers do not conflict with:
    - HM Treasury investment guidelines;
    - the delivery of benefits, in particular the development of a one stop customer service;
    - existing contracts;
- and that as the project develops revised procedures, other guidelines and training for DSS operational units are fully costed and timeously introduced.

Table 2

### Supplier's Objectives

- making a high profit
  - ⇒ covering and controlling their risks
- establishing a leading market position with the technology
- defending present market position and exploiting present competencies
- branding
- confidence in the partnership

Table 3

### External political drivers

- Ministerial commitment
  - ⇒ Peter Lilley NFSP conference May 1994
  - ⇒ Michael Heseltine Green Paper on Postal Services
  - ⇒ Kenneth Clarke all funding must go through PFI option first
  - ⇒ Michael Howard - voluntary national identity card
- reduce fraud
- reduce end to end process costs
- support and maintain a nationwide network of post offices
- [migrate to a government smartcard]

Table 4

Annex B

**Extracts from latest version of Statement of Service Requirement**

Chapter 1 Introduction

1.5.2 Constraints

- Customer Service

The importance of at least maintaining, if not improving, customer service.”

Chapter 2 Background

2.3.1 Customers

“Post Office Counters Ltd recognises that the key to sustaining success is through continuous improvement in meeting customer requirements. This means delivering the highest quality service both externally to its customers and clients, and internally to its staff and agents.”

2.3.1.2 Customer Service

“.....During any change therefore (e.g. the introduction of new technology), customer acceptability must be the paramount consideration. Post Office Counters Ltd must protect its core values of integrity and personal service, and maintain the brand their customers recognise. This means accuracy of transactions, choice and protection of identity.”

Chapter 5 Steady State Services

5.2.2.1 Counter Service

“(c) **Counter transaction times** - service providers should seek to improve on the current transaction times. The current average counter transaction time for a customer benefit payment.....Service providers will be required to work with Post Office Counters Ltd to facilitate improvement in counter transaction times and to agree detailed performance criteria and measurement methods.”