

# **London Borough of Hammersmith and Fulham**

## **Business Case Document**

### **Pre-Paid Card Pilot**

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# 1 Executive Summary

## 1.1 Background

H&F believe that a resident could hold a prepaid card from childhood onwards to become a platform for delivery of all payments from the Council and other Government bodies. This could be in place of a bank account to allow subsistence payments or benefits, whilst providing the recipient with the ability to make cashless transactions and use local facilities.

H&F also believe that a prepaid card can be used to brand H&F, encourage local spend through loyalty schemes and act as a vehicle to gather customer insight for dealings with the council.

A prepaid credit card is a payment card (usually MasterCard, Maestro, Visa Electron or Amex), pre-loaded with money from a funding authority or individual, which the user can then use wherever the payment card is accepted, including on the internet and abroad – or can be withdrawn as cash from ATMs. The ability for individuals to load money on the card (user top-up) requires appropriate safeguards against the potential misuse for money laundering purposes.

## 1.2 Proposal Details

The approach proposed is to undertake two small, self-contained pilots that can be implemented quickly at reasonable cost and produce indications of how to undertake a wider roll-out across the council. The two pilots would cover:

- Creating added value for the residents of Hammersmith and Fulham, generating revenue through branding a card that can be used to drive spend in local shops and businesses
- Payments made by the council, where the objective would be to reduce the burden of cash and cheque payment and improve safeguarding

A pre-paid card under the h&f brand available to all residents has potential to offer benefits:

- Increasing spend locally through loyalty discounts
- Potentially generating revenue through card operation

This pilot would seek to demonstrate the potential benefits of a pre-paid card under the h&f brand based on purely commercial evaluation of its ability to generate revenue and increase local spend in participating businesses.

The areas identified as appropriate for a pilot for payments made by the council were:

- Housing benefits – for those recipients currently paid by cheque;
- Payments for children leaving social care
- Carers Small Grants for informal carers involved in adult social care

This pilot would seek to demonstrate the potential benefits of a pre-paid card including:

- Improving safeguarding for vulnerable adults

- Social inclusion by enabling residents without access to bank facilities to use a standard payment card
- Efficiencies in both making and taking payments

However, the pilot would also need to assess a range of implementation issues, including:

- Assessing the impact on current processes of moving from cash and cheque to electronic transfers
- Managing the liabilities arising from bank fees for scheme operation
- Changing the culture of young people leaving care to ensure they take responsibility for managing their budgets

### **1.3 Project Benefits**

The strategic case for change is based on the broader vision for the use of pre-paid cards. Introduction of a pre-paid card will assist in branding the council as one with whom it is easy to do business across the full range of its services. This is strengthened by the economic case based on the current burden of handing cash and cheques (and, for social care payments, monitoring its use). In addition, cheques are due to be phased out by 2018, and so the council will need to have effected a transition to electronic means of payment by that date.

A pre-paid card under the h&f brand available to all residents has potential to offer benefits:

- Local businesses will see increased volumes as h&f residents are alerted to loyalty discounts available through use of the card
- The council shares transaction fees with the card scheme operator, geared at a level to raise funds from high volumes of transactions

The level of benefits is entirely related to level of take-up, volumes of transactions and level of spend. Estimates vary from £5,000 pa to £37,500 per month.

The pilot for payments made by the council is expected to generate a number of business benefits, for residents and for the council. For residents, these include:

- Reduced costs of access to goods and services through use of card rather than cash
- Reducing encashment charges compared with those currently incurred through cheques
- Financial and social inclusion, from using a product which is common amongst peers
- Increased convenience from no longer having to report in person to collect funds, with immediate use of the card which is topped up remotely by h&f
- Improved personal safety, due to the reduction of risk associated with collecting and carrying cash and increased safeguarding for vulnerable clients

Benefits for the council include:

- Reduction in costs of handling cash and cheques
- Process savings from monitoring expenditure and reconciling receipts and returns

- Better insight to customer behaviours, including the identification of promotional opportunities
- Reduced risk through having less cash held on site

Work to date has identified approximately £28,000 pa potentially cashable benefits from the areas outlined above. As the council payments card is a pilot which may not be pursued, it is recommended that these not be realised during the proposed pilot period.

#### 1.4 Project Costs

Project costs have been identified as follows:

- Design of custom branded plastics – it is assumed that these would share a single design.
- Implementation fees, setting up a custom branded website for cardholders to check balances etc and custom carriers for cards containing T&Cs – it is assumed that the h&f branded card provider would bear this cost as part of their investment
- H&F set up costs for marketing and communications materials to support the launch of its payment card.
- Legal fees for contract review for procurement, which would be required separately for both cards
- HFBP costs for IT integration – minimal costs only required for the council payments system
- Project Management costs over pilot, shared between the two schemes.

		Council Payments card	H&F Branded Card
<b>Scheme-Wide Charges</b>		<b>Set up costs £</b>	
<b>Provider</b>	Design of custom branded plastics	1,000	0
	Implementation Fees	2,000	0
	Custom branded website for cardholders	1,500	0
	Custom carriers for cards containing T&Cs	1,000	0
<b>H&amp;F</b>	H&F set up costs	3,600	0
	Legal fees for contract review for procurement	5,000	5,000
	HFBP costs for IT integration	10,000	0
	Project Management costs over pilot	22,800	22,800
<b>Total Card Scheme Costs</b>		<b>46,900</b>	<b>27,800</b>

<b>Running costs</b>	<b>Year 1 costs £</b>	
Plastics – ie actual cards <sup>1</sup>	3,465	0
Load fees	11,603	0

<sup>1</sup> based on minimum of 1,000 cards required

	<b>Council Payments card</b>	<b>H&amp;F Branded Card</b>
Reversals	380	0
<b>Total running costs (year 1)</b>	<b>15,448</b>	<b>0<sup>2</sup></b>
<b>Total cost for scheme over 12 months pilot</b>	<b>62,348</b>	<b>27,800</b>

### 1.5 Pilot evaluation

In the longer term, the council would envisage a single card for the full range of uses envisaged by the two pilots. However, the market is not yet sufficiently developed to ensure that these needs could be adequately met while also addressing the money-laundering regulations.

It is therefore proposed to implement the two forms of a pilot pre-paid card scheme to explore these issues, with the option of an easy withdrawal if the issues prove insurmountable. Depending on the evaluation, this may result in a procurement of a single card to cover the full range of pre-paid services across the council for a longer term. The developing nature of the pre-paid card market may mean that this may be able to include user top-up for cards used by the council to make payments to residents.

The length of the pilot is a key consideration. It needs to be long enough to be attractive to cardholders, and to allow h&f to assess the impact. It is suggested that a pilot be run for a minimum period of 12 months, allowing evaluation and report back to cabinet after 6 months. Depending on the outcome of the evaluation, a full procurement could then be undertaken based on the wide range of applications.

The exit strategy is also important, having the ability to either revert to the current provision or expand to cover a wide range of services via a new procurement. For payments made by the council, ceasing the option for payment via pre-paid card can be managed by stopping additional transfer of funds onto the cards, and giving cardholders, say, six months to use the funds on the cards.

### 1.6 Timescales

The outline plan for the implementation is as follows:

<b>H&amp;F Branded Card</b>	Jan	Feb	Mar	Apr
Finalise and award contracts	◆			
Design and print card			◆	
Negotiate discounts				
Develop marketing and communications for users			◆	
Start issuing cards				◆

<sup>2</sup> Assuming any card costs are charged to the cardholder or recovered from the income generated before being shared between the parties.

<b>Council Payment Card</b>	Jan	Feb	Mar	Apr
Finalise and award contracts	◆			
Design and print card			◆	
Develop marketing and communications for users		◆		
Review processes for handling cards and monitoring		◆		
Start issuing cards			◆	

It is proposed that we undertake a procurement for a pilot based on an h&f branded card scheme that can accommodate cardholder top-up and offering discounts in local businesses. In parallel with this, we will undertake a pilot for a pre-paid card for payments for housing benefits, children leaving social care and carers small grants.

If the evaluation of the pilots is positive, we can progress to the full procurement and transition cards for existing users to the new scheme as follows:

- housing benefits – after a year
- children leaving social care – natural turnover in this group will allow clear break points
- carers small grants – one-off cards will easily transfer to the new scheme

### 1.7 Recommendation

In summary, it is recommended that:

1. H&F should implement in parallel:
  - an h&f branded prepaid card funded by discounts in local businesses
  - a prepaid card pilot for housing benefits, children leaving social care and carers small grants
2. H&F should review the outcomes of the pilots and, assuming its success, develop a plan for expansion of the payment scheme to a full roll-out for all payments either made or received, combining this with a scheme for discounts in local shops. Examples for other payments include:
  - Supporting Your Choice – allowing users to pay for their social care;
  - Cashless parking – where a range of technologies for cash collection and enforcement are in the process of being identified.

