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**POST OFFICE BOARD**

## BA/POCL AUTOMATION
## BRINGING TECHNOLOGY TO POST OFFICES AND BENEFIT PAYMENT

### Introduction

1. This paper seeks Board authority for Post Office Counters Ltd (POCL), in conjunction with the Benefits Agency (BA), to proceed to the contract award stage of the counter automation project, and follows from MaPEC's approval on 30 April (Minute MP96/45 refers).

2. The project includes the automation of all counter positions in all post offices, and the new card based benefit encashment service. The business case shows that there are strong strategic and commercial reasons for POCL to automate. The financial case, based on supplier responses, has provides a positive net present value benefit over the life of the contract, details of which are at Annex A.

3. Automation is a key enabler for POCL to maintain existing business and exploit its wider powers to attract profitable new business; to secure continued efficiency improvements, to deliver the political and commercial objective of maintaining a nation-wide network of offices.

4. Total programme management costs for POCL to support implementation of £15.8m are required, inclusive of £5.4m incurred to date.

### Background

5. POCL, together with the Benefits Agency (POCL's largest client), has established a joint programme to provide automated services to support the end-to-end process of paying benefits through post offices, together with existing and new POCL business. Ministers expect these services to be procured through the Private Finance Initiative (PFI) and to be available in all post offices. Each post office will have an integrated facility providing the new card based benefit payment service, automated payment terminal, Electronic Point of Sale (EPOS) capability, and provide the capability to support other functionality as required.

### Strategic and commercial imperatives

6. The programme represents a major opportunity for POCL to modernise its operations and position itself as the leading nation-wide provider of automation-based retail services. It will provide a platform for POCL's commercial strategy of growth, and will enable POCL to exploit wider powers and help defend its position against existing and new competition. A majority of the product development opportunities identified in POCL's business plan proposals require, or will be enhanced by, automation. Of planned product development opportunities, 35% are considered to be highly dependent on automation, and a further 45% have a medium level of automation dependence.

7. The project also locks in POCL's largest client, BA and realises two strategic goals. It reduces the risk of anticipated volume and income decline from greater use by customers of Automated Credit Transfers, and it eases pressure on POCL prices. As part of the programme, POCL and BA have negotiated a back-to-back deal which provides for an eight year contract. This includes a floor income level from BA, irrespective of actual volume, a limited efficiency discount of 1% per annum and a sharing of residual fraud liability risk.

8. Under the PFI the private sector will provide the initial capital outlay which is remunerated by the income stream generated over the life of the contract. POCL and BA have defined the outputs it requires but the details of design, build and operation of the system are the responsibility of the private sector. There is a requirement to demonstrate transfer of risk from the public to the private sector. The nature of the PFI deal means that POCL will only pay for the system as it uses it, and that there is no capital investment by the Post Office.

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

10. Annex B sets out the non-negotiable elements of the deal agreed by the Board adopted last November (POB95/116vii), and shows that each of them has been secured.

**Financial evaluation**

11. The financial evaluation has considered the proposals of three suppliers (code named "Tom", "Dick" and "Harry"). These proposals have been evaluated against a base case in which the expansion of automation would be limited and incremental. In this option, POCL would get some limited benefit from new business such as bill payment. The base case assumptions were independently reviewed by Coopers & Lybrand and are as robust as possible.

12. For comparative purposes a Post Office funded investment was also evaluated. However, in this scenario substantial greater risks would remain with POCL, and in practice it is unlikely that Government would allow the project to proceed on a conventional public sector funding basis.

13. The financial evaluation demonstrated that there was a positive return at 12% for all three suppliers as follows, taking account of weighted risk values to key variables.

| NPV whole project life £m | Tom | Dick | Harry |
|---|---|---|---|
| **Best view** | 47 | 65 | 52 |
| **Including risk assessment** | 30 | 45 | 35 |
| **Ranking** | 3rd | 1st | 2nd |

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<u>**Non-financial evaluation**</u>

14. The suppliers were also evaluated on the following:

- **contract assurance**: this reviewed suppliers' bids to identify any non-compliances and reach a conclusion on their significance. The review was supported by commercial lawyers. It ranked the suppliers in the order (1) Dick, (2) Tom and (3) Harry. It considered that Harry should not be awarded the contract because of its unacceptable degree of non-compliance with contract requirements. Tom's tender was deficient against several key contractual requirements. Whilst this was insufficient to rule it out completely, it would have to offer a considerable price advantage to the proposal tendered by Dick.

