

Original

FAX TRANSMISSION

BIRD & BIRD

90 Fetter Lane
London EC4A 1JP

To: Project Mentors Limited

Atten\Ref: Andrew Davies

Fax No: **GRO**

From: Sam Swift

Client: BA/POCL

Account No: BPOCL/001

Date: 15 June 1998

Time:

Number of pages (including this page) : 54

Note: This fax is intended for the named addressee only. It contains information which may be confidential and which may also be privileged. Unless you are the named addressee (or authorised to receive for the addressee) you may not copy or use it, or disclose it to anyone else. If you have received it in error please notify us immediately so that we can arrange for its return. To do so, or if you have any queries, please telephone (0171) 415 6000.



Web Page

www.twobirds.com

Partners

- D Harris
- C E Camps
- D M Crosswaite
- T M Cook
- R N Scott
- P J Christie
- P Smith
- D W Bvam-Cook
- G H H Smith
- J R C Walkey
- D Keer
- M Macdonald
- D M C Stone
- C W Rees
- S J Hubner
- P D Quman
- H R Sandison
- D H Avers
- R J Ward
- R R Graham
- C A I Crosswaite
- N J Jenkins
- R A Bickerstaff
- S K Topping
- T C G Tetler
- H E Pearson
- V S A Crook
- T R D Asserson
- J Stansard
- C J R Barrett
- D C J Cook
- J M Gvngell
- M R Haftko
- G Powell
- A J Sanderson
- H J Rubin
- J W Baker
- P R Brownlow
- I D Hunter
- F A Reeve
- J Sims
- P C Dally

Message:

Dear Andrew

As discussed on Friday and earlier this morning, Hamish will contact you sometime this week in respect of the attached.

Regards.



Sam Swift
PA to Hamish R Sandison

Encs

Consultants

- B T C Arnold
- S N I Chaitson
- P J Dunn
- R F Sawcutt*
- De E N Waklen*

1) file 2) (HRS) 3) PDQ 4) HJG

WITHOUT PREJUDICE

SELECTION OF EXAMPLES OF PROBLEMS FACING PATHWAY AS SET
OUT IN THE PATHWAY POSITION PAPER DATED 6 MARCH 1998

CONTENTS

Section	Description	Page No.
1.	Extended Verification Procedure	3
2.	Foreign Encashment Rules	9
3.	Automated Payment Service - "SMART APS"	13
4.	DSS Reference Data	20
5.	POCL Reference Data	24
6.	Conflict between the Authorities and criticism of the PDA	28
7.	Drop Down period	30
8.	Contradictory and misleading requirements	33
8.1	CMS End of interest	33
8.2	Summarised receipts	35
9.	Change control issues (including delay, work in anticipation of formally approved change and subsequent re-work)	36
9.1	On-line functionality, temporary tokens and casual agent encashment rules (CCN117)	37
9.2	Unmatched encashments	40
9.3	Continuation receipts	41
10.	Contracting Authority Responsibilities	43

1. Extended Verification Procedure

Issues

The contractual requirements for the Extended Verification Procedure ("EVP") are vague and lack sufficient definition for Pathway to develop its solution. The early history of EVP requirements definition illustrates the Authorities' interference in design, and optimisation and enhancement of the contractual requirements.

Summary

Development of EVP has involved protracted negotiations from the outset. PDA draft discussion papers from July and September 1996 contain significant extensions to contractual requirements. Discussions and meetings have taken place throughout the course of the project over the interpretation of contractual EVP requirements, resulting in a number of requirements being placed upon Pathway which were clearly outside any interpretation of Schedule B08 and relevant requirements. The PDA's extensive demands combined with the generic manner in which they have continually been expressed have exacerbated the problem. Pathway has met the PDA's demands in light of implied threats to withhold acceptance if it had not done so. Certain EVP issues remain unresolved, and EVP's adverse impact upon development of the Pathway solution continues.

Factual Background

- 1.1 The following is a summary of the early history associated with EVP requirement definition. Recent issues arising in relation to EVP are not included in this analysis. EVP is defined in the Authorities Agreement (schedule A01) as being part of the Card Verification Method requiring extra interactions between counter clerk and card holder in order to provide a greater degree of confidence in confirming the identity of a card holder. The Card Verification Method, and associated technology, is used to verify that the person presenting a card in support of a benefit payment transaction is the person authorised to receive that benefit payment. There are a number of generalised requirements and solutions that relate to EVP, but the primary reference is contained in the Authorities Agreement, Schedule B08- Benefit Encashment Fraud.

-
- 1.2 Usually, Pathway is not liable for payments repudiated as a result of fraud provided payment conditions are fully met and/or standard counter procedures are properly used (schedule B08, paragraphs 2.3.3 and 2.3.4). However, where EVP is applied during a transaction, if it is subsequently repudiated, Pathway is liable in full for the value of that transaction (schedule B08, paragraph 2.3.5). Pathway is entitled to charge extra for EVP transactions (schedule A06), but there is a limit (broadly 8%) to the number of transactions to which EVP may be applied (schedule B08, paragraph 2.3.5), which reflects the need to maintain customer throughput at the counter and certain agreed service levels.
- 1.3 There have been prolonged negotiations between Pathway and the PDA relating to the circumstances in which EVP may be invoked. Although the EVP criteria were not originally described as an agreement to agree in the Related Agreements, Change Control Note ("CCN") number 74 dated 3 December 1996 which introduced the 8% limit referred to above, made the 8% limit subject to, inter alia, agreement being reached upon: the criteria for selection of cases for EVP, the frequency with which such criteria could be changed; and the timetable for implementing any revised criteria.
- 1.4 The Authorities Agreement, Schedule B08 provides 2 categories of options to be used in deciding when EVP should be used. These provided the basis for Pathway's initial attempts to obtain sufficient detail from the PDA concerning the Authorities requirements for EVP, to enable the necessary functionality to be developed. Paragraph 2.3.5 of Schedule B08 states:
- "Extended Verification Procedures are those extra cardholder verification steps including verification screens which the Authorities agree shall be deployed for particular classes of Customer or type of Transaction which are considered to be at risk of fraud".*
- 1.5 Accordingly, Pathway included amongst its list of information requirements for the Fraud Risk Management Service set out in its letter of 19 June 1996, a request for a definition of high risk transactions, which by reference to schedule B08, was a request for those classes of customer or types of transaction that required the application of EVP.
- 1.6 The PDA replied to this request with a draft discussion paper dated 2 July 1996, however it failed to provide a definitive answer. Instead (and this has been a consistent theme running through all EVP negotiations) citing (in paragraph 6.2 of the paper) the:

"need to be able to change the application of EVP easily and quickly" and "[i]n order to correctly and continuously identify "high risk transactions", which will generally involve false claims of identity",

the PDA stated that the definition of high risk transactions (for applying EVP) could not be fixed.

- 1.7 Annex A of the discussion paper contained the criteria that the PDA considered could be used to create detailed definitions of high risk transactions which extended the categories of options contained in schedule B08 (described above). As well as categories of transaction type and customer types, the PDA listed: benefit type; payments where an agreed restriction could be applied; customer history; payment history; area of transaction; clerk identity; value; office type; age of benefit card; status; and "others" as additional criteria which are clearly outside the boundaries of choice envisaged in schedule B08. The PDA stated that the high risk transaction definitions could be set with one or multiple selections from the criteria which was a further departure from the exclusive choice of class of customer "or" type of transaction set out in schedule B08.
- 1.8 Pathway was not overly concerned at the time because the paper was a "discussion" paper and was expressed to be draft. To be helpful Pathway suggested which of the criteria in annexe A of the paper might be accommodated, and suggested a number of amendments as reflected in the second draft of the paper. However, in order to further define the contractual requirements for EVP, Pathway produced the Extended Verification Process Requirement document ("the EVP Document"). Version 0.2 of the EVP Document dated 18 September 1996 was provided to the PDA for comment. In this document Pathway listed individual customers (identified by National Insurance number) and suspicious customers (identified by the counter clerk) as classes of customer against which EVP could be invoked. Types of transaction listed for the application of EVP were foreign encashments (see paragraph 2 below), change of nominated post office, keyed entry (as opposed to card swipe) transactions and card collection. To limit the number of transactions attracting EVP in the above categories, Pathway also offered the Authorities the facility to select individual post offices and benefit types as additional criteria for invoking EVP. The Authorities were required to specify post offices and benefit types where, or to which, they required EVP to be applied and to inform Pathway accordingly (see paragraphs 9.1 to 9.3 and 11.1 of V0.2 of the EVP Document).
- 1.9 The PDA did not accept Pathway's interpretation of schedule B08 and over a period of time succeeded in extending and optimising the requirements. Version 0.3 of the EVP Document

contains the first amendments required by the PDA. The selection criteria, described as filters, were extended to include multiple benefit types although Pathway noted that this needed to be checked by the project architect (Alan Ward), to ensure that the solution design could support such an extension.

- 1.10 Following a meeting on 20 September 1996, attended by the PDA and Pathway, the PDA produced a further discussion document dated 25 September 1996 relating to EVP and the criteria by which EVP is selected. The introduction stated that it was understood that the preferred technical solution lay with Pathway and that the document was intended to "aid" discussion by defining the prime business requirements for the application of EVP from the Authorities' perspective. Reservations expressed about Pathways "current thinking" included:

"..... an inability to provide the required degree of focus in the identification of high risk transactions against which to apply EVP [suggesting there is a requirement that Pathway should identify such transactions, which there is not]..... [and]..... an inability to make rapid changes to the application selection criteria which will be needed to meet the changing requirements of both ICL Pathway and the Authorities as knowledge and experience heightens the ability to more clearly identify customers' transactions [at risk of fraud]."

- 1.11 It was clear that the PDA could not identify high-risk transactions and was seeking to have Pathway develop a solution which enabled it to target any transactions with any degree of definition, which the Authorities might consider appropriate at some point in the future. Although the discussion document made much of ensuring the provision of a cost-effective solution, it ignored the fact that Pathway is liable for fraudulent transactions against which EVP is applied and should therefore have been entitled, at least to some degree, to manage the risk accordingly.
- 1.12 In paragraph 2 the discussion document contains the same quote from Schedule B08 as that in paragraph 1.4 above. As there is no definition of class of customer or transaction type in schedule B08, the PDA seems to have taken the statement in Pathway's Functional Specification that high risk scenarios are to be identified by the Authorities as an invitation to stipulate the requirement for a "sophisticated", "flexible" and "dynamic" selection process for the use of EVP.
- 1.13 In paragraph 4.1 the PDA acknowledges that the two basic selection criteria are class of customer and transaction type, but ignores the requirement that one or other of these criteria be selected.

Under these generic headings the PDA sought fit to list nearly all of the criteria previously specified in annexe A of the earlier discussion documents notwithstanding that this was obviously inappropriate in some cases (e.g. customer location as a class of customer) and at least a highly debatable classification in others.