### 1.8 Purpose of Document

This document has been produced to evidence the decision-making of the group tasked to develop the use of prepaid cards within the council, and as the basis for the next stage.

### 1.9 Related Documentation

1. [The Project Initiation Document](#)
2. [Legal advice on top-ups.](#)

### 1.10 Control

This document is controlled and as such should not be distributed to any parties other than the project team without the express permission of the author. Uncontrolled modification of content is prohibited; revision procedures should be followed at all times.



## 1.11 Revisions

Rel Date	Rev	Author	Notes
08-Oct-10	0.1	Howell Huws	First draft
15-Oct-10	0.2	Howell Huws	Inclusion of costs and benefits
21-Oct-10	0.3	Howell Huws	Revised processes and costs and benefits
10-Nov-10	0.4	Howell Huws	Take account of the withdrawal of the leisure card and inclusion of a general branded card

## 2 The strategic case for this project

This section sets out:

- Background – pre-paid cards
- Why the project is needed.
- How it enables the achievement of corporate priorities and business aims and objectives.
- The stakeholders involved.
- The scope of the intended project.
- The constraints the project must operate within and the dependencies and linkages it has with other projects.
- The business benefits it will deliver.
- The risks associated with the project.
- The key factors that will determine whether or not the project has been a success.

These are addressed in turn in the sections below.

### 2.1 Background – pre-paid cards

A prepaid credit card is a payment card (usually MasterCard, Maestro, Visa Electron or Amex), pre-loaded with money from a funding authority or individual, which the user can then use wherever the payment card is accepted, including on the internet and abroad – or can be withdrawn as cash from ATMs. It is the same as a credit card, but without the credit – only money pre-allocated to the card can be spent. Prepaid cards typically fall into the following two categories:

- **Single load** cards – used for a one-off disbursement of funds – the card is then disposable;
- **Reloadable** cards – as for single load cards but the card can be recharged with a balance and is not disposable.

Prepaid cards do not get the user into debt, as only transactions up to the balance loaded onto the prepaid account will be authorised. Most prepaid card providers enable the user to manage the account online or via an Interactive Voice Response telephone service. As the money has already been provided, this is not credit, and so there are no interest charges, late payment or over limit fees.

Users do not need to carry around large sums of cash. In most cases, if the card gets lost or stolen, the remaining balance will be transferred across to a new account, and the user will receive a replacement card.

H&F believe that a resident could hold a prepaid card from childhood to become a platform for delivery of all payments from the Council and other Government bodies. This could be in place of a bank account to allow payments of subsistence, for benefit payments, receiving wages from employers whilst providing the recipient with the ability to make cashless transactions and use local facilities. When fully developed, a prepaid card can also be used to brand H&F, and encourage local spend through loyalty schemes.

A critical decision is whether the funds on the card are regarded as the council's or the cardholders. If the cards were used only to dispense benefits, H&F would be able to specify how the cards are used:

- H&F could block usage on a particular type of merchant, such as bookmakers
- H&F could also block the withdrawal of cash using the card if there is no foreseen reason for the cardholder to do this, or put a proportional limit on the percentage of funds on the card that can be withdrawn to cash.
- H&F could put a stop on the cards at any time.

If the council wishes the cards to be owned and used by cardholders, with their own funds, then it will need to relinquish this control (which could in any event be regarded as paternalistic).

## 2.2 The business need for the project

London Borough of Hammersmith and Fulham (h&f) wishes to explore the potential benefits of a pre-paid card, with a range of benefits:

- to create added value for the residents of Hammersmith and Fulham
- to generate efficiencies in both making and taking payments
- to increase local spend through loyalty discounts
- to generate revenue through card operation

The approach taken was to identify a small, self-contained pilot that could be implemented quickly at reasonable cost and produce indications of how to undertake a wider roll-out across the council. The other critical indication was that the pilot should address social inclusion by having a universal target across all residents, not just those who enjoyed concessions or who were on benefits.

To this end, h&f held two workshops to scope a pilot business application. The workshops identified a number of business areas where it may be possible to run a pilot project. Each area was considered against a set of criteria for the project. The table below shows the likely project areas listed against the project selection criteria.

	Street Market Traders	Housing Benefits	Lifestyle / Leisure card	Housing Emergency Payments	Children's Emergency Payments	Loans	Credit Union Payments /
Well-established and functioning process	Y	Y	Y	N	Y		N
Affordable costs (where charges by 3rd party banks counted against the proposal)	?	Y	?	Y	Y		Y
Prospects of benefits for the council	Y	Y	Y	Y	Y		N
Identifiable group of individuals	Y	Y	Y	N	Y		Y

	Street Market Traders	Housing Benefits	Lifestyle / Leisure card	Housing Emergency Payments	Children's Emergency Payments	Loans	Credit Union Payments /
Good prospects for take-up by target audience	Y	Y	?	Y <sup>3</sup>	Y		Y
Manageable number in terms of communications	Y	Y	Y	Y	Y		Y
Clear expansion path & long term usage	N	Y	Y	Y	N		N
Success examples from other local authority	N	Y	Y	N	Y		N
Low IT integration	N	Y	Y	N	Y		Y
Customer Impact (DWP Job Centre Plus etc.)	Y	Y	N	Y	N		N

Two other areas were identified as potential applications for any wider roll-out:

- Supporting Your Choice – the programme not at a sufficiently well-defined stage where the project could be piloted to the client group;
- Cashless parking – where a range of technologies for cash collection and enforcement are in the process of being identified.

Following on from two workshops in July, the group decided to follow a pilot approach in two areas for the new card:

- Housing benefits – for those recipients currently paid by cheque;
- Lifestyle Leisure card – moving from the current concessionary scheme towards a membership card compatible with the two leisure centre providers systems (GLL & Virgin Active) offering tiered discounts for concessions, residents and non-residents.

The card or cards would offer:

- A wider cultural basis of concessions within H&F including libraries, theatres
- Greater variety of retailer discounts

Subsequent discussions outlined likely cashable benefits, due to the costs and risks in handling cash, from including two other areas:

- Children's Emergency Payments
- Carers Small Grants for informal carers involved in adult social care

### 2.2.1 Lifestyle Leisure card

The existing Lifestyle Plus Scheme (LPS) is a concessionary scheme targeted mainly at access to leisure centres but it also includes discounts towards adult education and library services. The scheme started in the 1980's with the then Leisure & Recreation Department. When the LPS was handed over to Education in 1994, membership cost £2.00 per person, per year, which has now risen to £20.50 per year. Membership of the

<sup>3</sup> The average number of payments is in hundreds, so this would offer a reasonable sample size, however in terms of suitability for a pilot, the main issue is that the council would not know who or when these payments will be made, and so evaluation or take up numbers during the pilot period would be difficult to gauge.

scheme reached a peak in 1996 with 6,500 card holders but has declined over time to its present level of approximately 3,000.

Membership is open to people living in the borough that are in receipt of a range of benefits including unemployment benefits, state pension, income support, invalidity sickness benefit and housing benefit. It is also open to full time students. The current process is that staff in libraries:

- check eligibility for the card
- take the cash or cheque
- forms are sent to community sports team admin to produce a laminated card indicating name and expiry date and post to applicant.
- (monthly) reconcile the cash and cheques taken

With the exception of the cost of delivering, the scheme has remained essentially unchanged for 25 years. As the steady decline in membership shows, it is not as popular as it once was. Based on feedback from customers, the main reason for the decline is the cost of the card, its bias towards off-peak access, the stigma of an easily identifiable concessionary card and the lack of a dedicated promotion of the card. Slow processing times in administering and issuing cards have also been a factor.

The LPS was intended as a card to access a range of cultural activities in the borough and the scheme currently gives reductions on the following activities:

- Access to swimming in borough leisure centres at any time for 50p
- Access to the gym, classes, squash and other sports at off peak times for 50p
- Discounted DVD's, Videos, CD and talking tape charges in libraries.
- Adult education courses
- Promoting access to the Museum of Fulham Palace (free anyway)
- Discounts in selected shops (although many have ceased doing this)

The current Lifestyle scheme is outdated and its appeal to our residents is diminishing. The new card will:

- Be rebranded and promoted – a flagship benefit offered by H&F – potentially to both residents and non-residents
- Be piloted as both a concession card and a pre-paid card
- Offer concessions only for disabled users rather than the wider benefits eligibility model currently in place

During the course of developing this business case, it became apparent that undertaking a pilot for the leisure card scheme would delay substantive changes such as the restriction to disabled users, as these could not be implemented until the evaluation and any subsequent procurement was complete. It is understood that the leisure providers would wish to move more quickly, as they consider the current scheme very costly.