- **risk transfer**: this considered the overall position (so as to reach a view on potential PFI clearance) but also, given its importance to both sponsors, to look in more detail at fraud risk. The review concluded (supported by Charterhouse) that the deal with Dick was close to the risk transfer sought and would secure PFI clearance. Although Harry was prepared to accept some fraud risk, the conditions associated with the volume qualification and RPI linkage made the risk transfer position less clear cut. The risk transfer in Tom's tender was very limited and would not satisfy the requirements for a PFI.

- **non-financial characteristics:** this reviewed suppliers' performance against a number of characteristics, including customer acceptability, reliability and support, management capability, etc. All three suppliers exceeded the acceptable level with the differences between them not significant for the purpose of discrimination.

- **partnership:** this reviewed the ability of the suppliers to be a partner for POCL in securing future new business. The review concluded that all three suppliers were satisfactory potential future partners.

<u>**Approval Process**</u>

15. The Programme Evaluation Board (PEB) recommended that, on financial and non-financial criteria, the contract should be awarded to Dick. This recommendation has subsequently been endorsed by the Joint Steering Committee (which includes DTI, DSS and Treasury representatives).

Annex C (in the form of a minute to the co-chairmen of this Committee - the MD POCL and the Chief Executive of the Benefits Agency - from the PEB) describes the background to this decision. It highlights, in particular, those issues around recommendations (including price), and risk transfer, which make Harry and Tom unacceptable respectively.

16. At MaPEC the recommendation was endorsed and approval to proceed granted, subject to Board approval, with 'in principle' authority for programme implementation costs of £10.4m, and subject to the following specific conditions:

- the finally negotiated contract terms should continue to generate a case with a positive Net Present Value; if this was materially different (i.e., no better than the next best bid) to that presented, the financials should be re-represented to MaPEC for approval;
- the risks continued to be at an acceptable level;

- there was a requirement to ensure that the proposed technical solution of the chosen supplier was signed off in a revised Group IT Technical Concurrence prior to signing final contracts, as to the supplier working within the overall Post Office IS strategy (applications and architecture), and that POCL was not precluded from taking advantage of standard software upgrades in the future;
- once the contract has been agreed/awarded, the financials should be re-submitted to the Secretariat, with significant variances explained, for noting at MaPEC, which should form the basis of future monitoring; and a six monthly report back to MaPEC thereafter. To avoid separate sets of information, a standard format of this report was to be used and should be agreed with the Secretariat;
- the individual assumptions detailed in both the base and PFI cases must be tracked and reported through a benefits management plan, and continued throughout the life of the contract;
- Counters Executive Committee (CEC) should assume the role of Programme Board to oversee all future retail initiatives and the financial progress of the programme, reporting back on key milestones, timescales and financials, ensuring that benefits/costs are incrementally identified to the BA/POCL initiative;
- the risk management plan must include provision for identification, and avoidance of, potential contract variations;

**Risk management**

17. Managing the risks around the contract will be done in a number of ways:
    - preventative measures such as guarantees, break clauses and contractual service levels,
    - joint working between POCL, BA and the supplier,
    - commercial imperative for both POCL and the supplier on delivery.

    However, unlike conventional procurement, under the PFI the onus rests on the supplier who accepts and underwrites a far greater degree of risk, both in the short and long term.

**Other risks**

18. Some technical risks were identified with all suppliers, and in some areas, Dick was considered to have higher technical risks than Tom and Harry. However these risks are manageable through:
    - a strong technical assurance function, with support from the Post Office IT Directorate,
    - rigorous testing at development, trial and roll-out stages,
    - ensuring supplier contingency plans,
    - a pro-active technical management plan.