- 1.14 In the conclusion section of the discussion paper the PDA states that the technical design of the mechanism for the selection of which cases are to be targeted for the application of EVP lies within the Pathway domain, which is correct. However it also states that whatever design is chosen "must" meet the business requirements of cost effectiveness and good customer service which it is suggested can be achieved using the PDA's selection criteria. The PDA also states (in paragraph 3) that in order to meet these business requirements the selection process must be "sophisticated", "flexible" and "dynamic". What the PDA failed to recognise was that its requirements for the acceptance of Pathway's solution for EVP (which fell outside even a broad interpretation of schedule BO8) had serious implications for the design of Pathway's solution based on a distributed network. Pathway did not immediately accept the PDA's requirements set out in the discussion paper although some amendments were made to versions 0.5 and 0.6 of the EVP Document.
- 1.15 Pathway has in its possession a copy of a letter dated 7 October 1996 from POGAB to the PDA commenting on the PDA's discussion paper. Whilst generally endorsing the paper, and the approach being taken by the PDA, the letter also states that Pathway must be provided with a list of situations to be covered by EVP in the initial stages of the contract and recognises this as an overdue responsibility on the Authorities, to be carried out urgently. Such a list has never been provided by the PDA. However, some of POGAB's suggested EVP cases identified in its letter were included in an undated letter subsequently sent by the PDA to Pathway, with the request that Pathway confirm that the EVP selection mechanism would support these cases.
- 1.16 Pathway received the PDA's formal comments on version 0.6 of the EVP Document in November 1996. Amongst the 67 comments on this document is a statement that the comments contained within the PDA's previous discussion papers did not appear to have been incorporated, and if they had been, would Pathway state how and where. Clearly, the PDA and the Authorities regarded the requirements labelled "draft" in the PDA's earlier papers, and intended for "discussion", as being mandatory.
- 1.17 Pathway's definitions of class of customer and type of transaction (which remained largely unaltered from those described in previous versions of the document) were rejected with the

statement that they did not fit with definitions provided by the PDA in previous documents. Section 10 which contained Pathway's definitions was described, amongst other things as "incomplete" and not meeting the Authorities business requirements which were presumably those stated in the discussion paper referred to above, as they are not contained in the Related Agreements. Pathway was informed amongst the comments, that a definitive list of circumstances in which EVP could be invoked could not be provided as the operation of criteria was not sufficiently defined. A list of 12, so called, transaction types and 10 classes of customer were provided which Pathway was asked to confirm it could support, as well as any combination of them. The list was loosely described as indicative of those criteria which "may" be required by the Authorities.

- 1.18 In the face of the PDA's continual demands and the implied threat of non-acceptance, Pathway significantly amended the EVP Document (see version 0.7 dated 29 January 1997) to meet the PDA's expanded and optimised requirements. For the same reason, Pathway also confirmed in this document that it would support the numerous "indicative" classes of customer and transaction types required by the PDA.
- 1.19 Pathway received 28 comments on version 0.7 of the EVP Document from the PDA ranging from the trivial to those which represented further optimisation of requirements. The comments also demonstrate the PDA's continued attempts, consciously or unconsciously, to influence design, requiring the EVP Design Specification Reference to be produced and circulated. Pathway incorporated most of these comments in version 0.8 of the EVP Document dated 5 March 1997. Seventy five comments were received from the PDA on version 0.8 some of which are very detailed and build upon and explore the extremes of Pathway's previous amendments. See comment 11, for example, which asks if Pathway has considered the type of questions used by banks in carrying out telephone transactions. Comment 18 asks if Pathway had considered EVP questions which requested one character of, rather than a full piece, of information, as this would avoid the post office clerk building up too much of a profile on the customer. The PDA constantly sought to persuade Pathway to introduce additional EVP functionality, backing up its requests with different scenarios (such as comment 13 which foresees problems with answers to EVP questions where a person was known by a different first name, for example "*Richard may be known as Dick*").
- 1.20 Pathway incorporated as many of the PDA's comments as possible in version 0.9 of the EVP Document dated 28 April 1997. This enabled version 1 of the EVP Document dated 30 April 1997 to be approved by the PDA on behalf of the Authorities by letter of the same date.

-
- 1.21 Despite having approved version 1 of the EVP Document, the PDA reopened negotiations relating to the requirements for EVP functionality associated with "cardholding casual agents" on 31 October 1997. In the process, the PDA introduced the concept of "foreign EVP". This occurs when EVP is carried out against a cardholding casual agent with a different nominated post office to the beneficiary for which that agent is acting and requires additional EVP data (not anticipated in version 1 of the EVP Document) to be distributed through the network. Agreement on version 1 of the EVP Document had been reached on the basis that the casual agent and the beneficiary would have the same nominated post office. The introduction of foreign EVP represents a significant enhancement to the required EVP functionality. Issues in this and other respects remain unresolved.
- 1.22 As a result of the more complex functionality required for EVP than that originally envisaged by Pathway as being within the boundaries of Schedule B08, the system architecture and design used for Initial Go-Live ("IGL") and release IC is to be fundamentally changed for New Release 2. It will need to be changed again with the introduction of enhanced EVP functionality known as "soft EVP" which is due to be included in New Release 2 plus.
2. Foreign Encashment Rules

Issues

The Authorities failed to comprehensively express their business rules for foreign encashments which Pathway required to know in order to develop Benefit Encashment Service ("BES") functionality. The foreign encashment related requirements are poorly defined and of limited use. Pathway has been forced to define DSS foreign encashment business rules for the DSS. These difficulties have been compounded by the PDA's failure to properly manage this issue.

Summary

The DSS's inconsistent approach to its own business rules in this regard became clear in the course of workshops during October 1996. Pathway produced a document interpreting DSS foreign encashment business rules in December 1996, after which extensive comments have continued to be received from the DSS and the PDA, some conflicting, suggesting alternative rules. Version 5 of Pathway's Foreign Encashments Paper is currently under review.

Factual Background

- 2.1 A foreign encashment occurs when a person entitled to receive benefits (or his/her agent) makes a benefit encashment at a post office that is not the nominated post office of that person. The implementation of foreign encashment processing needs to take into account two main factors, namely:
- 2.1.1 the number of transactions which use the foreign encashment mechanism (as Pathway is normally entitled to a higher charge for transactions which use this mechanism); and
 - 2.1.2 DSS encashment rules, which generally constrain the number of times a beneficiary can use the foreign encashment facility to 2 in every rolling 26 week period (requirement 770, schedule A15, DSS Agreement).
- 2.2 Following workshops involving Pathway and the PDA in about October 1996, it became clear that the DSS did not have a consistent view of the operation of its business rules across the various benefit types. The DSS could not produce a definitive document setting out its business rules (e.g. for foreign encashments and post office closures), which Pathway required in order to develop its solution, in particular, the BES functionality. As a result, Pathway produced a document setting out its own interpretation of the DSS business rules for foreign encashments (as well as other documents relating to various encashment scenarios) based on its understanding of the rules and the relevant requirements in the Related Agreements. Pathway requested PDA approval of this document as the basis for implementation. The document was entitled "Foreign Encashments" and version 1 was dated 12 December 1996.
- 2.3 On 7 January 1997, 47 comments were received from the PDA following its review of version 1. Accepting some of these comments, Pathway produced version 2, which amongst other things, introduced a glossary to clarify the different payee roles.
- 2.4 The PDA provided 16 comments on version 2 on 29 January 1997. The covering memorandum stated that:

"For the avoidance of doubt, DSS do not recognise the document, nor any comments made in respect of it, by any party, as in any way affecting, limiting or modifying the terms of the contract".

Two days later, Pathway received comments on the same document from the CAPS High Level Functional Design Team which is a division of the DSS Information Technology Services Agency ("ITSA"). The comment from CAPS relating to the "special case" for foreign encashment entitlement (paragraph 4.2.1a) was entirely at odds with the PDA's comment on the same subject. The PDA and DSS were clearly unable to produce a definitive statement of the foreign encashment business rules and refused to recognise that produced by Pathway.

- 2.5 In order to progress the project, Pathway was forced to accept the risk that the DSS might decide to change or reinterpret its business rules (which were not adequately described in the Related Agreements) and that the DSS might declare Pathway's solution to be non-compliant. To minimise this risk, Pathway attempted to flush out differences in understanding over foreign encashments. An urgent fax dated 25 February 1997 was sent by Pathway to the Preston office of the PDA. This fax contained a table showing whether a payment was to be counted as foreign, and, if so, whether it was to count against the entitlement of the beneficiary, or the proxy of that beneficiary. Having received confirmation from the PDA by fax dated 25 February 1997 that (subject to a few minor amendments) the table was accurate, it was incorporated in annexe 2 of version 2.1 of the Foreign Encashments Paper dated 19 March 1997. Version 2.1 also incorporated many of the PDA's requirements and comments dated 29 January 1997 and more of the PDA's original comments dated 7 January 1997. In summary, version 2.1 provided: an explanation of transactions qualifying against the scorecard as foreign encashments and the facility for recording this; an expansion of proxy roles and permitted office(s) for encashment (and whether it was the beneficiaries or the proxy's foreign encashment count which would be incremented); and an explanation of the different procedures which would be used for changing nominated post offices at release 1 and release 2.
- 2.6 Pathway requested the PDA's comments on version 2.1 by 4 April 1997. On 14 April 1997 the PDA provided (in two tranches) 26 comments on the Foreign Encashments Paper. The comment relating to the table in annexe 2 (which, as stated above, had previously been confirmed by the PDA) began:

"There is some concern about the appointee encashing at the NPO [nominated post office] of the beneficiary being counted as a FE [foreign encashment] in this table".

The comment goes on to suggest alternatives which would not necessarily have been recognised by the DSS as the covering memorandum repeated the same disclaimer as that referred to above

(i.e. no comments are recognised by the DSS as in any way modifying or limiting the contract). Furthermore, some of the comments related to sections of the document that had remained unchanged since version 1.