However, a lifestyle card scheme offering discounts in local shops is still viable and is considered further in this business case. This would depend on a marketing campaign by the card provider to negotiate levels of discount, supported by an appropriate publicity campaign.

### 2.2.2 Housing benefits

Around 60 people currently receive housing benefits by cheque. These would instead be offered a pre-pay card, which h&f would load with housing benefits in the same frequency as cheque payments. Recipients would then be able to withdraw funds from ATM to pay rent. They would also be able to add funds themselves and use the card to make payments for other goods and services as with debit or credit cards.

The current process is as follows:

- **Authorisation of benefit** – currently, housing benefits staff assess the need and fill out an authorisation form and print it off to be signed and authorised by a manager.
- **Preparing payments** – housing benefits staff prepares the cheques, which are held in a safe onsite, every two weeks. Once the request has been filled, then the housing benefits officer details the transaction on a spreadsheet.
- **Handing out cheques** – cheques are physically given out to service users coming into the distribution point (Cashiers?) and need to be recorded and signed for.
- **Reconciliation** – In order to ensure funds are correctly recorded on H&F's General Ledger, a monthly reconciliation process is carried out against the payments recorded on the spreadsheet.

### 2.2.3 Carers Small Grants

Carers Small Grants (CSG) are currently offered to support informal carers in sustaining their caring role and grants are awarded to applicants on a one-off basis. Examples of ways in which a grant might be spent include a short break, gym membership, or purchase of a washing machine. The annual CSG budget is approximately £50k and supports around 140 individual applications.

Grants are currently awarded on the basis of an application from the carer and are paid as a cheque. Using a pre-paid card with on-line statements would save time on the reconciliation of expenditure (especially the time currently spent following up on the non-return of receipts (this would only work if the card was not enabled for cash withdrawal).

The current process is as follows:

- **Authorisation of Grant** – currently, social workers assess the need and fill out a payment request voucher online and print it off to be signed and authorised by a manager.
- **Preparing payments** – a finance officer prepares the cash/cheque, which are held in a safe onsite, as and when required. Once the request has been filled, then the finance officer details the transaction on a spreadsheet.
- **Cash transfer** – There are cash deliveries from the Town Hall to the distribution point to top up the petty cash float.
- **Handing out cash** – Cash has to be physically given out to service users coming into the distribution point and needs to be recorded and signed for.
- **Reconciliation** – In order to ensure funds are correctly recorded on H&F's General Ledger, a monthly reconciliation process is carried out against the payments recorded on the spreadsheet.

## 2.2.4 Payments for children leaving social care

Young people leaving the council's care at 16 receive a weekly allowance to support them as they continue in education or look for a job. Care leavers have to journey to H&F's offices each week to collect their allowance in cash. In some cases, people need to travel for up to an hour; whilst the council has to store and transport cash to offices across the borough. The basic process is as follows:

- **Authorisation of Cash Disbursement** – currently, social workers fill out a payment request voucher online and print it off to be signed and authorised by a manager.
- **Preparing payments** – a Business Support Officer in the leaving care team takes the cash from the safe and prepares either the cash or cheque, which is held in a safe onsite, as and when required. Once the request has been filled, then the BSO details the transaction on a spreadsheet which is managed and maintained by the Young Peoples Service business support team.
- **Cash transfer** – There are cash deliveries from the Town Hall to the distribution point at 145 Hammersmith Road on a weekly basis of £2,100 which top up the petty cash float.
- **Handing out cash** – Cash has to be physically given out to service users coming into the distribution point and needs to be recorded and signed for.
- **Reconciliation** – In order to ensure funds are correctly recorded on H&F's General Ledger, a monthly reconciliation process is carried out against the payments recorded on the spreadsheet.

The process is expensive, inefficient and staff are exposed to risk. It is also inconvenient for the young people. Receiving cash in one lump sum does not help them with their budgetary management, and they can only use their money over the counter in shops.

200 young people currently receive petty cash payments fortnightly and one-off payments for larger items if the young person is setting up a flat for example. Spend for the year to September is in excess of £80k.

## 2.2.5 The case for change

Cheques are due to be phased out by 2018, and the burden of handing cash (and, for social care payments, monitoring its use) increases over time. Introduction of a pre-paid card will also assist in branding the council as one with whom it is easy to do business with across the full range of its services.

## 2.3 How it links up with corporate and business priorities & aims

Our aim is to create a borough of opportunity for all, by meeting these priorities:

- provide a top quality education for all
- tackle crime and antisocial behaviour
- deliver a cleaner, greener borough
- promote home ownership
- set the framework for a healthy borough
- deliver high quality, value for money public services
- regenerate the most deprived parts of the borough.

This project will help deliver high quality, value for money public services through

- delivering valued leisure services to all residents while continuing to support access for those on benefits
- improving safeguarding of vulnerable adults through real-time monitoring of spend against agreed plans
- reducing the cost of handling cash in disbursements

This project will also lay the foundation for regenerating the most deprived parts of the borough by encouraging local spend through integrated loyalty schemes.

## **2.4 Stakeholders**

The main stakeholder groups include:

- Potential card holders:
  - All residents, as potential users of a lifestyle card offering
  - Those in receipt of housing benefits currently paid by cheque
  - Children leaving care receiving emergency payments
  - Informal carers who may apply for Carers Small Grants
- Council staff involved in
  - disbursement and monitoring spend for children leaving care receiving emergency payments
  - disbursement and monitoring spend for Carers Small Grants
  - auditing the above schemes
  - procurement and legal services
- Providers of pre-paid card services
- The Government (specifically, the criminal justice system) in pursuit of potential money-laundering offences

### **2.4.1 Stakeholder contribution**

H&F may want to consult with potential card holders as to the operation of the new scheme, and any specific needs they may have.

Council staff have been engaged in reviewing the impact this would have on the services offered. Council staff will be needed to

- develop processes for handling payments;
- evaluate the potential scheme providers.

Providers of pre-paid card services will develop a scheme to issue and support pre-paid cards, accepting money transfers both from the council and cardholders through a range of mechanisms. They will also enable reporting against the scheme in aggregate and enable monitoring at a transaction level for social care spend.

The Government (specifically, the criminal justice system) is concerned to ensure that the source of funds is tracked to deter money-laundering.



## 2.4.2 Potential conflicts

Two main potential conflicts have emerged to date:

- The need to have cardholders add their own funds potentially brings the council into conflict with the Government, due to their objective of reducing money-laundering. This is being managed through the measures outlined below at section 6.5.
- The need to monitor recipients of emergency payments or Carers Small Grants will conflict with the council's objective to have a universal card that can be used for other purposes (including spend in local shops). This is because monitoring the spend of the recipients' own funds requires their consent. This may be managed by seeking the recipients' consent, explaining the additional protection in terms of safeguarding that such monitoring will offer. If they decline, then present monitoring methods would continue.

Discussion with potential providers of pre-paid services to date has indicated a reluctance to offer top-up facilities managed by the cardholder. Their rationale for this restriction is based on the 'Know Your Customer' financial regulations that are designed to prevent money laundering (eg allowing criminals or terrorists to use the cards as a mechanism for translating 'dirty money' into the acquisition of assets). Failing to address money laundering would raise a significant reputational risk for the council and therefore legal advice would be required before proceeding with such an option.

However, the card providers also indicated that this was an area that was being kept under review and this is indicative of a developing market for such products.

## 2.5 Project scope

The project will procure a pre-paid card for use for 12-18 months, to be used for the following purposes:

- Paying housing benefits to those currently paid by cheque
- Paying subsistence contributions and emergency payments to children leaving care
- Paying Carers Small Grants to informal carers
- A lifestyle card offering discounts in local businesses

The project will implement a pilot pre-paid card scheme to explore these issues, with the option of an easy withdrawal if the issues prove insurmountable. The potential for the wider use of pre-paid cards across the council (for example to enable cashless parking or for personal social care budgets) will also be explored as part of the pilot evaluation. Depending on the evaluation, this may result in a procurement of the full range of pre-paid services across the council for a longer term.

The procurement will be based primarily on cost, although certain aspects of quality will be addressed (eg the range of offerings to support disabled cardholders, or the range of ways in which cardholders can add funds to the card).

## **2.6 Constraints, linkages and interdependencies**

### **2.6.1 Constraints**

Social care, both adults and children's anticipate real savings from the handling of cash and monitoring of spend, and therefore wish to proceed as soon as possible. There are no natural break points that constrain start or end-points for the pilot.

Negotiations with the leisure providers have proven more difficult to progress, partly because it is a commercial decision as to how much extra spend will be made by residents to offset the loss of income through discounts. Because of this, the procurement may proceed without a firm date for the new leisure card scheme to commence (and indeed there may be a gap between placing a contract and the commencement of the service).