    The risk relating to contracting parties was viewed by Charterhouse, and confirmed as having the resources to meet contract commitments. This has been further endorsed by the Chairman of the parent company direct to the President of the Board of Trade.

    There is one further outstanding issue to be settled between POCL and the Social Security Agency, who are responsible for the benefits payments in Northern Ireland, on the back-to-back commercial terms. This has now been escalated politically, and an oral update will be given at the meeting on its latest status.

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**Next steps**

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

| | |
|---|---|
| Announcement by Secretary of State for Social Security | 15 May 1996 |
| Contracts signed | End May 1996 |
| Operational trials and linked 'go live' | September 1996 |
| Roll out commences | Early 1997 |
| Roll out complete in post offices | Spring 2000 |

**Recommendations**

20. The Board is invited to:

- **Note** MaPEC approval subject to the conditions set out at paragraph 16 above, has been obtained;

- **Note** proposed total POCL programme expenditure, inclusive of sunk costs, of £15.8m;

- **Authorise** devolvement to MaPEC for full authority of future programme management costs;

- **Authorise** POCL to proceed to full contracts with BA and the successful supplier.

AJR

May 1996

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ANNEX A(i)

## SUMMARY OF PROJECT INFORMATION

**GENERAL**

| | |
|---|---|
| **Project Title:** | BA/POCL AUTOMATION |
| **Project Sponsor:** | Richard Dykes/Stuart Sweetman, Managing Director |
| **Programme Director:** | Andrew Stott, Programme Director BA/POCL |
| **Project Controller (POCL):** | Paul Rich, Financial Markets Business Centre Director |

| **FINANCIAL DATA** | **Outturn £m** |
|---|---|
| Capital | ----- |
| Non-Recurring Revenue | ----- |
| Departure From Estimate | ----- |
| **MAXIMUM AUTHORISED EXPENDITURE** | ----- |
| Authorised in principle | 10.4 |
| Sunk Costs: Authorised | 5.4 |
| **SUM TO DETERMINE AUTHORITY LEVEL** | **15.8** |

**FORECAST RESULTS**

| | | | **Comparative NPV to base case** | | | |
|---|---|---|---|---|---|---|
| **Based on an 8 year contract** | | **Base** | **PO procurement** | **Tom** | **Harry** | **Dick*** |
| NPV at 12% - Pre Tax | £m | (161) | 124 | 47 | 52 | 65 |
| NPV at 12% - Pre Tax including Risk | £m | (161) | 50 | 30 | 35 | 45 |

**COMPARATIVE EFFECTS ON TARGETS (* Preferred PFI Supplier)**

| | **Year 0** | **Year 1** | **Year 2** | **Year 3** | **Cum 9 yrs** |
|---|---|---|---|---|---|
| Pre Tax Profit £m | (10.7) | 6.7 | 25.6 | 3.1 | 90.2 |
| EFL £m | ( 1.2) | 7.9 | 23.8 | 10.2 | 108.5 |
| RUC % | (0.96) | 0.6 | 2.3 | 0.3 | N/A |

**SENSITIVITY AND RISK ANALYSIS**

Sensitivity analysis has been undertaken by the project team, within the assessment of risk programme. Whilst an NPV of £65m is expected, sensitivity analysis indicates a likely NPV of around £60m.

**KEY TARGET DATES**

| | |
|---|---|
| MaPEC authority to proceed | 30 April 1996 |
| Board endorsement | 07 May 1996 |
| Announcement by Secretary of State | 15 May 1996 |
| Contracts signed | End May 1996 |
| Commence Roll-out | Spring 1997 |
| Finalise Roll-out | Spring 2000 |
| PIR date | December 2000 |

**CONCURRENCES**

| | | |
|---|---|---|
| Strategic: | Richard Dykes | Managing Director, POCL |
| Operational: | Jonathan Evans | Network Director, POCL |
| Financial: | Roger Tabor | Finance Director, POCL |
| Commercial | Richard Wheelhouse | Commercial Director, POCL |
| Technical: | Duncan Hine | Technology & IS Director, Group IT Directorate |
| | Alan Shepherd | Director of Research, Group IT Directorate |
| | Basil Shall | Group Head of IS Planning, Directorate |
| | Wendy Powney | POCL Head of IS Strategy |

**OPTIONS**

Sponsors have evaluated the responses to tender against the option of a minimal 'do nothing' baseline, and a Post Office public procurement route. The comparative financial data is outlined in A( ii).