- 2.7 Pathway produced version 3 of the Foreign Encashments Paper on 15 April 1997. It incorporated the majority of the PDA's comments and requirements such as clarification of the encashment threshold and of the applicability of restrictions if the system was to be extended to the Isle of Man. By memorandum dated 6 June 1997 the PDA finally confirmed that the business rules documented in version 3 of Pathway's Foreign Encashments Paper "*accurately reflect sponsor business*". However, as previously, the PDA also stated that, for the avoidance of doubt, the DSS did not recognise the document, or any comments made in respect of it, as in any way limiting or modifying the Related Agreements; thus leaving the way open for further change or clarification if the DSS considered this necessary.
- 2.8 Further change to the Foreign Encashments Paper was necessary. The Related Agreements refer to three payee types: alternative payee, appointees and permanent agents. In July 1997 Pathway became aware that CAPS intended to extend the requirements by providing data relating to other payee types: personal acting bodies, nominated agents and authorised payees. Whilst Pathway was able to recognise these payee types without difficulty or significant cost using the appropriate classification codes it was necessary to clarify whether these additional payee types would follow the existing foreign encashment rules.
- 2.9 In light of CCN117, which is still not agreed (see paragraph 9.1 below) and which is intended, inter alia, to introduce encashments using temporary tokens, Pathway had to amend the Foreign Encashments Paper to expand the rules. The normal foreign encashment rules had to be overridden in the case of temporary token encashments as, irrespective of payee type, such encashments should always take place at the post office specified for use with that temporary token. The introduction of temporary tokens also introduced a new payee role known as a "temporary agent" which had to be factored into the foreign encashment rules. All the necessary analysis was carried out by Pathway and the resulting, significant alterations to the rules were reflected in version 4 of the Foreign Encashment Paper dated 11 August 1997 (see annexe 2 of the paper in particular).
- 2.10 Even after version 4 of the paper had been produced, comments from the PDA continued to be received by Pathway. Pathway was informed by memorandum dated 4 November 1997 that the encashment threshold rule described in annex 3 of the paper (known as "payment skipping") was

incorrect. The PDA requested confirmation that the "correct" procedure, which was described in the memorandum, would be followed. This was despite the PDA having provided the initial guidance for payment skipping by fax dated 20 September 1996 and the PDA's confirmation (described above) that version 3 of the Foreign Encashments Paper accurately reflected sponsor business. This was pointed out to the PDA by memorandum dated 7 November 1997. Eventually Pathway conceded the change, and removed payment skipping, because it cost less to remove what had been done than to complete the development. Nevertheless, a significant amount of development work (payment skipping had been built into BES) has been wasted.

* 2.11 Pathway was provided by the PDA with a copy of a DSS memorandum dated 7 October 1997 that commented on version 4 of the Foreign Encashments Paper. One of the comments tried to re-open an issue (as to whether a second visit to a post office on the same day would count as a further foreign encashment) which had been agreed with the PDA in protracted discussions in late 1996. This was pointed out to the PDA by Pathway by memorandum dated 22 November 1997. The Pathway memorandum also recorded that over a period of approximately 18 months Pathway had been in discussions with the PDA regarding the foreign encashment rules and that, although the rules had been agreed by the PDA, new issues had arisen with the DSS and the PDA with the approach of Pathway release 2 which affected the rules. These issues included the basis of charging for nil payment transactions and signatures required for receipts.

2.12 Since November 1997, there have been new changes which have been tacitly, but not formally, agreed with the PDA (CCN220 and amendments to CCN117 (see paragraph 9.1.7 below)) which will affect foreign encashment rules relating to restricted post office and temporary token usage. These changes have been incorporated in version 5 of the Foreign Encashments Paper which is currently under review. This is another example (in addition to those described in paragraph 9 below) of Pathway working against informal instructions pending formal change control.

3. Automated Payment Service - "SMART APS"

Issues

POCL has demonstrated an overall lack of knowledge of its own business rules behind SMART Automated Payment Service ("APS") requirements. To the extent that the knowledge exists within POCL there has been a failure to communicate this to Pathway in an effective manner. This has resulted in Pathway being provided with inadequate definition of requirements. The lack of proper business rules and requirements has meant

that Pathway has continually been forced to seek information and clarification from POCL which has been difficult to obtain, causing significant delay, and on occasion abortive work and rework. Parallel to this process of drip-feeding Pathway with essential information that it should have been given at the outset, POCL has interfered with Pathway's SMART APS design and development as carried out, seeking to enhance and optimise contractual requirements. The situation has been worsened by POCL's failure to manage its third party suppliers, together with the PDA's involvement in this issue.

Summary

The inadequacy of the Authorities' SMART APS requirements became apparent during January 1997 when POCL revised significant elements of its SMART token service business rules. Throughout the course of the project Pathway has been forced to seek further information from POCL relating to its SMART APS business rules and requirements. POCL failure to manage its SMART third party suppliers emerged as a problem during April 1997 and continues to date, with Pathway being left this task in the absence of any proper contractual nexus. From June 1997 to the current time POCL has sought to enhance its requirements over and above those contained in the Related Agreements, notably in respect of the Quantum SMART service. Recent SMART APS review meetings have shown that Pathway still lacks a significant amount of crucial information required and requested from POCL. Pathway is also not in a position to rely firmly upon the limited amount of information it has received, as POCL has indicated that this may be subject to change.

Factual Background

- 3.1 The APS enables post office customers to pay utility bills at post office counters. A feature of the service is the ability for customers to use SMART tokens. These take the form of SMART cards or SMART keys, which the customer pays to have "charged up" at the post office counter. The customer plugs the token into a meter at his or her home, with the credit on that token being transferred to the meter.
- 3.2 SMART tokens also enable the transfer of information between the utility companies and their customers, such as recording amounts and times of payment, taking meter readings, setting off existing debts against recent payments, recording disconnections, and so on.
- 3.3 The following SMART tokens are required to be supported by the Pathway solution:

EXAMPLES OF PROBLEMS FACED BY PATHWAY

WITHOUT PREJUDICE

-
- Landis & Gyr PISCES SMART token for the electricity industry
 - GEC Meters WATERCARD SMART token
 - Schlumberger Smart Key for the water industry
 - Schlumberger Smart Key for the electrical industry
 - British Gas Quantum SMART token.
- 3.4 No contractual relationship has existed or does exist between Pathway and any of POCL's SMART third party suppliers. Pathway required comprehensive SMART token specifications from POCL to ensure that interfaces and a counter machine suitable for use with all SMART tokens could be developed. To facilitate development of its solution, Pathway's information requirements were expressed in the Related Agreements as Contracting Authority Responsibilities ("CARs"). Some of these CARs, and delays and problems experienced with them, are described in the table in paragraph 10 below (see CARs numbered 543, 550 and 555 in particular).
- 3.5 Requirement 547 (schedule A15, POCL Agreement) states that the APS service is to use information and rules contained in:
- POCL APS Generic Rules (supplied by POCL)
 - Token Technology Specifications ("TTS") (to be supplied by POCL - still not provided with an adequate level of detail to enable coding to take place)
 - AP Client Specifications (to be created by Pathway, but dependent upon client and token information to be supplied by POCL pursuant to CAR 545.000.003 - not yet created because POCL has still not provided Pathway with adequate information).
- 3.6 Generally, all information so far provided to Pathway for SMART APS has been thin in content and general in nature and thereby lacks adequate detail. Without a clear expression of POCL's business rules and requirements in respect of SMART APS, Pathway has been forced to continually seek further information and clarification from POCL on these matters. Pathway is dependent upon POCL for the provision of crucial data and information, which cannot be generated by Pathway. Some of the difficulties encountered by Pathway in obtaining the necessary information are described below.
- 3.7 As early as 8 November 1996 it had become clear to Pathway and the Authorities that there was a need to develop the basic strategy behind the APS. An AP Client Workshop was held on this date attended by members of the PDA and POCL, and Pathway representatives. The minutes of this workshop indicate that it was acknowledged by all present that no strategy existed for the

- migration process of AP Client data, and it was agreed that Pathway and the Authorities would work together to develop such a strategy. Clearly, at the start of Pathway's SMART APS design process difficulties were already being encountered as a result of POCL's lack of an adequate knowledge of the business rules and strategy upon which APS was to be designed.
- 3.8 By January 1997 it had become apparent that SMART APS development would be difficult for Pathway due to a lack of information and POCL's changing requirements. POCL revised its Business Rules Definition for Talexus, a part of its existing SMART token service, as a result of a critical examination of its business case in this respect. This introduced new functionality and potentially affected the scorecard.
- 3.9 In about April 1997 POCL began to abdicate responsibility regarding SMART APS development to its SMART third party suppliers, notably Landis and Gyr, and inappropriately began attempting to place responsibility on Pathway to manage the relationships with these third party suppliers and issues arising with them. A disagreement also arose between Pathway and the PDA over APS reconciliation statements, resulting from the PDA's insistence that reconciliation functionality be extended beyond contractual requirements without using the proper change control procedures.
- 3.10 In May 1997 Pathway had still not received information it required from POCL to design the APS and which POCL was contractually obliged to provide. This was raised by Pathway at "financial and commercial" meetings.
- 3.11 A specific element of APS, Quantum, became a contentious issue between POCL and Pathway in about June 1997. Quantum is the British Gas SMART service. At a financial and commercial meeting in about June 1997 POCL referred to a number of its requirements in respect of Quantum APS including time-critical on-line transmissions enabling the provision of indicative prices to clients. Pathway pointed out that this was not part of contractual requirements and indicated that the introduction of any such addition to the service should be managed through formal change control. This issue is still ongoing.
- 3.12 In July 1997 Pathway still had to issue requests for further information on AP SMART tokens because the information provided by POCL was incomplete and not properly defined. The notes of the 10 July 1997 financial and commercial meeting record that:

"There were concerns on a lack of Business Process Rules (processing rules) for Quantum and that the lack of a specification results in piecemeal approach to the access of knowledge".

- 3.13 The notes of an APS meeting on 15 July 1997 illustrate that even at this stage the contractual baseline for APS was slipping due to POCL shifting the AP Client baseline. It was highlighted at this meeting that the contract terms would need to be changed to reflect the extra AP Client Services to be supported over and above those set out in the Related Agreements, and reference to contractual change control is made in respect of the extra obligations being placed upon Pathway. By the time of this meeting Pathway was already having to take into account AP Client Services over and above those which it was contractually obliged to consider. The number of AP Client Services has since increased five-fold from that originally envisaged in the Related Agreements.
- 3.14 At the CNT meeting on 23 July 1997, Pathway questioned POCL's commitment and support for the development of SMART products. Pathway pointed out that it was being asked to undertake significant work beyond the contractual requirements apparently without the necessary commitment from POCL or its SMART third party suppliers. The point was also made that Pathway had been provided with insufficient information for the purposes of meeting the requests being made of it and that such requests pivoted around Pathway's interaction with a third party (Quantum) with whom it had no contractual relationship. Keith Baines acknowledged POCL's delay stating that it had taken POCL a long time to reach the conclusion that Quantum should be put through the Horizon solution and not through British Gas terminals.
- 3.15 At the 5 August 1997 financial and commercial meeting Pathway stated that it still lacked very basic information required to carry out work requested by POCL. APS service definitions had still not been provided by POCL, with the only documents received by Pathway being unofficial documents from Landis & Gyr. These were not sufficient to complete the APS work in the manner requested. At the 26 September 1997 financial and commercial meeting Pathway indicated that Landis & Gyr was still waiting to be instructed by POCL to provide Pathway with software specifications.
- 3.16 In October 1997 Pathway appointed a member of staff specifically to drive forward issues of SMART development. This was in direct response to POCL's continued failure to provide Pathway with adequate information and specifications. Pathway still required information and equipment from POCL in respect of Talexus, the GEC Water card, Pisces and Quantum before any SMART APS matters could be progressed.