### **2.6.2 Linkages and interdependencies**

This project links with channel migration in that it offers the potential to move from high-cost access channels (payments made via cash or cheque) to lower cost channels.

## **2.7 Business benefits**

The project is expected to generate a number of business benefits, both cashable and non-cashable, for residents and for the council. Those indicated with an asterisk (\*) are not expected to be delivered during the pilot stage.

### **2.7.1 Benefits for residents - cashable**

- Reduced costs of access to goods and services
  - preferential rates for payable services for example reduced rates for leisure services, car parking (\*) etc.
  - making on-line, telephone and point of sale payments – giving more choice and providing access to cheaper goods and services
  - developing skills to self manage funds
- Not incurring as many encashment charges as from a cheque

### **2.7.2 Benefits for residents – non-cashable**

- Financial and Social inclusion
  - using a product which is common amongst peers
  - wide range of outlets accepting payment by prepaid card
  - 24/7 access to their account to monitor spend via ATM, telephone or on-line (or SMS)
- Increased convenience
- No longer having to report in person to collect funds, with immediate use of the card which is topped up remotely by h&f
- Improved personal safety
  - Reduction of risk associated with collecting and carrying cash
  - Increased safeguarding for vulnerable clients
  - Monitoring of spend can assist by identifying appropriate interventions where clients may need support
- Resident saves time in having to report and have reissued cheques which have been lost or stolen.

- Sending money by cheque can be an insecure method especially where residents live in HMOs
- Increased security of funds as spend is dependent on authorisation through PIN number
- Fewer ID fraud issues
- Increased customer satisfaction in services delivered

### **2.7.3 Benefits for the council – cashable**

- Reduction in costs of handling cash/cheques, comprising
  - transactional costs incurred by council to raise, issue and cash cheques
  - transactional costs of collection and transfer of cash to satellite offices
- Reduction in staff time taken to deal with residents who require cash/cheque payments
  - staff members processing payments
  - collection and transfer of cash to satellite offices
- Process savings from monitoring expenditure and reconciling receipts and returns
  - caseworkers reconciling client spend
  - meeting audit requirements, focussing on unusual activity and clients who persistently do not return expenditure statements

### **2.7.4 Benefits for the council – non-cashable**

- Risk reduction from more effective monitoring of expenditure
- Supporting financial and social inclusion of vulnerable residents
  - residents who are either unbanked or unable to use their existing bank account are able to use benefit entitlements for the purpose that the funds were issued
  - vulnerable clients unable to hold bank accounts are supported to participate in SYC direct funding
  - card reports ensure that card is being used appropriately, supporting early intervention on behalf of vulnerable clients
- Better insight to customer behaviours
  - identification of promotional opportunities
  - spending patterns, leading to loyalty discounts
- Reduced risk through having less cash held on site
- Increase in local spend through loyalty discounts
- Potential for revenue generated through card operation
- Recouping funds – if card is lost, stolen or the benefit was under/over paid, H&F are in control and can block/stop card or add/retract funds<sup>4</sup>.
- Increased branding for h&f

The cashable benefits for the council are quantified below on an annual basis:

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<sup>4</sup> Note that this is only applicable if the only funds on the cards are the council's. If the card allows cardholder top-up, this benefit will not apply, as the funds may belong to the cardholder.

<b>Potentially cashable benefits</b>		<b>£</b>
<b>Children, youth and community</b>	Business support officer (assuming 70% of S5 post to process payments)	20,596
	Senior finance officer (10% of SO2 post to process payments)	4,158
<b>CSD Carers' small grants</b>	CSD finance officer (based on taking 1 hour to process each grant payment @ £28.69 p/h)	3,873
	Reconciliation of grants not including any follow-up (2 days by a temp)	?
<b>Housing Benefits</b>	P01 Officer runs payment report	
<b>Total Staff Cashable Savings by Service Area</b>		<b>24,754</b>

## **2.8 Risks to achieving these benefits**

The key risks to achieving the proposed benefits are outlined below.

### **2.8.1 Benefits for residents – cashable**

The impact of the revised leisure card scheme has yet to be fully evaluated, but is likely to have differential impact on residents, and depends on the extent of take-up.

### **2.8.2 Benefits for residents – non-cashable**

The ability to offer 24/7 access to their account to monitor spend telephone or SMS is dependent upon providers responses (most seem to offer ATM and online access).

The ability to avoid grant recipients having to report in person to collect funds depends on the development of satisfactory control processes.

The ability to improve safeguarding for vulnerable clients through real-time monitoring of their spend depends on securing their consent to such monitoring.

### **2.8.3 Benefits for the council – cashable**

The proposed scheme is designed to operate as a pilot for a year, after which the operations concerned may revert to current processes. It is therefore inappropriate to realise cashable savings, at least until the evaluation of the pilot is complete.

The ability to make savings in transactional costs of collection and transfer of cash to satellite offices depends on the flexibility of the contract. The ability to make cashable savings from the reduction in staff time in the longer term depends on the ability to translate these into posts.

### **2.8.4 Benefits for the council – non-cashable**

- The ability to reduce the risk of inappropriate spend depends on being able to establish processes for routine monitoring, but also to identify transactions or patterns of transactions that would trigger intervention. This will be limited further if cardholders primarily use ATMs to withdraw cash.
- As with monitoring, insight to customer behaviours will be limited if cardholders primarily use ATMs to withdraw cash.
- The increase in local spend through loyalty discounts depends on local take-up both by residents and local shops.

- Discussions with card providers to date suggest that the potential benefits for revenue generated through card operation are low due to the relatively low total spend and individual transaction value.
- In most cases, it will be for the client to report the card as lost or stolen. Discussions with card providers to date suggest that allowing cardholders to add funds to the card may result in uncertainty over the council's ability to stop a card or directly retract funds, as the funds involved may belong to the cardholder rather than the council.
- Although the card is highly likely to result in increased branding for h&f, there is the potential for controversy to turn this into a disbenefit, eg if cardholders were to exploit loopholes to use the card for money-laundering or if loyalty card schemes were not honoured.

## 2.9 Success factors

It is appropriate to consider success factors for the project itself and for the business separately. For example, the project may succeed in delivering a card, but it may result in additional costs.

### Success factors for the project itself

	<b>Objective</b>	<b>Success criteria</b> (i.e. how will h&f know the objective has been met)
a	Project delivered on time	The project has undertaken a card procurement by 31 <sup>st</sup> March 2011
b	Project delivered within budget	The project has undertaken a card procurement within its overall budget
c	Project delivered cards meeting council's requirements	The project has resulted in a compliant bid for a card capable of meeting at least some of the council's requirements
d	Project delivered council capability to progress pre-paid cards	The project has delivered a business case and cabinet papers to allow a decision on whether a pilot for pre-paid cards should be implemented

### Success factors for the business

	<b>Objective</b>	<b>Success criteria</b> (i.e. how will h&f know the objective has been met)
a	The project establishes resident benefits from pre-paid cards	The procurement results in a card capable of delivering at least some of the benefits to residents as outlined above
b	The project establishes a business case for pre-paid cards	The business case resulting from the procurement demonstrates net benefits for the pilot implementation (or reasonable costs with the prospect of net benefits from a wider deployment)
c	The project runs a low risk of generating adverse publicity for the council	The procurement results in appropriate safeguards for the council's reputation against the key risks of money-laundering.

### 3 Options appraisal

This section sets out how the project team arrived at the preferred option and project approach that is presented in this business case. It sets out:

- The options that were considered for meeting the business needs.
- The opportunities considered for innovation or collaboration with others.
- The options for delivering the project itself.
- How best to implement the project.
- A more detailed appraisal of the preferred options.
- Sensitivity analysis and risk considerations – how robust are the options?
- The preferred option selected.

#### 3.1 Options considered – and those shortlisted

An analysis undertaken by HFBP looked at the experience of other local authorities in moving away from handling cash:

It is understood that no local authority has yet developed smart card that combines local authority data plus pre-paid banking infrastructure, that is EMV (European MasterCard/Visa, ie chip & PIN) compliant. A pre-paid card that is EMV compliant would allow residents to pay for higher value services, such as council tax. The London Borough of Lewisham teamed up with Citi bank, who provided a Visa based pre-paid card solution, but does not combine any local authority applications on the card. Likewise West Kent council have a debit card solution managed by RBS.

The opportunity exists to build on momentum provided by other local authorities such as Hillingdon and Bracknell Forest that would allow h&f to provide multiple services to all of its residents using smart card technology.

To date, local authority smart cards that have included pre-pay, are for low value payment items only. As mentioned above for larger payments, an EMV compliant solution is required, which requires a partnership with a bank.