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ANNEX A(ii)

## SUMMARY OF PROJECT INFORMATION

| NPV £m | Base Case | PO Procurement | PFI Automation (preferred supplier) |
|---|---|---|---|
| Income | | | |
| Benefits Agency | 2119 | 2069 | 2119 |
| Volume Change | (203) | 77 | 77 |
| Price Change | (196) | 107 | 107 |
| Sub Total | 1720 | 2253 | 2303 |
| DSS Girocheques | 325 | 325 | 325 |
| Volume Change | (21) | (188) | (188) |
| Price Change | 6 | 2 | 2 |
| Sub Total | 310 | 139 | 139 |
| Other Clients existing & new | --- | 77 | 77 |
| Savings on existing automation | --- | 40 | 40 |
| Sub Total | --- | 117 | 117 |
| Expenditure | | | |
| Benefits Agency | (1889) | (2112) | (2112) |
| Girobank | (297) | (140) | (140) |
| Time Increases | | (15) | (15) |
| Card Issue/back office | | 73 | 73 |
| Training | | (23) | (3) |
| Programme costs (sunk) | (4) | (5) | (5) |
| Programme costs (future) | | (25) | (25) |
| Fraud | (1) | --- | --- |
| **Sub Total NPV before supplier charges & risk** | **(161)** | **262** | **332** |
| Supplier Charges/Risk | --- | (122) | |
| System Charges | --- | --- | |
| Benefit Encashment (BES) | --- | | (145) |
| POCL | | | (220) |
| Other | --- | (177) | (36) |
| VAT | --- | | (27) |
| **Total NPV** | **(161)** | **(37)** | **(96)** |

| | Base Case | PO procurement | Tom | Harry | Dick * |
|---|---|---|---|---|---|
| **Sub Total NPV before supplier charges & risk** | **(161)** | **262** | **330** | **332** | **332** |
| System Charges | --- | (122) | --- | --- | --- |
| BES | --- | --- | (145) | (145) | (145) |
| POCL | --- | | (236) | (233) | (220) |
| Other | --- | (177) | (36) | (36) | (36) |
| VAT | --- | --- | (27) | (27) | (27) |
| **Total NPV before risk** | **(161)** | **(37)** | **(114)** | **(109)** | **(96)** |
| Assessment of risk | --- | (74) | (17) | (17) | (20) |
| | | | | | |
| **Total NPV** | **(161)** | **(111)** | **(131)** | **(126)** | **(116)** |

| | | | | | |
|---|---|---|---|---|---|
| **Net NPV Change before risk** | --- | **124** | **47** | **52** | **65** |
| **Net NPV Change** | --- | **50** | **30** | **35** | **45** |

* Preferred PFI supplier

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ANNEX B

## NON-NEGOTIABLES

| | | Comment |
|---|---|---|
| 1. | Acceptable business case for POCL and Post Office | The business case shows a comparative positive NPV of £45-65m at a 12% discount rate |
| 2. | Customer perceive no worsening of service | The proposed solution's impact on transaction times within acceptable bounds |
| 3. | No damage to Post Office brand | There is no immediate evidence that PO brand damage will occur |
| 4. | POCL retains control of critical operations and key commercial relationships | Achieved |
| 5. | Capability for POCL to automate all clients and develop new services | Achieved |
| 6. | Automation of all post offices within reasonable time | All post offices should be automated within 3 years |
| 7. | Chosen supplier has financial and technical capability to develop and deliver services | Evaluation conclusion is that these conditions have been met |

ANNEX C

RESTRICTED - COMMERCIAL

MINUTE FROM BOB PEAPLE TO RICHARD DYKES AND PETER MATHISON, COPIED TO PSC MEMBERS

## Purpose

1. The purpose of this minute is to inform you of the substance of the meeting of the Evaluation Board which I chaired yesterday to consider the report of the evaluation team on the retenders submitted by #Tom, #Dick and #Harry.