EXAMPLES OF PROBLEMS FACED BY PATHWAY

WITHOUT PREJUDICE

-
- 3.17 Despite the appointment of an APS dedicated member of staff, problems continued through November 1997. The 12 November 1997 Finance and Commercial Update records that the British Gas interface specification was missing and questions of payment and impact continued. POCL only arranged the first meeting between Pathway and British Gas on 25 February 1998.
- 3.18 In December 1997 difficulties were still being experienced as a result of POCL's failure to manage its relationship with Landis & Gyr. The Pisces security module had moved away from Pathway's working assumptions, as Landis & Gyr had introduced a combined Pisces and Quantum security module. This involved Pathway in significant rework. Obligations were outstanding from POCL in respect of service definitions and TTS.
- 3.19 By letter dated 12 December 1997 Pathway requested that a formal change request be raised to update the Pisces TTS and to update references in other documents accordingly. This was needed because informal requests for change received from POCL (and its SMART third party suppliers) had not been put through the proper change control process.
- 3.20 At the start of January 1998 Pathway's concern over essential information required from POCL but not provided, or provided in a form expressly stated by POCL not to be final, was heightening. By the middle of January 1998 Pathway was still missing a substantial amount of information and equipment required from POCL, and which POCL was contractually obliged to provide. The missing information and equipment affected Pathway's design, development and testing.
- 3.21 An Automated Payments Issues Review meeting was held on 15 January 1998 attended by the Authorities and representatives of Pathway. Confusion still existed at this point over contractual relationships between Pathway, POCL and its third party suppliers. POCL was still abdicating responsibility for dealing with its third party suppliers, seemingly expecting Pathway to take over this role despite the absence of any contractual nexus between Pathway and these suppliers. Concerns were expressed by Pathway over the information that it had received from POCL. Pathway had been provided with information in such a way that it was unable to ascertain whether it had received a complete and accurate set of documents. Information requirements in respect of APS business rules were attached to the review meeting notes, indicating further areas where Pathway still required information in respect of APS, and extending to such basic aspects of the service as the business functions which POCL had contracted to perform on behalf of its clients, the rules for performing such functions, validation rules, and other issues.

-
- 3.22 A consolidated list of actions arising from APS meetings on 23 January 1998 and 30 January 1998 was produced and distributed early in February 1998. It is clear from this list that the onus for the majority of outstanding actions is upon POCL, and the provision of crucial APS information to Pathway is dependent upon POCL performing as agreed.
- 3.23 During February 1998 Pathway was still in a position where it was not able to rely upon information received from POCL as being in its final form. This was in addition to difficulties arising from information which was required from POCL but had not been provided. A letter dated 9 February 1998 from Pathway to POCL continues to seek clarification from POCL as to the management of its third party suppliers, and information required and received from POCL by Pathway for the design and development of the APS. Paragraph 7 of this letter states:
- "POCL will confirm in writing that the functional and Token Technology Specifications are the final versions of their documentation, and are the baseline from which development may commence".*
- POCL is still unable today to confirm to Pathway that information it has provided is in its final form. For example, the Bar Code TTS, first provided to Pathway by POCL in around August 1996, is currently stated by POCL not to be in its final form and therefore still cannot be relied upon for the purposes of Pathway's APS development.
- 3.24 During March 1998 the same problems continued. A letter from Pathway to POCL dated 9 March 1998 states that Pathway still requires clarification on numerous issues within a short period of time. Previous similar requests to POCL have proved unsuccessful. The Quantum issues also continue, with Pathway still having no proper understanding of Quantum requirements as a result of POCL not providing adequate information, hindering development and pricing for Talexus. A letter from Pathway to POCL dated 2 April 1998 continues in the same vein expressing serious concerns about the difficulties in obtaining information and documentation from POCL. It is made clear in this letter that POCL's failure to provide necessary and requested documents and agreements to Pathway is having a serious impact upon Pathway's ability to proceed with the development of SMART APS products. The urgency of Pathway's information requirements is clear from the schedule attached to this letter.
- 3.25 Concerns still existed over Talexus requirements as at 2 April 1998. A letter from Pathway to POCL dated 2 April 1998 seeks clarification as to an agreed baseline for Talexus in order that

Pathway can proceed with its development. Even at this point, Pathway is having to anticipate POCL's requirements in respect of Talexus in order that it can proceed with development, as POCL has not actually expressed these to Pathway. The enclosure to this letter is a detailed Pathway produced document entitled "Talexus Requirement Specifications". The need for Pathway to produce such a document anticipating the business rules and functional requirements of the Talexus service emanates from POCL not having provided, even as late as 2 April 1998, such crucial information to Pathway.

4. DSS Reference Data

Issues

Contractual requirements in respect of DSS Reference Data are virtually non-existent. Pathway has had to seek and reconcile extensive information in respect of DSS Reference Data from 3 organisations (CAPS, ITSA and Electronic Data Systems ("EDS")) in order to develop its solution. These organisations have not adopted a uniform or coordinated approach to the issue and Pathway has, in effect, been carrying out the DSS' work of analysis in this area. Information has been lacking, inconsistent between the 3 organisations, and generally of poor quality. This has involved Pathway in extensive analytical work not envisaged under the Related Agreements, abortive work and re-work, involving cost and delay. The Authorities have sought to optimise and enhance the existing contractual DSS Reference Data requirements.

Summary

Difficulties with the inadequate DSS Reference Data requirements emerged in the early stages of the project when Pathway began seeking information from the 3 diverse organisations across which the responsibility for DSS Reference Data was dispersed. This involved meetings and correspondence with these organisations to resolve issues, which continue to the present day. The difficulties have always been compounded by the organisations' concerned apparent inability to provide Pathway with meaningful information in a timely fashion. Pathway has encountered further difficulties in the DSS' departure from the manner in which the contractual requirements indicated that Pathway would be provided with DSS Reference Data. Having developed a data link in accordance with requirements by February 1997, Pathway was subsequently required (without

compensation) to develop an alternative data link, occasioning delay and rework without compensation.

Factual Background

- 4.1 Reference data is defined as a set of parameters and relationships controlling the operation of services (schedule A01, Authorities Agreement). There are two main external sources of Reference Data used by Pathway: DSS Reference Data and POCL Reference Data. This section describes some of the problems encountered by Pathway in defining the format and use of DSS Reference Data. The next section deals with POCL Reference Data.
- 4.2 DSS Reference Data is used in, amongst other services, the Benefit Payment Service ("BPS") provided by Pathway. DSS Reference data contains variable data items, for example: the descriptions associated with payment codes which are required for printing on receipts; and file routing data, to enable files to be returned to CAPS according to Service ID.
- 4.3 There are few requirements that relate to DSS Reference Data and none which help Pathway to understand what data it is expected to receive and how it is to be used. The only specific DSS Reference Data requirement is requirement 891 (schedule B04, Authorities' Agreement) which deals with service reconciliation. Paragraph 1.117.1 states:
- "The CONTRACTOR shall ensure that all captured data are complete and accurately reflected in the appropriate outward interfaces:*
- (a) this applies to Transaction data of all types and modes (including normal working, fall-back and Recovery, and to normal usage, amendment, reversal, and so forth) and to Stock and cash levels; and*
 - (b) this applies to Reference Data changes, both local and as received from the Authorities as follows:*
 - from DSS in respect of Reference Data for P.1S and CVS*
- 4.4 Paragraphs 1.126.9 and 1.127.15 of requirements 934 and 935 respectively (schedule A15, DSS Agreement) indicate that DSS Reference Data will be provided by CAPS.
- 4.5 When Pathway sought to make use of DSS Reference Data it found there was no single point responsibility within the DSS. Responsibility was dispersed across three organisations: CAPS,

ITSA and EDS. CAPS is responsible for data maintenance and record description. ITSA provides the distribution method, the operation of which is controlled by EDS. Pathway has been forced to engage in protracted negotiations with individuals from each of these organisations, and from the PDA, amongst which there has not been a uniform or coordinated approach. The process of specifying DSS Reference Data and developing a system to use it in New Release 2 (and earlier releases) that can be supported by all parties has taken approximately 18 months. To progress the project, Pathway has carried out virtually all the necessary work of analysis (without payment) to ensure consistency between CAPS, ITSA and EDS. This work was not envisaged in the Related Agreements. A change request to define actual responsibility for DSS Reference Data within the DSS is still expected from the PDA.

- 4.6 CAPS, ITSA and EDS have all produced their own set of documents. It has been largely left to Pathway to analyse and compare these documents of which there have been numerous different versions.
- 4.7 Pathway began trying to establish a mechanism for the use of Reference Data required for BPS in about July 1996, when Pathway received documents from EDS and ITSA recommending the development of procedures for making DSS Reference Data available. Pathway commented on these documents and a meeting was held attended by representatives of the PDA, CAPS, ITSA, EDS, POCL and Pathway, the aim of which was to gain a common understanding of each party's Reference Data requirements. However, many issues remained unresolved and Pathway had to commence designing elements of the BPS well in advance of the CAPS Reference Data structure being made known to it. The result was that Pathway could not use any CAPS supplied DSS Reference Data during IGL and a substantial number of changes were subsequently needed to properly integrate DSS Reference Data within the BPS.
- 4.8 CAPS provided 2 documents describing Reference Data in early 1997, neither of which gave the complete picture. In a memorandum to the PDA dated 28 January 1997, Pathway requested a single baseline document. In an urgent fax to CAPS dated 19 February 1997 (sent again on 27 February 1997) Pathway explained that the CAPS document "CAPS to PAS/CMS Codes Files Definitions" did not give complete information regarding the content of codes files within DSS Reference Data. This document, and subsequent versions of it, had a number of errors and inconsistencies which were detected by Pathway. For example, (although subsequently rectified) the definition of the data item known as "Equipment Indicator" had been given a set of values differing from those provided by ITSA. The document is also misleading and assumes that Pathway has knowledge of DSS practice which Pathway does not have. Certain data items, for

example, can be read as mandatory when they are not mandatory. This only started to become apparent in about August 1997 when Pathway received test data (see below).

- 4.9 ITSA supplied a definition of code file headers, trailers and version numbers in its document "Download of Reference Data to BA/POCL Supplier" which is not consistent with the codes file document (referred to above) supplied by CAPS. This is because it is aligned with an earlier version of CAPS.
- 4.10 In an attempt to help Pathway, CAPS produced a memorandum dated 20 August 1997 which set out the headers, trailers and version numbers that CAPS expected to use for CAPS release 2.2. The memorandum anticipated work being done by Pathway for release 1C which was not intended until release 2.
- 4.11 The process of extracting information from the PDA, CAPS, ITSA and EDS regarding DSS Reference Data for the various Pathway/CAPS software releases continued over many months. Pathway has received numerous documents which between them describe the format and use of DSS Reference Data, as follows:
- 4.11.1 CAPS to PAS/CMS Code File Definitions (versions for CAPS releases 2.1, 2.2 and 3) - owned by CAPS;
 - 4.11.2 Distribution of Reference Data to BA/POCL Supplier (2 versions) - owned by ITSA;
 - 4.11.3 Strategy Maintenance of Codes Files User Guide (2 versions)- owned by EDS; and
 - 4.11.4 CAPS memorandum dated 20 August.
- 4.12 Problems with the inconsistent and delayed documentation have not been the only problems experienced by Pathway in relation to DSS Reference Data. Pathway originally expected that, in accordance with requirements 934 and 935 referred to above, DSS Reference Data would be received from CAPS. The necessary functionality was accordingly built into the batch interface between CAPS and Pathway (known as the CAPS Access Service ("CAS")), which Pathway indicated it would do as early as 29 July 1996. DSS Reference Data was requested to test the CAS link in February 1997. However, this did not turn out to be the method by which Pathway was actually required to receive DSS Reference Data. Instead Pathway had to develop a separate and additional transfer mechanism (though still within CAS) in order to receive DSS Reference Data, the distribution of which is operated by EDS. The original work on the CAS link was aborted (without compensation to Pathway) and Pathway was forced to carry out work on the new link, without going through formal change control, in order to progress the project. By

memorandum dated 13 June 1996 Pathway requested that the PDA raise a change request as a matter of urgency to clarify the situation and to correct the requirements. However, no response has been received.