There are three technical architectures that are to be considered:

- A card that combines applications such as libraries access with pre-pay facilities for low value items such as parking. H&F would control the development of the card. Such a card like sQuid have a £150 balance limit, with a maximum £15 per transaction.
- A joint card produced via a relationship with a bank (such as a pre-pay Visa debit card). This would allow for higher values services to be paid, such as council tax. The bank would be controlling the process, and h&f would need to request the bank to place their services alongside the bank's features.
- Two cards. One smart card for residents' services (which h&f maintains) and a separate pre-pay card (that a bank maintains) and which would not contain any of the local authority's applications on the bank's pre-pay card.

During the course of further investigations, these three options have been explored and evaluated, along with Option 0 ('Do Nothing'). This resulted in the following long list of options:

- Option 0. Do nothing – continue to handle cash and cheques in dealings with residents
- Option 1. A single pre-paid card that is EMV compliant for council payments and h&f branded lifestyle card
- Option 2. Separate EMV compliant pre-paid cards for council payments and a h&f branded lifestyle card
- Option 3. A pre-paid card that is EMV compliant for council payments
- Option 4. A smartcard-based card for low value items (similar to Oyster), administered by h&f. Comparative examples include the HillingdonFirst card and the RichmondCard
- Option 5. A smartcard-based card for low value items combined with a pre-paid card that is EMV compliant for council payments

These options are described below.

### **3.1.1 Option 0. Do nothing – continue to handle cash and cheques in dealings with residents**

Cheques are due to be phased out by 2018, and the burden of handing cash (and, for social care payments, monitoring its use) increases over time. The current leisure card is dropping in popularity and is considered a burden by the leisure providers. However, H&F have committed in the current MTFS to closing cashiers and the current processes restrict the ability to realise savings from closing cashiers.

### **3.1.2 Option 1. A single pre-paid card that is EMV compliant for council payments and h&f branded lifestyle card**

This involves procuring a service managing pre-paid EMV compliant cards. For benefits disbursement, the council would load funds onto the cards through recurring transactions or through a web interface. Recipients would then be able to add their own funds and use it as any other debit card to pay for goods and services, or withdraw cash from ATMs. Staff who currently monitor usage of social care payments for safeguarding vulnerable adults and as a form of audit would carry out this process via a web portal rather than handling paper receipts.

Residents would be able to apply for a pre-paid EMV compliant card, for which there would be a minimum initial load required, and there may be an additional card fee. This could then be used to access leisure facilities at a discount, and potentially be used for wider discount schemes across the council (including car parking) or local shops. Benefits recipients would also be able to access these discounts.

### **3.1.3 Option 2. Separate EMV compliant pre-paid cards for council payments and h&f branded lifestyle card**

This involves procuring a service managing pre-paid cards, as for Option 1. However, benefits recipients would not be able to add their own funds and would therefore not be able to access the leisure facilities using the benefits card.

Residents would be able to apply for a separate pre-paid card, as with Option 1. Benefits recipients wishing to access these discounts would need to apply for this separate pre-paid card.

### **3.1.4 Option 3. A pre-paid card that is EMV compliant for council payments**

This involves procuring a service managing pre-paid cards, as for Option 1. However, benefits recipients would not be able to add their own funds and would therefore not be able to access the leisure facilities using the benefits card. There would be no scheme for residents' discounts.

### **3.1.5 Option 4. A smartcard-based card for low value items (similar to Oyster), administered by h&f.**

Residents would be able to apply for a pre-paid smartcard, for which there would be a minimum initial load required, and there may be an additional card fee. This would also have a maximum load value of £150. This could then be used to access leisure facilities at a discount, and potentially be used for wider discount schemes across the council (including car parking) or local shops. Benefits recipients would also be able to access these discounts.

This would require dedicated smartcard readers in leisure facilities and merchants, which proved a barrier to the wider take-up (ie residents applying for the card) in Richmond. Only 5% of current spend in parking machines is made using the RichmondCard, although this was before discounts were offered. The cost to enable parking meters to read such cards would be substantial – Hillingdon paid £575,000. However the advantage of this option is that it minimises the risks associated with money-laundering, as the amounts involved are too low. However, the low value makes this impractical for benefits disbursement.

### **3.1.6 Option 5. A smartcard-based card for low value items combined with a pre-paid card that is EMV compliant for council payments**

This would combine Options 3 and 4, taking advantage of removing cash and cheques from benefits processing, while avoiding money-laundering risks.

## **3.2 Opportunities for innovation or collaboration**

HFBP carried out a market analysis earlier this year. They identified that Capital Ambition had undertaken a feasibility study for a common platform for resident cards for participating London local authorities. No pan-London infrastructure currently exists and the idea has not developed.

Havering have undertaken a procurement for a range of card services, for which only one compliant bid was received – which did not allow cardholders to top-up the funds on the card.

Locally, in the context of three borough working, Kensington and Chelsea has a similar scheme in pilot for Adult Social Care for clients who have elected to receive money and organise their own care (Direct Payments) – without top-up. Kensington and Chelsea also offer residents a Wedge Card, offering discounts in shops signed up to the scheme. Westminster's Urban Access Youth Passport offers discounts on sports activities and DVD and CD hire from local libraries. Westminster also provide MyWestminster ResCard, offering cardholders savings and details of free events. The proposed h&f card will therefore be significantly wider in ambition than our neighbours.



The options analysis below shows that h&f need a single card allowing users to top-up with their own funds, which no other council has yet engaged with.

### **3.3 Options for delivering the project itself**

The smartcard-based options could be delivered at least partly in-house, with local administration of the cards. All other options require the involvement of a bank to provide the service, into which local processes would need to be adapted.

Project management can be provided using existing internal resources, or provided externally. For the pilot stage, the work involved is not thought to require full-time involvement and is therefore considered best carried out internally.

### **3.4 How best to implement**

Although it would be possible to procure a service for the full range of uses envisaged, the market is not yet sufficiently developed to ensure that these needs could be adequately met while also addressing the key issues of top-up/money-laundering and monitoring. The impact of moving to card provision on internal processes is also uncertain – for example, will cardholders lose their card frequently and require replacements? Will monitoring based on a web portal be more or less time-consuming than one based on paper processes. Finally, the impact of a revised leisure card scheme is unclear and needs to be tested in terms of take-up and usage.

For all these reasons, a pilot stage is preferable before committing to wider roll-out. This will allow h&f to understand the impact on current processes and schemes. It may also give time for the market to develop. Several providers suggested that they were considering offering the ability for cardholders to add funds, an ability they currently excluded.

The length of the pilot is a key consideration. It needs to be long enough to be attractive to cardholders, and to allow h&f to assess the impact, while not precluding full market testing as the range of potential applications become clearer. It is suggested that a pilot be run for a minimum period of 12 months, allowing evaluation after 6 months. Depending on the outcome of the evaluation, a full procurement could then be undertaken based on the wide range of applications.

Key to managing the pilot will be to determine the exit strategy, in particular having the ability to either revert to the current provision or expand to cover a wide range of services – cashless parking, payment for trade waste services and others. For benefits disbursement, ceasing the option for payment via pre-paid card can be managed by stopping additional transfer of funds onto the cards, and giving cardholders, say, six months to use the funds on the cards.

For the lifestyle card, the use of the card would need to be for a reasonable period (typically a year) in order to attract pilot users. It is therefore proposed to offer the card for a short period, sufficient to gauge the level of take-up. Six months is proposed.

### **3.5 Appraisal of the shortlisted options**

Due to the limit on how much cash can be loaded, smartcard schemes are only suitable for low value items such as parking and local shops. As such their ability to work with all

local shops to generate branding and loyalty for the council and shops is limited, and therefore do not achieve one of the core objectives of the scheme. In particular, they could not be used for high value payments such as adult social care direct payments or housing benefits, and would therefore require separate cards, potentially stigmatising benefits recipients. This rules out Options 4 and 5.

High value payments require an EMV (Euro, Visa, MasterCard) compliant card, which require a partnership with a bank/building society.