2. You will recall that the PSC approved the creation of a Procurement Board to oversee the procurement process, give guidance on policy issues and approve the methodology by which the evaluation and selection for shortlisting and eventual award would be conducted. In its slightly reconstituted form as an Evaluation Board it would receive an account of the work done by the evaluation team and reach a selection decision.

3. The Board unanimously agreed that if a contract is awarded it should be made to #Dick. I shall be seeking PSC's endorsement of this decision at its meeting tomorrow.

## Background

4. Prior to issuing the Invitations to Tender ('ITTs'), the Evaluation Board had satisfied itself that all three suppliers had achieved at least a satisfactory performance in a number of areas that had been identified as being essential to the award. These were closely linked to the sponsors' objectives in launching this procurement:

a. the minimum service requirements acceptable to the sponsors;

b. the minimum requirements for partnership with POCL in the development of new business opportunities;

c. satisfactory arrangements on a number of commercial aspects (e.g. an acceptable funding method and financial structure);

d. no outstanding 'show stopper' risks arising from examination of the prospective services on offer and from the contractual negotiations;

5. On two hurdles a 'forced clearance' was imposed through contract conditions included in the ITT:

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a. sufficient transfer of risk to satisfy the conditions of the Private Finance Initiative, especially in the area of fraud, where a minimum acceptable level of fraud risk transfer was imposed. Following from this:

b. a draft contract acceptable to BA and POCL.

6. On 29 February we issued an Invitation to Tender ('ITT') to three suppliers on this basis:

#Tom
#Dick
#Harry

7. On 21 March we received a total of five bids from the three suppliers. All were priced at a level which was higher than the indicative prices given with their original proposal. This called into question the ability of either BA or POCL to mount a convincing business case.

8. Having taken legal advice, the sponsors agreed that the negotiating team should have discussions with all three suppliers under the EC Negotiated Procedure with the aim of drawing out the main cost drivers and identifying possible changes in terms and conditions which would offer better value for money and prices at a level that business cases would support.

9. The discussions generated a list of options for change, together with illustrative reductions in price and (where relevant) offsetting impacts on in-house costs. Sponsor directors reviewed each item of the list and accepted those changes which offered the prospect of better value for money without compromising business, technical or commercial requirements.

10. On 16 April Invitations to Retender ('ITR') incorporating the sponsor decisions were issued to the three suppliers. A strong preference for a retender compliant with the ITR was expressed. However, we said that suppliers could submit one variant retender and that this could include any variation the supplier wished, including changes previously rejected by sponsor directors. We undertook to evaluate all retenders.

**The evaluation and its results**

11. Retenders were received on 22 April - one from each supplier. All were variants, but the degree of non-compliance with the ITR varied widely. The instances of non-compliance included some which sponsors had previously rejected and some which had not previously come forward for consideration.

12. The Evaluation Team presented their findings to us by reference to the various streams of evaluation. The purpose of each stream, and the findings from it, are detailed below.

13. **Technical** - to check that nothing in the retenders affected the acceptability of the prospective service offering. This found no reason why any of the service offerings should be regarded as falling below the minimum levels set by the sponsors. A good deal of work would be required with whichever supplier were chosen to devise optimum procedures in the fraud area, especially given some of the changes proposed by #Tom and #Harry which put more responsibility onto the sponsors' staff than had previously been assumed.

14. **Contracts** - to identify any non-compliances with the ITR and reach a conclusion on their significance. This review ranked the suppliers in the order #Dick, #Tom and #Harry. It considered that #Harry should not be awarded the contract at any price, because of its unacceptable degree of non-compliance with contract requirements. #Tom's tender was deficient against several key contractual requirements. Whilst this was insufficient to make it not worth taking at any price, it would have to offer a considerable price advantage to be preferred over #Dick's.