- 4.13 When DSS Reference Data was eventually supplied for testing by EDS (in about August 1997), it appeared to conform to the definition for CAPS release 2.2 DSS Reference Data, not release 2.1 which was that required by Pathway at the time. The quality of test DSS Reference Data was poor and was found not to contain certain fields required by Pathway; post codes for example. This at first caused the whole file to be rejected by Pathway's DSS Reference Data system, as these fields were treated as being mandatory in accordance with what turned out to be inaccurately stated in the document "CAPS to PAS/CMS Codes Files Definitions" (referred to above). The test file was also found to contain post offices for the Isle of Man and the Channel Islands which are not covered by the Pathway solution. Post office telephone numbers were also found to be missing. Pathway notified the PDA of these difficulties, some of which were rectified whilst Pathway worked around others (see below).
- 4.14 For release IC, particular difficulty was encountered with the post office codes file within DSS Reference Data. This file provides the key for electronic distribution of payments. Pathway has obtained different post office codes information from DSS, POCL (central) and POCL regions. The problem with Reference Data largely arose because the source of the DSS post office codes file was out of date and did not conform with POCL Reference Data supplied to Pathway's Reference Data Management Centre ("RDMC"), which is derived from POCL's new Reference Data system. To work around this problem Pathway manually compiled a file of post office codes information needed by the BPS to operate the 200 (plus) post offices used in the release IC live trial. Due to this and other difficulties and delays associated with the DSS Reference Data there was no possibility of automating the download link for release IC. All DSS Reference Data used with release IC is currently updated manually via the help desk, causing Pathway to incur additional expense without compensation.
5. POCL Reference Data

Issues

The POCL Reference Data contractual requirements were inadequate for the purposes of developing the Pathway solution. Furthermore, neither POCL nor the PDA had a proper understanding of related issues. POCL's requirements, particularly in respect of

management of change of data, only began to emerge, at Pathway's instigation, relatively recently. One of the effects of this has been to render Pathway's original design base for the RDMC unstable. Essential test data required by Pathway was provided late by POCL and was consistently of poor quality. This has caused delay and disruption to Pathway's work programme.

Summary

Pathway first designed the RDMC in September 1996 to meet requirements produced by inference during the development of the Electronic Point of Sale Service ("EPOSS") and APS. An interface baseline was established during December 1996. Initial test data was provided to Pathway by POCL in the period September 1996 to February 1997. Much of this data was of poor quality and had to be manually rectified by Pathway. In February 1997 Pathway complained to the PDA about the programme impact and delay that the lack of accurate test data was causing. Although to a lesser extent, these problems persisted for many months and there still remains an absence of adequate business validation of POCL Reference Data which is likely to cause operational problems unless addressed.

Factual Background

- 5.1 POCL Reference Data supplied to Pathway has two primary functions. It is used to populate generic transactions which take place during a customer session at a post office counter; providing information needed for these transactions. It also provides the essential mechanism for implementing operational business changes without having to alter software code. As such, it is of fundamental importance to both EPOSS and APS (which are both Reference Data driven) and other counter based services. There has to be a mechanism which allows for efficient change e.g. post office outlets to close, new outlets to open and details of POCL products and services to be altered over time. Without such a mechanism, the whole of the Horizon system would very soon collapse; yet there is a complete absence of meaningful requirements which relate to POCL Reference Data in the Related Agreements and the surrounding issues were initially poorly understood by both the PDA and POCL.
- 5.2 As described in Pathway's Reference Data System Outline Design, Pathway's Reference Data Management Centre ("RDMC") was first designed in the period September 1996 to March 1997 to meet internal requirements produced (by inference) using:
 - system object models produced for EPOSS and APS, which were under development

- workshops with the POCL Reference Data development team.
- 5.3 It emerged that the POCL development team had little understanding of the full significance of Reference Data and how it is used, particularly how changes to Reference Data should be controlled and managed. Pathway had great difficulty persuading the PDA and POCL that this represented a serious shortfall in their business and systems analysis for the project. The result is that real business requirements have only begun to emerge relatively recently since the creation of the (ad hoc) Operational Business Change Committee ("OBCC"). Pathway is not represented on the OBCC (it is staffed by POCL and PDA members), but it was originally set up as a result of Pathway's insistence that the whole area of Reference Data needed far more detailed analysis by POCL. The design baseline for the RDMC, that emerged over time, has been found to be unstable. Significant changes are needed to allow the RDMC to meet emerging requirements with an associated increase in costs for which Pathway will not be compensated.
- 5.4 The first document to be produced (in July 1996), was the draft "Reference Data Project Application Interface Specification Reference Data to TMS" ("AIS"). It was intended that when signed off, this document would fulfill a number of CARs (e.g. CAR number 818.000.004 described in the table in paragraph 10 below). The AIS went through approximately 14 different versions in order to satisfy the Authorities. The CARs associated with it were registered as complete when the AIS was made available for final issue on 29 September 1996. However it was not until 16 December 1996 that version 3 of the AIS was agreed by the PDA and Pathway to be the "baseline" version; subsequent amendments to which would have to be introduced through change control.
- 5.5 Having agreed the AIS, Pathway required test data which conformed to the AIS to be supplied by POCL. A number of CARs were associated with the provision of Reference Data by POCL the majority of which were due to be completed by December 1996 or earlier.
- 5.6 POCL Reference Data is not only used by Pathway in the RDMC. Almost identical Reference Data is also used by other systems outside the Pathway domain, such as POCL's Transaction Information Processing ("TIP") system. For this reason, Pathway did not expect that POCL would have any difficulty supplying data of good quality in order to fulfill the applicable CARs. However this did not prove to be the case. For many months, the test data supplied by POCL via its Reference Data Project ("RDP") was of very poor quality, as catalogued in correspondence between the parties. In order to make some use of poor quality data provided by the RDP,

Pathway would often manually rectify the data in order that it could be used for testing and development purposes.

- 5.7 The first test Reference Data was received by Pathway in about September 1996. This was at a time when the AIS was in early draft form. The data was created manually; there was little data for Pathway to test and Pathway's comments were therefore limited.
- 5.8 The first formal "drop" of Reference Data was received by Pathway on 6 January 1997. Pathway had difficulty loading this data which, when analysed, was found, in many ways, not to comply with the AIS. A further drop was provided by POCL on 27 January 1997. Although improved, there were still problems with this data which did not conform to the AIS and was of poor quality in terms of product and outlet data.
- 5.9 By February 1997, the lack of Reference Data was beginning to have a serious effect on Pathway's project plan. By letter to the PDA dated 5 February 1997 Pathway recorded that without suitable Reference Data.

"[w]e estimate that only 50% of the APS system/integration testing is possible and we simply cannot start EPOSS system testing which is wholly dependent on this data".

Pathway provided further explanation of its dependency on test data in its letter to the PDA dated 13 February 1997.

- 5.10 The first system generated Reference Data was provided to Pathway on 17 February 1997. Pathway analysed this data, and given that it appeared to be adequate, agreed that the related CARs should be signed off on the proviso that daily updates would be supplied to Pathway to reflect the latest POCL position. The CAR control form was signed off on 20 March 1997.
- 5.11 POCL did not provide daily updates of Reference Data. Although a number of further drops of data showing incremental improvement were delivered over the months after 20 March 1997, a drop of Reference Data of sufficient quality for release to go live was only received on 21 July 1997. This should have been available in February 1997. The most recent drop of Reference Data (received by Pathway on 31 March 1998) conforms with the AIS, but, based on past experience, Pathway has little confidence (and has no way of validating) that the Reference Data content is fit for business use. Issues in this respect and in relation to management of change of Reference Data are ongoing.

6. Conflict between the Authorities and criticism of the PDA

Issues and Summary

The PA Consulting Report of 1 October 1997 commissioned by the Authorities and Pathway illustrates problems that have arisen as a result of conflict between BA and POCL. The report criticises the PDA's handling of the project and identifies different business objectives and tension between the Authorities. The conflict between the Authorities has led to delay and confusion over the means of implementing certain contractual and changed requirements, and has adversely affected the resolution of agreements to agree and the proper functioning of the change control mechanism. These difficulties continue to date.

Factual Background

6.1 It is general knowledge that there has been conflict between the Authorities (not always visible to Pathway) which itself, and when combined with the lack of empowerment of the PDA, has led to delay. The PA Consulting Report dated 1 October 1997 serves to illustrate this point. PA Consulting was commissioned by the Authorities and Pathway to provide an independent view of, inter alia, current weaknesses and risks in the Programme. In its Report, PA Consulting made a number of findings including the following:

6.1.1 "Agendas in conflict"

The BA is a major customer of POCL and it is inevitable that the different commercial objectives of the each organisation make it difficult for them to act in total harmony as joint Programme sponsors. We note this has the following impacts:

- *an adversarial approach between senior managers in BA and POCL...*
- *.....*
- *decision making structures are cumbersome and the people in them do not feel particularly empowered. This is evidenced in the extensive and only partially productive brokering work of PDA staff and the many pre-meetings required to support the PDA Board and the Programme Steering Committee" (paragraph M4.1);*

-
- 6.1.2 “...recommended actions which focus on improving the delivery capability of the Programme ...are set in the context of the need for a new, executive-style PDA empowered to make decisions on behalf of the sponsors and given direction by a PDA board which provides strategic advice and which gets involved to resolve the big issues” (paragraph M6);
- 6.1.3 “ [t]he current joint sponsorship arrangements are leading to a lack of clarity in responsibilities and to difficulty and delay in brokering resolutions to problems...exacerbated by the significant commercial tensions between the sponsors” (paragraph M7.3);
- 6.1.4 “[i]n the PDA, we found an organisation... which seemed to be hampered by its size and lack of empowerment... ..It sets out to broker decisions between the sponsors... ..and to manage the joint contractual relationship with Pathway” (paragraph 3.4)
- 6.1.5 “[in seeking to move the PDA towards new responsibilities] ...the PDA will still face a number of problems:
- the sponsors have different business objectives and would prefer to keep their options open for as long as possible while developing their own programmes of work;
 - the PDA is not fully empowered to take decisions itself;
 - ...
- These factors will, in our view, continue to impede the efforts of the PDA to expedite the Programme, and will make it difficult to recover lost time” (paragraph 3.4.1);
- 6.1.6 “[t]his approach ...[i.e. having 3 top management forums, including the PDA board] have contribute to the slow decision making that has been a source of delay on the Programme” (paragraph 3.4.2); and
- 6.1.7 “... we observe that [tension and distrust between the sponsors appear to] have had and continue to have a negative effect on the Programme...they result in slower brokering of resolutions to problems or proposed changes... [and] ...[t]he resulting pressures make the mandate of the PDA, as a jointly sponsored entity, difficult to sustain ... there are too many conflicting agendas” (paragraph 3.5.4)