The remaining options were assessed against the ability to:

- offer residents additional benefits from access to discounted loyalty schemes in local shops and (in the longer term) leisure facilities, and other council services
- offer a single card offering branding for the council and avoiding the potential of benefits stigma
- generate cashable savings from reductions in staff time in handling cash and cheques
- generate cashable savings from reductions in staff time in monitoring spend
- manage the risks associated with money-laundering

These are analysed below:

Option	Access to discounts	Single card branding	Savings from		Risks of money-laundering
			Handling cash	Monitoring	
0. Do nothing	—	—	—	—	◆
1. Single card for disbursement and leisure	◆	◆	◆	?	—
2. Separate cards for payments and lifestyle	◆	—	◆	◆	◆
3. Single card for payments only	—	—	◆	◆	◆

None of the options addresses all the needs, with each having key issues that need to be addressed:

Option	Issues
0. Do nothing	<ul style="list-style-type: none"> <li>• Need to address the burden of handling cash and cheques</li> </ul>
1. Single card for disbursement and lifestyle	<ul style="list-style-type: none"> <li>• Need to address money-laundering concerns while not imposing overly burdensome checks to issue lifestyle cards</li> <li>• Need to find ways of cost-effective ways of accepting top-ups for lifestyle cards</li> <li>• Need to find way of monitoring spend when the card holds cardholder's funds</li> </ul>

Option	Issues
2. Separate cards for payments and lifestyle	<ul style="list-style-type: none"> <li>• Need to avoid potential confusion over having multiple cards and avoid benefits stigma</li> </ul>
3. Single card for payments only	<ul style="list-style-type: none"> <li>• Need to avoid potential benefits stigma</li> <li>• Need alternative way of branding cards</li> </ul>

### 3.6 Sensitivity and risk analyses

#### 3.6.1 Sensitivity analysis

If we were to assume that either savings from monitoring were not material to the decision, or that cardholders would consent to h&f staff monitoring spend of any funds they had added to the card, then Option 1 would be clearly the most attractive. The savings may not be material, for example if the auditing process would need to be carried out anyway. If the number of cardholders refusing consent is low, then this may also be manageable. This may well be the case if they are persuaded of the additional safeguarding benefits that monitoring would offer.

However, option 1 is only viable if the present leisure providers are persuaded that proposed scheme represents a commercial offering, with a combination of reduced concessionary discounts and increased take-up driven by resident discounts offsetting the loss of income through offering resident discounts. If the leisure providers do not buy into this, then h&f do not at present have a viable business application for residents beyond the potential to link to local loyalty schemes. Cashless parking is a scheme currently under development, but this will not be ready in the timeframes anticipated for the pilot (procurement in January). This would mean launching on the basis of benefits disbursement only – which would effectively be Option 3, deferring the issue of handling top-ups and money-laundering until after the pilot stage.

Another issue surrounds the means of accepting top-up funds for Leisure cards. All card providers were happy if the council were to undertake this responsibility – principally because it passes the risk of non-compliance with money-laundering regulations onto the council. Some card providers offer other routes such as PayZone. However, because the intention behind launching them is so closely tied to their use for access to leisure facilities, the most natural place for such top-ups to take place would be at the leisure centre. This aspect of running the scheme would need to be negotiated with leisure providers.

Although option 2 could avoid the stigma by having a single design for both cards, this may cause confusion as to whether the card should be accepted for the leisure scheme.

Option 3 could avoid the potential benefits stigma by having an unbranded card, but this would limit the potential to provide positive branding for h&f.

#### 3.6.2 Risk analysis

The following table looks at the particular risks associated with each option, how probable are they, how can they be managed and what would be the impact if they materialised.

Risk	Probability by option				Management	Impact
	0	1	2	3		
Money-laundering abuse	-	M	M	L	Adopt legal advice on checks	Increased administration in issuing cards
Card providers may not be able to offer cardholder top-up at an acceptable price	-	L	L	-	Structure procurement to make cardholder top-up optional	Card could only be used for benefits during pilot stage
Cards attract benefits stigma	-	L	M	H	Advertise cards as protecting recipients from cheque-cashing costs or risk of losing cash	Recipients may be unwilling to accept cards
Local businesses may not participate	-	M	M	-	Assess marketing campaign to ensure take-up is optimised	Reduces return for council Increases the risk of having a benefits-only card and therefore the potential for benefits stigma
Cardholders may not consent to monitoring	-	L	-	-	Explain safeguarding benefits	Savings from moving to online monitoring not fully achieved

### 3.7 The preferred option

From the various considerations and findings presented made above, option 1 provides the clearest route to achieving the desired benefits, but with a key risk around the current inclusion of the leisure card as a core component. Undertaking separate procurements for payments card and lifestyle card as an optional component for the pilot stage would allow this risk to be mitigated. In the event that commercial considerations prevented the leisure card from being progressed, this would at least enable h&f to understand the operation of the card and the impact on current processes pending a fuller procurement during 2011 – at which point, it may be possible to include the leisure card.

In summary, it is recommended that:

H&F should implement in parallel:

- an h&f branded prepaid card funded by discounts in local businesses
- a prepaid card pilot for housing benefits, children leaving social care and carers small grants

## **4 Commercial considerations**

This section sets out the potential commercial arrangements for the external procurement aspects of the project. It sets out:

- The proposed sourcing option.
- The commercial arrangements – contract terms, payment mechanisms etc.
- Contract length – scenarios considered.
- Personnel issues – including TUPE.
- Implementation timescales.

### **4.1 Sourcing options**

Developing an EMV solution requires a bank or building society as partner. There are a growing number of prepaid MasterCard, Maestro and Visa cards available in the UK, issued by UK banks. There is an OGC Buying solutions framework for such cards<sup>5</sup> which is suitable for the council payment card. However, none of the cards on that framework are at present able to offer the facility for the cardholder to add funds (critical for offering a card for all residents).

Other suppliers, however, were able to offer this facility. On this basis, h&f issued a Prior Information Notice to raise awareness of the potential for such a procurement. Seven suppliers responded, of which two appear to offer a pre-paid card with top-up, although none had previously come across our unique combination of a card for benefits disbursement with a card for all residents to use. A competitive procurement is therefore possible.

### **4.2 Commercial arrangements**

The nature of the commercial arrangements are as yet unclear. There are likely to be a mix of start-up charges such as card design and printing, service charges associated with issuing cards and event charges, associated with, for example use at ATMs to withdraw cash. The costs estimates for the pilot draw on a range of experience in such cards to date.

### **4.3 Contract length**

As indicated above, the length of the contract is proposed to be for an initial period of 12 months, extendable for a further 12 months to enable smooth transition to a new provider for the full range of business applications. In the event of the pilot evaluation not being positive, the pilot would be unwound and h&f would revert to current practices.

### **4.4 Personnel issues – including TUPE**

There are no personnel implications applicable to the present project.

### **4.5 Implementation timescales**

The outline plan for the procurement and implementation is as follows:

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<sup>5</sup> RM 537/L2 [http://www.buyingsolutions.gov.uk/frameworks/contract\\_details.html?contract\\_id=770](http://www.buyingsolutions.gov.uk/frameworks/contract_details.html?contract_id=770)

<b>H&amp;F Branded Card</b>	Jan	Feb	Mar	Apr
Finalise and award contracts	◆			
Design and print card			◆	
Negotiate discounts				
Develop marketing and communications for users			◆	
Start issuing cards				◆

<b>Council Payment Card</b>	Jan	Feb	Mar	Apr
Finalise and award contracts	◆			
Design and print card			◆	
Develop marketing and communications for users		◆		
Review processes for handling cards and monitoring		◆		
Start issuing cards			◆	

## 5 Affordability: the financial case

This section examines the whole life costs associated with the project, i.e. the costs of the project itself and the year on year running costs that will need to be met, including any additional costs within the department itself. It sets out:

- The whole life costs and when these will be incurred.
- How these will be met.
- How the costs can be managed

### 5.1 Whole life costs

#### 5.1.1 Card costs – all schemes

Prepaid cards have physical costs associated with them dependent on the contract that the Council would eventually agree with their issuing bank.

- **Set up costs**
  - **Costs from the card provider** – there may be a range of set up costs:
    - designing the card (custom branded plastics) – it is assumed that these would share a single design between the schemes
    - implementation fees for setting up the scheme(s)
    - developing a custom branded website for cardholders to check balances etc and custom carriers for cards containing T&Cs – it is assumed that the h&f branded card provider would bear this cost as part of their investment
    - legal fees for contract review for procurement, which would be required separately for both cards
    - developing custom carriers, ie the paper to which cards are attached for dispatch – these cards set out the terms and conditions of use of the card
  - **Set up costs for H&F** – these include items such as:
    - H&F set up costs for marketing and communications materials to support the launch of its payment card - developing information for users, the costs associated with printing these items, training for each user and dealing with queries. The total cost of this has been estimated at £3600.
    - There may also be some HFBP costs for IT integration – minimal costs only required for the council payments system.
    - Project Management costs over pilot, shared between the two schemes.
- **Operational fees**
  - **Card issue** – Cost per card issued
  - **Load fee** – Each time funds are loaded onto the prepaid card, a charge is levied at £1.50 per load.
  - **ATM transaction fees** – A single ATM transaction is included in the load fee but subsequent ATM transactions are typically charged at £1.50 per transaction.
  - **Replacement cards** – replacements for lost and stolen cards are subject to a £4.95 replacement fee. H&F do not plan to pay the cost of lost or stolen cards, with losses met by the cardholder.
  - **Monthly fees** – Prepaid cards have a monthly fees if the card is not used, at £2.00 per month. A zero cost for this is assumed on the basis that the scheme will be monitored closely to ensure that cards are used effectively.