15. **Risk Transfer** - to look at the overall position (so as to reach a view on potential PFI clearance) but also, given its importance to both sponsors, to look in more detail at fraud risk. The suppliers' position on five major elements of PFI risk transfer was summarised by the review in the following table:

| | Supplier<br><br>PFI Risk Transfer | #Harry | #Tom | #Dick |
|---|---|---|---|---|
| 1. | **Fraud Risk Transfer** | ?<br>Onus of proof on Authorities.<br>No cardholder verification fraud.<br>No cover for unactioned stop notice. | X<br>Tight limit of £10m pa for non cardholder verification fraud.<br>Zero for cardholder verification.<br>Onus of proof on Contracting Authorities | ✓ |
| 2. | **Commissioning Risk in delays etc.** | ✓ | ✓ | ✓ |
| 3. | **Volume Change Risk** | X<br>Requires volume verification at end of year 1 of rollout. | X<br>Requires 92% of revenue to be guaranteed. | ✓<br>Relief for changes to benefit frequency. This is acceptable. |
| 4. | **Inflation** | X<br>RPI -1% pa offered.<br>Charges will increase | X<br>RPI protected.<br>Charges will increase. | ✓<br>Bears RPI increases up to 6%; share these above 6% with Authorities. |
| 5. | **Operate the system to agreed standards** | X<br>Limit of £5m pa and £0.5m per single event to penalties for service failure. | ✓ | ✓ |

16. The review had concluded that the deal with #Dick was close to the risk transfer sought and would secure PFI clearance. Although #Harry was prepared to accept some fraud risk, the conditions associated with the volume qualification and RPI linkage made the risk transfer position less clear cut. The risk transfer in #Tom's tender would be unlikely to satisfy the requirements of PFI and the deal was more akin to an operating lease.

17. As noted in para 15, it was considered particularly important to understand clearly the position on fraud risk transfer. The review had produced the following table describing the key offerings by the Service Providers:

| Area of Potential Loss | Service Provider Cover | | | |
|---|---|---|---|---|
| | #Harry | #Tom | #Dick | |
| Benefit card<br><br>Hacking by Supplier's employees or external third parties. | £ 200m over contract lifetime. | £10m pa. | £200m over contract lifetime | |
| Un-actioned stop notices | NIL | £10m pa | £200m over contract lifetime | |
| Counterfeit Cards used with valid accounts | £200m over contract lifetime | NIL | £200m over contract lifetime | |
| Use of unreported stolen cards | NIL | NIL | with verification screens | £200m over contract lifetime |
| | | | standard screens | Nil |
| False repudiations | NIL | NIL | if shown to be false plus standard procedures | Nil |
| | | | if not shown to be false, or if verification screens used | £200m over contract lifetime |
| BA/POCL Internal and/or collusive fraud | NIL | NIL | NIL | |
| Other fraud (POCL) | NIL | NIL | £200m over the contract lifetime | |

18. **Financial** - to calculate the total cost (i.e. supplier changes plus internal costs) of taking the

service for BA, POCL and overall. This evaluation, having considered both direct and indirect cost implications, had shown the cost of service from #Tom and #Dick to be virtually equal. While the initial analysis showed that #Tom had a slender lead the position was reversed when adjustment was applied for some areas where it had not been possible to complete definitive costing (i.e. the on-costs of bearing the burden of proof and the prospective savings achievable by purchasing receipt stationery from a source other than the supplier). #Harry was significantly more expensive than the other two[1]:

| Figures in £m - full life, 6% NPV | #Tom | #Dick | #Harry |
|---|---|---|---|
| BA/SSA total | 623 - 658 | 627 - 663 | 847 - 882 |
| POCL total | 403 | 378 | 410 |
| Total costs | 1026-1061 | 1005 - 1041 | 1257 - 1292 |
| Ranking of financial position | 1= | 1= | 3 |

19. With adjustment for some areas #Dick was the cheapest. Sensitivity analyses (e.g. variations in workload) had shown that because #Tom's charges varied least with volume, a reduction in volume produced a far less than commensurate reduction in charges.

20. **Value Factors** - to review suppliers' performance against a number of non-monetary value factors which we had told suppliers would be taken into account in the evaluation. This had shown a close match between the three suppliers in terms of the 'external' factors affecting staff and customers (e.g. customer and staff acceptability), the order within that being #Harry, #Tom and #Dick.