- 6.2 Pathway has felt the effects of conflict between the Authorities mainly through the PDA. It is reflected in delays associated with change control (for example CCN117 and CCN83 referred to in paragraphs 9.1 and 9.3 below) and slow resolution of agreements to agree, such as the requirements for EVP functionality referred to above. Further examples include the means of dealing with unmatched encashments (described in more detail in paragraph 9.2 below) and the positioning of service boundaries.
- 6.3 The service boundary issue has arisen over which party, BA or POCL, is to be potentially liable for unencashed, but authorised payments, residing in the system in the event that Pathway went into liquidation or ceased to be liable. The issue is described in more detail in Pathway's letter to the PDA dated 10 December 1997. Pathway has positioned the service boundary between the Payment Authorisation Service ("PAS") (a DSS service) and BES (a POCL service) in accordance with contractual requirements and should not be affected by the issue either way. But it has still been caught up in protracted and time consuming correspondence and meetings to try to resolve the issue.
7. Drop Down Period

Issues and Summary

The Authorities presented Pathway with extensive changes to contractual requirements during the drop down period. Pathway had no choice but to examine the significance of each change and categorise them accordingly. This involved Pathway, outside its contractual obligations, in extensive analysis work and consequent discussion and correspondence with the Authorities, which has caused increased cost and delay.

Factual Background

- 7.1 During the early part of the drop down period Pathway was presented with hundreds of redrafted requirements. Pathway expressed surprise at the large scale change to many requirements and explained that analysing the significance of each change was difficult as the intended purpose of the Authorities in making the change was not stated. Pathway assigned a 5 man team to review the changes and provide Pathway's initial response. The results of this review were fed back to the PDA in three tranches under cover of letters dated 13, 20 and 21 June 1996. Broadly, the changes fell into 4 categories (as described in Pathway's letter of 7 June 1996) as follows:

- changes which affected Pathway's obligations
- changes intended to provide clarification, which in fact created ambiguities
- rewritten requirements - difficult to assess
- changes which could be accepted without further comment.

7.2 Specific examples selected from the three tranches of comments provided by Pathway include the following:

Changed Requirement Number:	Pathway comment
900	<i>"Para 5.1 suggests a new categorisation of OBCS [Order Book Control Service] Transaction where the bar-code read is invalid and requires the transaction to be recorded in a 'summary' of non bar-coded order books."</i>
768	<i>"We now have to review Casual Agent procedures from time to time."</i>
759	<i>"1. additional requirement for PAS to reject non-genuine cards."</i>
740	<i>"The requirement to have the capability to provide certification has been changed into a requirement for certification to be provided."</i>
711	<i>"The requirement to provide the capability to be up date the security procedures has been turned into an obligation to do so when required by DSS. Specific requests may be impossible to meet and could affect security and risk."</i>

EXAMPLES OF PROBLEMS FACED BY PATHWAY

WITHOUT PREJUDICE

-
- 480 *"Para 1- The qualifying phrase that "in extremis" the TMS service could be separately procured has been removed although this form of words was carefully negotiated prior to contract and is consistent with the wording of the Solution."*
- 478 *"Para 5.3 - additional requirements to consolidate "as many Data Files as required by POCL" and to generate "as many Data Files as required by POCL" creates a new and unquantified obligation on Pathway."*
- 477 *"The requirement has been extended from the OPS [Office Platform Service] to include the entire Service Infrastructure."*
- 469 *"1.The 2nd sentence could be taken to extend the requirement beyond the Contracted OPS but the meaning is obscure.
2.The procurement has been extend from "applications" to "applications services" - is this a difference without a distinction?"*
- 952 *"New requirement for a "key management system"*
- 906 *""Testing" by the Contractor as part of installation has become "POCL Acceptance Testing" and this may imply new and onerous obligations for Pathway."*
- 560 *"The requirement conflicts with the contracted solution."*
- 908 *"New obligation. 'Specifically this shall include a counter clerk identifier, the date and time of the transaction and the Outlet identifier'. Whilst I don't think this is a problem for Pathway, it was not included in SPR19."*

821 *"Point c) now states that modifying products only allowed using reference data supplied by POCL."*

813 *"Para 5 states that Reference Data provided can only be accessed under suitable security levels - this is an additional requirement to SPR9 which stated 'allowable stock products can be accessed'. This switches the emphasis from the product ' to a security system'."*

8. Contradictory and misleading requirements

Issues and Summary

A number of the Authorities' contractual requirements contradict other contractual requirements, or do not accurately describe what the Authorities have subsequently articulated to be their requirements. For example, requirement 934/3 states that when a customer is no longer to be supported by the Card Management Service ("CMS"), an 'end of interest' notice will be sent to Pathway by the DSS. Pathway must react to this notice by implementing a permanent card stop for that customer. This potentially causes conflict with requirement 954 which requires that an old card be re-used when personal details are sent to Pathway for a customer against whom there has been a previous card stop. Requirement 934/3 also potentially conflicts with requirement 716 and the Service Interface Definition dated 9 February 1996. A further example of conflict is the requirements relating to summarised receipts. In each case, the conflicting requirements cause Pathway's work programme to be delayed and disrupted whilst the requirements are analysed and the position clarified with the PDA and the Authorities. The difficulty is exacerbated by the PDA's and the Authorities' lack of appreciation of the consequences of attempting to apply, often ill-defined, operational rules and procedures used in the existing paper based system to the new automated system.

Factual Background

8.1 CMS End of Interest

8.1.1 There are three requirements associated with CMS "end of interest" ("EOI") notification which have potential conflicts between them and with other "baselined" documents.

8.1.2 Requirement 934/3 (DSS Agreement, schedule A15) relates to CMS EOI. It states that:

"when DSS no longer wishes a Customer to be able to use CMS supported facilities, it will send an 'end of interest' Transaction..."

8.1.3 If Pathway receives an EOI transaction (notice) it is required to prevent the person identified in the notice from carrying out certain business transactions (which are not clearly defined). Pathway originally proposed to do this using a card suspension process, however Pathway was informed by the PDA in meetings that this was not a requirement. If a card cannot be temporarily suspended, the only alternative means of preventing transactions after an EOI notice must be a permanent card stop or "Card Termination" as defined in the Authorities Agreement, schedule A01. The definition states that a terminated card can no longer be used to support benefit payments i.e. it is irreversible. Card termination invalidates the active card, any card on order or awaiting collection and also prevents the card from being used by a casual agent.

8.1.4 Requirement 954 (DSS Agreement, schedule A15) states that

"If, before expiry of an existing Card and after CAPS has sent a notification that an Authorised Person no longer requires a card [i.e. an EOI notice], CAPS sends new personal details for that person, the CONTRACTOR shall use the existing Card rather than issuing a new Card".

This potentially conflicts with requirement 934. If Pathway applied a Card Termination after receiving an EOI notice, the card cannot be reused.

8.1.5 There is also potential conflict with requirement 716 (DSS Agreement, schedule A15). This states that when Pathway (CMS) is notified that an Authorised Person no longer requires a card (i.e. an EOI notice is sent) it shall remove details of that Authorised Person from the CMS operational database. The problem arises because a card is required to have a life expectancy of three years (DSS Agreement, schedule A15, requirement 708) as recognised in the Service Architecture Design Document ("SADD") which is a baselined document. Pathway could be required to re-use an existing card, before it expired at the end of three years, in circumstances where the details of the person authorised to use that card no longer existed within CMS. Even if the card stop

(which would have been applied) was reversible, the information necessary to reactivate the card would no longer be contained in the CMS operational database.

8.1.6 Requirement 954/1 is at odds with the BA/POCL Service Interface Definition (VI, dated 9 February 1996) ("SIDD"). This states that a person held within CMS (but removed by the DSS) will subsequently be notified to Pathway as a new customer (as opposed to somehow reactivating old customer details and re-using the old card). Requirement 954/1 is also at odds with CAPS which will instruct Pathway to issue a new card in these circumstances.

8.1.7 The solution to these conflicts is to remove requirement 954/1 or to change it such that any replacement card is issued with the next issue number in sequence, as if the card had been replaced or renewed in the normal manner. CCN 204a has been raised, which provides a method of resolving the conflict and which awaits approval.

8.2 Summarised Receipts

8.2.1 Requirement 909 (POCL Agreement, schedule 15) states that BES shall enable an Authorised Person, or an Authorised Person's casual or permanent agent to encash benefits on behalf of people living in nursing/residential/retirement homes with a single signature on a summarised receipt. This conflicts with requirement 789 (DSS Agreement, schedule 15) which states that if an Authorised Person is collecting payments for more than one person, PAS shall enforce a separate handover of payment for each Authorised Person supported by a separate receipt for each such payment.

8.2.2 Pathway has engaged in negotiations with the PDA relating to the need (or otherwise) for summarised receipts. The obvious conflict referred to above was explained by the PDA on the basis that requirement 909 purportedly added to existing requirements and was "*clearly dominant*" as it was specific as to conditions of use.

8.2.3 The facility intended by requirement 909, to allow casual agents to collect benefits for "*30 or more*" persons, is also rendered impractical by other requirements, the solutions to which may be adversely affected. Requirement 841, for example, requires that EVP be carried out for each encashment by a casual agent i.e. potentially 30 or more times (which could potentially affect the 8% EVP encashment limit referred to above).

Multiple casual agent transactions could also potentially affect the irregular transaction patterns to be reported by Pathway under requirement 895.

8.2.4 Notwithstanding the conflict and difficulties surrounding the implementation of requirement 909, Pathway is required to produce a compliant solution. However, it is likely that some amendment to the requirements will be necessary.

9. Change Control Issues (including delay, work in anticipation of formally approved change and subsequent re-work)

Issues

The conduct of the Authorities and the PDA in dealing with a number of change control issues has often created significant problems for Pathway. The Authorities' lack of knowledge of their own real requirements; conflict between the Authorities and their requirements; an inconsistent approach by the Authorities to Pathway; the PDA's failure to properly manage the change control process; and prolonged negotiations between Pathway and the PDA over change control time, cost and requirement issues have adversely affected Pathway's ability to develop the solution. Pathway has been faced with extensive delay, increased costs, abortive work and re-work.