		Council Payments card	H&F Branded Card
Scheme-Wide Charges		Set up costs £	
Provider	Design of custom branded plastics	1,000	0
	Implementation Fees	2,000	0
	Custom branded website for cardholders	1,500	0
	Custom carriers for cards containing T&Cs	1,000	0
H&F	H&F set up costs	3,600	0
	Legal fees for contract review for procurement	5,000	5,000
	HFBP costs for IT integration	10,000	0
	Project Management costs over pilot	22,800	22,800
<b>Total Card Scheme Costs</b>		<b>46,900</b>	<b>27,800</b>

Running costs		Year 1 costs £	
Plastics – ie actual cards <sup>6</sup>		3,465	0
Load fees		11,603	0
Reversals		380	0
<b>Total running costs (year 1)</b>		<b>15,448</b>	<b>0<sup>7</sup></b>
<b>Total cost for scheme over 12 months pilot</b>		<b>62,348</b>	<b>27,800</b>

### 5.1.2 Lifestyle Leisure card

The exact process will depend on who undertakes the checks, but will basically operate as follows:

- **Approving new card issue** – card provider staff will undertake appropriate (2+2) identity checks and complete the assessment process for eligibility for any discounts. They then take the cheque for the card. Once this is complete, they will be approved to be issued a card and the card request procedure will commence.
- **Requesting new card** – New cards are requested using the issuing bank's online portal, including the address to which the card and PIN should be sent.
- **Reconciliation** – a monthly reconciliation process is carried out against the payments recorded.

### 5.1.3 Housing benefits

The revised process is as follows:

- **Authorisation of benefit** – housing benefits staff will assess the need as at present, but also including appropriate identity checks. Once this is complete, they will be approved to be issued a card and the card request procedure will commence.

<sup>6</sup> based on minimum of 1,000 cards required

<sup>7</sup> Assuming any card costs are charged to the cardholder or recovered from the income generated before being shared between the parties.



- **Requesting new card** – New cards are requested by housing benefits staff using the issuing bank’s online portal, including the address to which the card and PIN should be sent.
- **Reconciliation** – In order to ensure funds are correctly recorded on H&F’s General Ledger, a monthly reconciliation process is carried out against the payments recorded on the spreadsheet.

#### 5.1.4 Carers Small Grants

The revised process is as follows:

- **Authorising grant** – social workers will assess the need as at present, but also including appropriate identity checks. Once this is complete, they will be approved to be issued a card and the card request procedure will commence.
- **Requesting new card** – New cards are requested by the Council’s Carers Small Grants team using the issuing bank’s online portal, including the address to which the card and PIN should be sent.
- **Reconciliation** – In order to ensure funds are correctly recorded on H&F’s General Ledger, a monthly reconciliation process is carried out against the payments recorded on the spreadsheet.

#### 5.1.5 Children leaving social care

The revised process is as follows:

- **Approving new card issue** – H&F will complete the assessment process for eligibility to receive funds, including appropriate identity checks. Once this is complete, they will be approved to be issued a card and the card request procedure will commence.
- **Requesting new card** – New cards are requested by the Council’s Leaving Care team using the issuing bank’s online portal. Contact details will be sent to the distribution point so service users can be contacted on receipt of the cards. The cards and PIN’s will be sent centrally to the distribution point for collection.
- **Logging new card** – When the cards arrive at the distribution point they need to be logged and separated out ready for collection by the individual service users.
- **Confirming card is ready for collection** – Once staff at the distribution point receive and log the cards they will confirm to the service user that their card is ready for collection.
- **Uploading funds** – A list of service users requiring payment each week will be entered onto Framework-I, entering payments as if to suppliers. A nightly download to Cedar effects the payments to the bank, who (when the funds are cleared<sup>8</sup>) then transfer the funds to the individual cards.
- **Reconciliation** – In order to ensure funds are correctly recorded on H&F’s General Ledger, a monthly reconciliation process is carried out against the payments recorded on Framework-i.

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<sup>8</sup> Note that there will be a delay according to the provider’s systems, so that payments must be made in advance of the current payment dates.

## 5.2 Cashable benefits

The following cashable benefits have been identified:

- Reduction in costs of handling cash/cheques, comprising
  - transactional costs incurred by council to raise, issue and cash cheques
  - transactional costs of collection and transfer of cash to satellite offices
- Reduction in staff time taken to deal with residents who require cash/cheque payments
  - staff members processing payments
  - collection and transfer of cash to satellite offices
- Process savings from monitoring expenditure and reconciling receipts and returns
  - caseworkers reconciling client spend
  - meeting audit requirements, focussing on unusual activity and clients who persistently do not return expenditure statements
- Revenue from the operation of the lifestyle card

Potentially cashable benefits		£
<b>Children, youth and community</b>	Business support officer (assuming 70% of S5 post to process payments)	20,596
	Senior finance officer (10% of SO2 post to process payments)	4,158
<b>CSD Carers' small grants</b>	CSD finance officer (based on taking 1 hour to process each grant payment @ £28.69 p/h)	3,873
	Reconciliation of grants not including any follow-up (2 days by a temp)	?
<b>Housing Benefits</b>	P01 Officer runs payment report	
<b>Total Staff Cashable Savings by Service Area</b>		<b>24,754</b>

5.3 Sources of funding	£,000					
	Year 1	Year 2	Year 3	Year 4	Year 5	Totals
<i>e.g. available from external funds</i>						
<i>available from departmental budgets</i>						
<i>from projected cashable savings / income</i>						
<i>from central funds</i>						
<b>Totals</b>						

## 5.4 Managing costs

The following measures can be taken to mitigate cost over-runs or shortfalls in anticipated funding.

#### **5.4.1 Set up costs**

It is possible to go with a non-branded website for the pilot, and to reduce the direct H&F set up costs by reducing the quality of the materials produced.

#### **5.4.2 Running costs**

Load fees could be reduced by loading cards less frequently, although this would potentially reduce the improved safeguarding by requiring recipients to take out larger amounts of cash in order to avoid withdrawal fees.

The cost of cash withdrawals has been managed by not paying for any additional withdrawals – those housing benefits clients currently incurring charges in cashing cheques would still be better off. However clients who currently have a bank account into which a cheque could be paid would be worse off. Cheques are currently paid to clients with bank accounts in two circumstances:

- Where the bank account is currently in overdraft, and the money would not then be available to pay rent – a cheque is issued in these circumstances to avoid the client being made homeless. In this case, the recipient is currently incurring encashment charges and would not be worse off than at present.
- Where the client has not disclosed the existence of a bank account (presumably to avoid disqualifying them from benefits). It is at least arguable as to why the council should collude with such non-disclosure.

The cost of lost cards has been managed by assuming that cardholders will bear this cost themselves.

The cost of reversals depends upon accurate processing.

## 6 Achievability: the project management case

This section addresses the ‘achievability’ aspects of the project. Its purpose is to set out the project organisation and the actions which will be undertaken to ensure project success and the delivery of the intended business benefits. It sets out:

- Evidence from similar projects and the lessons that were learned
- The key roles and the people who will fulfil them.
- The plan for taking forward the project.
- External contracts and how these will be managed.
- Risk management
- The plan for realising the business benefits
- Review and evaluation
- Contingency plan

### 6.1 Evidence and lessons from similar projects

Where available, provide evidence of similar projects that have been successful and the lessons learned from these that will be taken forward.

### 6.2 Key roles

The key roles within the project for the procurement stage and its major stakeholders are set out in the tables below:

#### 6.2.1 Project organisation

Role	Name	Organisation (all h&f)
*Project Sponsor / SRO	Jackie Hudson	Procurement & IT Strategy
h&f Project Manager	Howell Huws	Procurement & IT Strategy
*Senior User	Naheed Malik	h&f Direct (Housing Benefits)
*Children’s Emergency Payments	John Maggs	Children’s Directorate
*Carer Support Grants	Kay Reeve	Community Services
*Senior User	Chris Bunting	Resident’s Services
*Stakeholder (Cashless Parking)	Dave McNamara	Environment Finance

\*Indicates membership of the project board (where applicable).