21. While all met the acceptability threshold on 'internal' factors covering the soundness in terms of service delivery (e.g. stability and coherence, fraud-free method of payment) the order was again #Harry, #Tom and #Dick, with the first two being some way ahead of the third. The trend since issue of the ITT had been for #Dick to improve in some of these areas, while #Harry and #Tom had declined.

22. **Partnership** - the ability of the suppliers to be a partner for POCL in securing future new business. The review had concluded that all three suppliers were satisfactory potential future partners.

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[1] POCL note: the numbers include adjustments to enable comparisons to be made on a common basis without including the full impact on POCL's or BA's business cases. They are, therefore, reconcilable, but not identical, to the numbers in POCL's Business Case.

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**Evaluation Board discussion and conclusion**

23. The Board identified a number of aspects of the evaluation and its findings on which they needed further information. Members of the team had been made available for such an eventuality, and it was therefore possible to hold immediate discussions. Satisfactory answers were received on all of the issues that were raised.

24. The Board then considered the findings of the team and the results of the related discussions in relation to each supplier.

25. Their first decision was to conclude that #Harry should be eliminated from further consideration. It ranked first on the Value Factors and was thought to be PFI-compliant. However, it was significantly behind the other two on costs and its bid was regarded by the Contracts Assurance review as unacceptable. Not only had it been unable to make attractive the large number of elements which sponsors had previously rejected, but there were also a large number of provisions that would enable #Harry to increase the costs to sponsors very substantially over time.

26. As to #Tom, its tender showed a cost of service virtually equal to #Dick. It had achieved a satisfactory marking on both categories of value factors, and was ranked second to #Harry on both.

27. However, there were significant shortcomings in #Tom's tender arising from the Contracts and Risk Transfer assurance activities:

a. the Contracts review had recommended that #Tom needed a significant cost advantage to be preferred to #Dick. Generally, its contract offered less certainty than #Dick's, with elements left open to interpretation. Its provisions on what were considered to be key elements remained unattractive/unacceptable and had been rejected in the past by sponsors. In addition, it offered the poorest deal on fraud risk transfer.

b. the Risk Transfer review had concluded that the #Tom bid would not be regarded as acceptable in PFI terms. It was more in the nature of an operating lease, with the bulk of the risk on volume, RPI and fraud remaining with the Contracting Authorities.

28. The Board therefore concluded that #Tom should also be excluded from consideration.

29. #Dick were to all intents and purposes equal with #Tom on fully quantified costs, and bringing in conservative estimates in a number of areas which it had not been possible to fully cost would swing the balance in Dick's favour.

30. The #Dick tender was by far the closest to what the sponsors had sought to obtain, and its implications were far more clear than the other two. Its provisions on fraud risk transfer were the best on offer, and the view of the contracts review was that only a considerable price disadvantage could alter its ranking as the most attractive bid. The Risk Transfer review had concluded that it would be regarded as satisfying PFI criteria.

31. #Dick was close to the other two bidders on the 'outward-facing' value factors. Whilst there were some aspects of the 'inward-facing' value factors where we would be looking for improvement post-award, a satisfactory score had nonetheless been achieved. #Dick was regarded as a satisfactory future partner for POCL in developing future new business.

32. The Board therefore **unanimously concluded** that, subject to clearance of sponsor business cases, the contract award should be made to **#Dick**.

33. The Board recognised that an award to #Dick would imply a need for a proactive management stance by sponsors, notwithstanding the improvement noted by the Contracts Stream since the restructuring immediately prior to ITT issue. It would also require sponsor staff to work closely with #Dick on fraud prevention measures, although given the changes on fraud risk made by the other two bidders in their retenders most of this work was likely to be required whichever supplier were chosen.

**Recommendation**

34. I shall be strongly recommending tomorrow that PSC endorse the decision of the Evaluation Board to award the contract to **#Dick**. The procurement process has been thorough and fair and in the view of the Board the decision can be robustly defended against challenge from any quarter.