Summary

CCN117 relating to on-line functionality, temporary tokens and casual agent encashment is indicative of such problems. The first discussions around the subject matter of CCN117 began in October/November 1996. Workshops continued in February 1997 to review the changes and negotiations over the costs associated with CCN117 continued in April 1997. Pathway commenced work in relation to CCN117 on the basis of informal written instructions received in April 1997. After a long delay during which Pathway expected (on the PDA's assurance) that CCN117 would be signed off, Pathway received a letter from the PDA in November 1997 indicating that it wished to significantly revise CCN117. CCN117 is still not signed off to date. A factor contributing to the delay is the disagreement between POCL and BA over the requirements relating to uncarded casual agents. Changes associated with unmatched encashments and continuation receipts have and will continue to cause similar difficulties for Pathway.

Factual Background9.1 On-line functionality, temporary tokens and casual agent encashment rules (CCN 117)

- 9.1.1 The first discussions between Pathway and the PDA relating to new requirements for on-line (as opposed to batch) facilities, and the use of temporary tokens, took place in about October/November 1996. Work had been due to start in about November/December 1996 but an audit of the PDA delayed the process. In January 1997, discussions were resumed to try to ascertain changes that would need to be implemented before the necessary change request was raised by the PDA.
- 9.1.2 On 25 February 1997, following a two day workshop with Pathway, the PDA raised change request ("CR") P16a to implement on-line functionality: urgent payments; urgent stops; enquiries; temporary tokens; and casual agents. This change request sought to introduce generic functionality which was outside the scope of Pathway's previous discussions with the PDA. Pathway provided indicative costings and a revised change request, P16b, was raised on 12 March 1997. This split the change request into three parts and removed some of the items which had been included in P16a on the basis that the potential business gain associated with these items did not justify the cost of their development.
- 9.1.3 Pathway spent approximately three weeks developing CCN117 and supporting documentation in response to CRP16b. This involved discussions with the PDA and the relevant Authorities and necessitated considerable changes to the requirements, the solutions, service definitions, service levels and the scorecard. Pathway submitted CCN117 at a meeting of the Change Control Board on 8 April 1997 for consideration by the PDA and the Authorities.
- 9.1.4 By memorandum dated 17 April 1997 the PDA stated that:
- "There is no disagreement about the feasibility of the solution [proposed in CCN117], and the change can therefore proceed, pending agreement on the issues of cost and liability, and a further view being taken of the contractual implications".*
- 9.1.5 In terms of cost, the PDA was concerned that charging should reflect the savings to be had by Pathway if the change could be demonstrated to be of mutual benefit.

Negotiations in relation to this and other issues continued through April 1997. Having reached verbal agreement, and to facilitate inclusion of on-line functionality within (old) release 2, Pathway was sent a letter by the PDA dated 30 April 1997 agreeing to the implementation of CCN117. The letter stated that the Authorities had agreed (on certain conditions stated in the letter) to reflect the costs associated with development and implementation of the change to temporary tokens and on-line facilities by amending the scorecard. This was a further instruction to Pathway (following the memo of 17 April 1997) to proceed with CCN117, although it had not been formally signed-off.

- 9.1.6 After a 6 week delay, a scorecard change worth approximately £300,000 for CCN117 was agreed. However this did not conclude the matter. An issue arose, which was raised at CNT meetings on 9 and 23 July 1997, relating to the number of temporary tokens which would be provided free of charge by Pathway. This issue was resolved upon receipt by Pathway of the PDA's letter dated 1 August 1997 confirming that, from the BA's standpoint, temporary token issue would be kept to a minimum. Pathway subsequently confirmed that CCN117 could be signed-off.
- 9.1.7 Two months later, at the CNT meeting on 1 October 1997, Pat Kelsey reported that CCN117 was with George McCorkell for signing. By letter dated 10 October 1997 Pathway wrote to the PDA stating that CCN117 was amongst many in the category "*not yet signed, not withdrawn, expired, action on Authorities*" and that Pathway was still having to rely upon the PDA's letter of 30 April 1997. At the CNT meeting on 15 October 1997, Pat Kelsey reported that CCN117 had been signed by George McCorkell and was with POCL for signature, and that all parties had agreed to sign it. Despite these assurances, and after a 12 month delay since the original negotiations, Pathway received a letter from the PDA dated 24 November 1997 (attaching a new version of CCN117 for comment by Pathway) which stated that revised wording needed to be agreed for CCN117 to be signed off.
- 9.1.8 The amendments proposed to CCN117 are significant and, as explained in Pathway's letter of 23 December 1997, not all are acceptable to Pathway. The Authorities have still not signed off CCN117 and issues remain outstanding (described in detail in Pathway's letter of 2 February 1998) which relate to: the definition of "Card" in the Related Agreements (and whether this includes Temporary Tokens); the definition of

"Temporary Agents" (and differences with casual agents); and service levels associated with composite transactions.

- 9.1.9 The changes during definition of requirements associated with certain CCN117 functionality serves to illustrate some of the conflict and tension between the Authorities which have caused difficulty for Pathway. CCN117 introduces the facility for an uncarded casual agent (i.e. a casual agent not in possession of a benefit card) to collect payment on behalf of a beneficiary using a temporary token. It was originally intended (as described in Schedule D01 of the POCL Agreement) that if a casual agent did not have a card in his/her own right, he/she could present some other form of acceptable identification to collect payments for a beneficiary. However, the parties agreed that this facility would be removed at release 1C as reflected in PDA change request P39, CCN160 and related correspondence. When the PDA amended CCN117 in November 1997, it sought to remove the facility for casual agent encashment with identification papers altogether. Pathway has no difficulty with this amendment.
- 9.1.10 However, on 12 February 1998 a further change request, numbered P76, was raised by the PDA. This proposes the introduction of an additional facility for third party encashment that does not require the issue of a temporary token for use by an uncarded casual agent. In other words, P76 proposes that a facility very similar to that originally envisaged in the Related Agreements be reinstated. It is intended that this additional facility will be "padlocked" until the functionality "should need to be invoked" post New Release 2.
- 9.1.11 The reason for this "padlock" is that there is conflict between the Authorities as to whether this facility should be invoked. POCL want the facility, but the BA does not want it because it is not possible to invoke EVP against an uncarded casual agent in this situation. A letter from Peter Crahan to Mena Rego dated 30 October 1997, a copy of which was provided to Pathway, shows the tension between the Authorities. It states that:

"DSS Ministers gave a clear signal of their requirements regarding uncarded casual agents. These have now been factored into Pathway's schedule for Release 2 associated design documentation. BA has no plans to re-open this question. Should POCL wish to agree with Pathway to incorporate an alternative approach, the BA would not seek to prevent them from doing so provided it was not

prejudicial to delivery dates and any costs were met by POCL. I must stress, however, that this functionality would have to be "padlocked" and could only be activated by agreement with the BA".

Such conflict has been the cause of much of the delay associated with signing off CCN117. By letter dated 24 April 1998 Pathway explained that more than 5 days effort was required to fully impact and cost CRP76; that the indications were that the impact of the change would be well in excess of £1m; and expressing concern that Pathway may be required to expend key resources on investigation and implementation of a facility that may never be required.

9.2 Unmatched Encashments

- 9.2.1 The following applies to Pathway New Release 2, CAPS version 3 using CAPS to PAS/CMS Data Interface Definition and Validation Rules version 6.04 ("DIDVR").
- 9.2.2 The DSS pays POCL for matched encashments: that is encashments where payments authorised by PAS, and paid at the post office counter, match the Authorised Payments (as defined in the Related Agreements) received by PAS from CAPS. Matched encashments are notified to CAPS via the PAS/CAPS interface and recorded as such in the Common Basis of Settlement ("CBOS"). However, if payments authorised by PAS do not match Authorised Payments, CAPS cannot be notified because it has no means of accepting an unmatched record from the PAS interface (unless Pathway was to alter the payment amounts artificially to create a match). Unmatched encashments are reported in the CBOS only.
- 9.2.3 Requirement 89.1 (Schedule B04, Authorities Agreement) deals with service to service and solution level reconciliation. Paragraph 1.117.14 states:

"The CONTRACTOR shall identify and resolve any differences between entitlement information passed by CAPS to PAS and encashment information as received by PAS from BES, on an individual item basis (by "Authorised Payment ID" supplied by CAPS). The Contractor shall in so doing: ... (b) inform CAPS of actual payment amounts encashed where there are any unresolved errors... [underlining to add emphasis].

-
- 9.2.4 The fact that unmatched encashments cannot be notified to CAPS, because CAPS lacks the required functionality, means that Pathway currently cannot fully meet requirement 891. If an encashment file sent to CAPS contained an unmatched encashment, CAPS would reject the entire file and would not retain the matched encashments. This would delay settlement between DSS and POCL with potentially adverse consequences for POCL. This possibility has caused tension because the DSS and POCL have conflicting interests. The DSS is concerned that CAPS should be developed as swiftly as possible, whereas POCL is concerned that it should not suffer as a consequence of any interim arrangement. Pathway is caught in the middle, trying to find a solution, which satisfies the DSS and POCL, and which enables the project to progress.
- 9.2.5 The problem arises because the DIDVR does not specify how encashments should be notified to CAPS in the case of unresolved errors. Pathway recognised this deficiency, but has had to accept the DIDVR as it stands so as to avoid project delay, in particular, delays to the development of CAPS release 3. To provide functionality in New Release 2 equivalent to that which should have been provided by CAPS, Pathway has been forced to implement change within its own systems (Pathway CP957). Essentially, Pathway must carry out tests which should be performed by CAPS in order to avoid the deleterious effects (described above) of whole file rejection.
- 9.2.6 Ultimately, requirement 891 and/or the DIDVR will have to be amended by way of change control. When this change is implemented, some or all of the work carried out under CP957 is likely to be aborted and further work will be necessary. Pathway has been forced to bear the risk that it will not recover substantial wasted costs.

9.3 Continuation Receipts (CCN83)

- 9.3.1 The required content of BPS transaction receipts is detailed in requirement 764 (DSS Agreement, schedule A15). The requirement states, inter alia, that the space for signature on the receipt must be clearly identifiable. Pathway indicated that its solution would comply with this requirement, noting that, due to the amount of detail required, the size of the receipt had become very large. An issue arose between Pathway and the PDA relating to signatures required where the receipt ran to more than one page. The original Pathway response to the requirement, was to have one signature box on the last page of the receipt. However, this approach was rejected by the DSS as being unacceptable due to potential fraudulent misuse of a receipt that ran to a number of

pages with only one signature. By memorandum dated 17 October 1996, the PDA specified that Pathway should develop its solution to produce a signature box on each page of a continuation receipt.