#### 6.2.2 Critical Project Team Resources

Role	Name	Organisation
Communications	Jonathan Weisgard	LBHF

#### 6.2.3 Key Stakeholders – other than those shown above

Name	Job Title	Organisation
Stephen Greenhalgh	Leader of Council	
Greg Smith	Cabinet Residents Services	

Name	Job Title	Organisation	
Helen Binmore	Members for	Children's Services	
Joe Carlebach		Community Care	
Lyn Carpenter	Director of Residents Services		
Michael Hainge	Senior Manager, Resident's Services		
John Collins	AD, h&f Direct		
		Virgin Active	Leisure Provider
		GLL	

### 6.3 The project plan

The main phases of the project plan are as follows:

	2010				2011
	Q1	Q2	Q3	Q4	Q1
Procurement	◆				
Pilot implementation		◆			
Pilot					
Pilot evaluation				◆	
Procurement for full scheme					◆
Implementation of full scheme					◆

### 6.4 Contract management

During the initial pilot implementation and pilot, the project manager will be responsible for managing external contracts. Depending on the outcome of the pilot, consideration will need to be given as to where this responsibility should sit, particularly for ensuring continuity between those involved in developing the contract for the full scheme and those who will subsequently manage it.

### 6.5 Risk management

The table below shows the major risks facing the project and indicates how these will be managed:

ID	Description	Likelihood	Impact	Countering Action / Contingency
1.	Collapse of contractor, failure to supplier to meet contractual obligations	Low	Medium	Suppliers will be fully evaluated through a tender process via the OGC as part of the procurement exercise.
2.	Costs may be high	Low	Medium	Costs would be clearly defined as part of the contract. Economies of scale would be sought.

ID	Description	Likelihood	Impact	Countering Action / Contingency
3.	The provider may experience financial difficulty.	Low	Medium	Credit rating and financial appraisal of the chosen supplier would be ongoing.
4.	Risk of paying for services before point of delivery	Low	Medium	The Council reserves the right to terminate card payments (guided by protocol)
5.	Implementing a project of this size will affect members of staff in their day to day job.	Low	Medium	The project will be actively managed by a delivery board and will require support from EMT to ensure its success.
6.	Culture Change	Low	Medium	The project will work with departments to engender local ownership
7.	Customer take up may be patchy at the start of the programme.	Low	Medium	The project will be actively and positively marketed to ensure its full acceptance by service users
8.	Card providers may not be able to offer cardholder top-up at an acceptable price	Low	Medium	Structure procurement to make cardholder top-up optional
9.	Cards attract benefits stigma	Low	Medium	Advertise cards as protecting recipients from cheque-cashing costs or risk of losing cash
10.	Cardholders may not consent to monitoring	Low	Medium	Explain safeguarding benefits

## 6.6 Benefits realisation plan

The ability to make cashable savings from the reduction in staff time depends on the ability to translate the reduction into posts. Given that this is a pilot, it is inappropriate to realise these savings in the first year, at least until the evaluation is complete.

## 6.7 Review and evaluation

*Summarise what reviews will be carried out to assess whether the success measures set out in Section 2.7 have been achieved.*

## 6.8 Contingency plans

*Summarise outline arrangements for contingency management / fallback plans if problems arise during implementation.*

## Appendices

### Appendix 1: Potential benefits subsequently discarded

#### Rebuilding Credit History

Early on in the development of this project, it was suggested that a prepaid card may help the socially excluded with bad or no credit history to rebuild their credit history. With the number of IVA's (Individual Voluntary Arrangement) and bankruptcy cases on the increase, there is a growing population in the UK that are unable to get a traditional credit or debit card, without paying extremely high fees.

However, given that the money being loaded onto your prepaid card is either the council's or the cardholder's, and the card issuer is not lending money, information relating to cardholder's prepaid account is generally not exchanged with the credit bureaus (Equifax and Experian), as there is no credit involved and the cardholder can never go into debt. So, whilst the cardholder may maintain a healthy balance and operate the account within the card provider's terms and conditions, this good history will not improve the cardholder's credit rating.

There is one issuer which is currently offering those with a poor credit history the "chance" to build their credit history with a prepaid card. Whilst the thought is seemingly "noble" and they have a pretty snazzy looking website, it does tie you into that issuer for a 12 month period and should you want to opt out of that agreement before 12 months, your credit history could be negatively impacted as you would have broken your "credit agreement".

There is little proof at this stage to suggest that these cards do actually pass your information onto Experian or Equifax. When contacted, a credit rating agency, Experian, were unable to offer any other examples of how this benefit may be realised, and it appears they do not do this. The Project Board reviewed this and decided not to pursue this benefit.

#### Revenue from card operation

Early in the project, it was expected that it may be possible to generate funds for the council either from the money held on the cards, or from transaction fees.

Money held on the cards may generate funds in two ways:

- Cardholders may cease to use the card, leaving the funds with the council. In practice, by allowing top-up, the money on the card clearly belongs to the cardholder and the council would not be able to claim these funds. In fact, pre-paid debit cards commonly involve 'inactive card fees', so claiming the funds would need to be offset against the fees for the card not being used!
- If the funds held on the card but not used are substantial, it may be possible to generate cash by earning interest on the funds. However, in practice the card providers reserve such funds to cover the cost of card operation. Some rough calculations suggested that, even with full leisure card operation, the amounts involved were likely to be in the order of hundreds rather than thousands of pounds.

Generating funds through transaction fees was considered through a similar process to the cashback facility offered by some credit cards. Every time a card is used, a fee is paid by the merchant to the card provider. The card provider is at liberty (within limits) to set this fee at whatever level they feel is appropriate to cover the costs of the scheme (including the risk of fraud) while still ensuring widespread merchant acceptance. For example, American Express charge a high transaction fee, and this has made merchants reluctant to accept the card especially for low value transactions.

It would be possible to establish a service that generated such fees, of which a proportion would be passed back to the council. The amounts involved would be subject to commercial negotiation with the card provider. Discussions with potential providers suggest that this would not be possible for the limited pilot, but may be possible for a wider roll-out, depending on transaction value and volumes.

## **Appendix 2: Risk management for money-laundering abuse**

Some potential providers of pre-paid services have indicated a reluctance to offer top-up facilities managed by the cardholder to avoid money laundering risks. The issues associated with this led the council to propose separate pilots, effectively outsourcing these risks.

However, if it had pursued a single card with cardholder-top-up these risks would have been retained. Some of these risks could be mitigated by H&F as follows:

1. H&F implementing **identification procedures** when setting up a pre-payment card for an individual:
  - a. The officer will identify the “customer” and verify their identity on the basis of documents, data, or information obtained from an independent and reliable source, identifying the beneficial owner if there is one (this could arise where a customer dies or where the customer is incapable of managing their own affairs) and obtaining information on the purpose and nature of the business relationship.
  - b. H&F will ask the card-holder to identify in writing any other individuals who will be allowed to top up or use the card. H&F will then conduct similar identity checks on them.
  - c. Identity checks will be based on the standard 2+2 (2 forms of proving name & address).
  - d. Children leaving care and recipients of adult social care payments will be known to social workers or care services managers. For these cases, the cards will be handed out to the new holders personally and Council staff who know them will confirm their identity in person.
2. H&F **restricting the use of the card in Ts & Cs**: the terms and conditions attached to the card will require the cardholder to guarantee that nobody apart from individuals authorised by the Council after ID checks (such as carers, home help etc.) would be allowed to use the card, and not to release their pin number. The terms will provide that the card will be stopped if they are found to breach that condition.
3. for the duration of the pilot, H&F **limiting the top-up** in two ways:



- a. the highest value that can be loaded at any one time will be limited to £100 at a time and £400 in a month: this does not offer any statutory protection to the Council, but it makes it a tedious method of money laundering.
  - b. H&F will provide the top-up facility only from bank accounts<sup>9</sup>. The card-holder's bank account should be acceptable as their identity has been checked by the Council, and other bank accounts have been subject to money laundering due diligence checks by the relevant bank, building society or IPS.
4. **H&F requiring the provider to monitor transactions for unusual patterns** – the card provider will be required to undertake monitoring to detect unusual transactions which might give rise to suspicion of money laundering.

However, even after adopting these measures based on legal advice, there would be a residual degree of legal risk because the Council is liable for breaches of the legislation if offences are committed even though it has reasonably relied on due diligence checks and the diligence of the card provider. Any publicity about criminal misuse of the cards will inevitably blame the Council. No credit will be given by the media or disgruntled card-holders for due diligence checks or reliance on the card provider. In terms of money laundering, training and pro-active reporting procedures are vital, but ultimately the Council and its officers face criminal liability for breaches of the Act.

#### **Quality Criteria – for reviewing this document**

- Has the project and its aims been clearly set out?
- Is it clear how the project will benefit the business and how / when these benefits will appear?
- Do the business benefits justify the cost of the project? If not, have other compelling reasons for doing the project been clearly described?
- Are the resources and costs shown sufficient to deliver the project?
- Are the reasons for the project consistent with corporate or programme strategy?
- Have all the main risks (and how they will be managed) been clearly described?

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<sup>9</sup> However, to confine top-ups to bank account holders could disqualify those who do not hold bank accounts and could be indirectly discriminatory. This may be appropriate for a pilot, but would need to be reconsidered for any wider roll-out.