- 9.3.2 POCL, with different concerns to those of the DSS, was concerned that the need for a counter clerk to obtain a signature on each page of a receipt would adversely affect counter transaction times. This led to Change Request CRB5a dated 13 December 1996 being raised by the PDA, which requested a revision to requirement 764. The revision was intended to reduce the information required on a receipt with the result that continuation receipts would not be needed.
- 9.3.3 In response to CRB5a, Pathway produced CCN83 dated 30 January 1997 which explained that the scope of CRB5a was far greater than the simple requirement change would suggest. The effect would not just be felt at post office counters, but also within various agents (interfaces) and within PAS. The change would affect Pathway's ability to handle multiple beneficiaries and multiple benefit types. Pathway indicated that further review of the effects of the change would be necessary. The cost of implementing the change was estimated to be in the order of £500,000 to £700,000 and, because the benefit to cost ratio appeared unjustified, Pathway recommended that the change request be withdrawn. CCN83 was not signed off and effectively expired.
- 9.3.4 The issue was raised again by the PDA by letter dated 12 August 1997 which suggested that it might be possible to cancel the signature box on all but the last page of the receipt. This would mean that only one signature would be required and it would not leave unsigned receipts which were open to abuse. In its reply dated 4 September 1997 Pathway pointed out that canceling the signature box on all but the last receipt was equivalent to the original Pathway proposal that had been judged unacceptable, and that the solution had progressed to its current implementation at the PDA's request. Pathway suggested that, although CCN83 could be revisited, changing back to the original approach would have cost and development timescale consequences which were unlikely to be acceptable to the Authorities.
- 9.3.5 At a "financial and commercial" meeting on 10 September 1997, Stuart Riley of the PDA agreed that the way forward in relation to this issue was for the PDA to raise a new change request for Pathway to impact against a future release. However at a meeting of the same forum one month later Stuart Riley expressed the Authorities' view that as the

current requirement (i.e. cancelling the signature box on all but the last page) no longer represented a change from the original proposed solution, a change request was not needed. After Pathway made clear that it had spent a substantial amount of time on the change and that the costs involved were not trivial, it was agreed to find a way forward by, inter alia, looking for ways to combine development with other issues and by "BA review[ing] the issue of a CR".

- 9.3.6 The PDA raised CRB5b on 4 November 1997 to replace CRB5a⁷. It proposes that all the signature boxes should be hatched out apart from the one on the last page. Whilst CRB5b acknowledges that Pathway developed its solution on the strength of the memorandum dated 17 October 1996, it states this agreement was incomplete. The PDA is likely therefore to resist any attempt by Pathway to recover the abortive costs associated with implementing the original change and the wasted costs of carrying out the impact assessment on CCN83 which are particularly high given the prolonged period of deliberation.

10. Contracting Authorities Responsibilities

Issues and Summary

There are many instances where the Authorities have failed to perform in accordance with Contracting Authority Responsibilities. This has caused Pathway delay, disruption and increased costs.

Factual Background

- 10.1 The following table identifies CARs the delivery and/or completion of which have been delayed by the Authorities/PDA with adverse consequences (usually delay, disruption and/or increased costs) for Pathway. The table is not exhaustive; it is intended to provide illustrative examples only. There are many other CARs which have been delayed and many which are ongoing and/or have yet to be completed.

Examples of delayed completion of Contracting Authorities Responsibilities

CAR Number	CAR Text	Critical CAR?"	Target Date	New Target date	Complete date	Slip/ delay (Days)	Ongoing?	Service	Delay impact summary
473.000.004	1. Specify the precise user types and permissions required for post offices.	Yes	30/9/96	31/3/97	17/4/97	197	No	EPOSS	Prolonged process of agreement to Access Control Policy increased complexity of associated early software development work and definitive work could not commence until April 1997 (CAR signed off retrospectively).
478.000.006	2. Agree the data file.	Yes	30/8/96	30/8/96	29/9/96	29	Yes	EPOSS/ TMS	Application Interface Specification (V3.1) for Transaction Information Processing system (TIP) agreed late and subsequently revised (V5.0 dated 21/3/97) causing delay and increased complexity of associated software development work

CAR Number	CAR Text	Critical CAR?"	Target Date	New Target date	Complete date	Slip/delay (Days)	Ongoing?	Service	Delay impact summary
543.000.003	Provide the specifications applicable to each of the token types.	Yes	30/9/96	31/5/97			No	APS	POCL required to define business rules and technical specifications for "smart tokens" (i.e. smart cards and smart keys for use in utility meters). Delay in provision of adequate specifications caused APS smart tokens to be moved from R2 to R3, and continues to cause delay (see paragraph 3 above).
543.000.006	Arrange access to software algorithms and drivers required to implement support for tokens where such algorithms are held under IPR arrangements by POCL or its agents.	Yes	30/9/96	30/7/97			No	APS	Related to 543.000.003

CAR Number	CAR Text	Critical CAR?"	Target Date	New Target date	Complete date	Slip/delay (Days)	Ongoing?	Service	Delay impact summary
550.000.003	POCL shall provide access to token specifications and facilitate access to appropriate software algorithms in a timely manner to facilitate the Pathway development (as in Req Ref 543) and agree the rules defined in the APS Generic Rules and Token technology specifications (as in Req Ref 547).	Yes	30/9/96	31/10/96	31/10/96	30	No	APS	Related to 543.000.003. Same comments apply.
555.000.009	2. Co-operation in defining or agreeing the specific cards (magnetic or smart) to be used in each service.	Yes	30/9/96	31/10/96	31/10/96	30	No	APS	Related to 543.000.003. Same comments apply.

CAR Number	CAR Text	Critical CAR?"	Target Date	New Target date	Complete date	Slip/delay (Days)	Ongoing?"	Service	Delay impact summary
555.000.011	4. Facilitate the provision of examples of all current magnetic and smart cards/keys and all associated software such that development and testing can proceed.	Yes	30/9/96	31/7/97			No	APS	Related to 543.000.003. Same comments apply.
730.000.003	1. Define and agree operational procedures with Pathway.	Yes	23/9/96	30/11/96	15/4/97	202	No	Help Desks	Call enquiry matrix and operational support documents were produced by Pathway in July 1996 which should have facilitated resolution of this CAR. However, BA was late in confirming its requirements for help desks and its first comments, of which there were many, were made against the Process and Procedures Document ("PPD") prepared by Pathway in December 1996. The PPD for R1B was signed off on 15/4/97 and that for R1C in 11/97.

CAR Number	CAR Text	Critical CAR?"	Target Date	New Target date	Complete date	Slip/delay (Days)	Ongoing?"	Service	Delay impact summary
731.000.002	1. To agree methods of access (e.g. via help desks, direct access etc.).	Yes	23/9/96	31/5/97	1/8/97	308	Yes	Help Desk	Related to 730.000.003.
731.000.010	4. To operate appropriate controls and procedures.	Yes	23/9/96	30/11/96	7/5/97	224	Yes	Help Desks	Related to 730.000.003.
742.000.004	2. Approve design and content for cards, PUN's and distribution material.	Yes	31/7/96	11/4/97	17/4/97	257	No	CMS	The difficulty with this CAR related to Welsh language used in Pick-up notices ("PUNs") and other related CMS items. Although this CAR was originally closed on 28/1/97, it was subsequently reopened because the PDA changed the required PUN design. This disrupted the production of PUNs, the costs of which were absorbed by Pathway.

CAR Number	CAR Text	Critical CAR?"	Target Date	New Target date	Complete date	Slip/delay (Days)	Ongoing?"	Service	Delay impact summary
776.000.001	The authority will agree a process to decide on help desk responsibilities. This will be included as part of the project plan to be agreed and maintained post award of contract. 1. Agree call types and help desk responsibilities 2. Agree review periods and change control....	Yes	31/7/96	30/11/96	15/4/97	255	Yes	Help Desks	Related to 730.000.003.
811.000.006	1. Provide a complete set of definitions for existing products.	Yes	31/12/96	31/12/96	20/3/97	80	No	EPOSS	This CAR relates to Reference Data ("RD") to be provided by POCL (see paragraph 5 above). The following comment also applies to 818.000.004. POCL Reference Data is essential for the counter systems which cannot function without it. Whilst the RD format was eventually agreed (see

CAR Number	CAR Text	Critical CAR?"	Target Date	New Target date	Complete date	Slip/ delay (Days)	Ongoing?	Service	Delay impact summary
									<p>818.000.004 below), POCL was very late in providing RD which conformed to that format which was needed by Pathway for testing purposes. Initial RD provided by POCL could not be used by Pathway and some could only be used by adapting the interface. Pathway overcame this difficulty (and prevented project delay) by developing functionality using its own, internally produced, RD. The first occasion upon which POCL provided RD of sufficient quality to be put through to the counter systems was 21/7/97.</p>

CAR Number	CAR Text	Critical CAR?"	Target Date	New Target date	Complete date	Slip/delay (Days)	Ongoing?"	Service	Delay impact summary
816.000.004	Specify the scope of an auditor's access to accounting data	Yes	31/12/96	31/12/96	7/10/97	277	No	Audit facility	Pathway prepared the Audit Trail Functional Specification for comment 17/9/96. Numerous comments from PDA received over time causing 9 month delay in sign off. Design and implementation of associated software for audit functions delayed.
818.000.004	Agree the format and content of Reference Data transmitted from POCL.	Yes	30/8/96	30/8/96	29/9/96	29	Yes (Originally "no" but re-categorised by Pathway as "ongoing" by letter dated 20/2/98)	EPOSS	POCL's RD Application Interface Specification (AIS) containing format and content of RD was inadequate for developing EPOSS causing delay whilst related POCL business operational tasks developed in consultation with Pathway Customer Services Operation - IT systems redesigned by Pathway accordingly. AIS revised 12/5/97 (V3.1) and 11/12/97 (V3.2). New version 3.3 has yet to be produced.

CAR Number	CAR Text	Critical CAR?"	Target Date	New Target date	Complete date	Slip/delay (Days)	Ongoing?"	Service	Delay impact summary
915.000.008	1. The AUTHORITY will give details of the staff to be trained.	Yes	31/8/96	30/11/96	18/6/97	288	Yes	Training	Related to 531.000.003. Eventually signed off on the basis of information provided in Pathway's document "Training for Horizon release 1a to 1e" (V0.2 3/6/97) which will need to be updated for New Release 2. Information should have been originated by PDA.
944.000.002*	2. Agree the Post Office Counter Procedure for Casual Agent Encashment.	Yes	30/8/96	30/10/96			No	BES	Pathway require agreement on counter procedures for casual agent encashment. This has been the subject of various change requests, proposals and notices (see paragraph 9.1.9 above). The related CAR remains undischarged and is now over 500 days late.

CAR Number	CAR Text	Critical CAR?"	Target Date	New Target date	Complete date	Slip/delay (Days)	Ongoing?	Service	Delay impact summary
969.000.003*	Notification to Pathway of unexpected office closures and agreement, where appropriate, of an alternative local office to act as a surrogate during the period of closure.	Yes	23/9/96	10/10/96			Yes	POCL contingency services	Information required by Pathway to complete design relating to closure of POs i.e. types of closure, the process of notifying Pathway of such closures and related action required. Late provision of information is delaying completion of related software and definition of procedures.
970.000.005	To inform Pathway at the earliest opportunity (or to agreed timescales) of Post Offices which are due for closure on a temporary or a permanent basis, to prevent disruption to the service as much as possible.	Yes	30/9/96	28/2/97			Yes	POCL contingency services	Related to 969.000.003.

G:\TECHNOLOGY\06980\480\PEGS5.DOC