

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

E(80)70  
14 July 1980

COPY NO 55

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

COMPUTERISATION OF PAY AS YOU EARN: PROCUREMENT OF EQUIPMENT  
Memorandum by the Central Policy Review Staff

1. Ministers are faced with a difficult decision. Major Government objectives are involved - on the one hand support for the United Kingdom information technology industry through enlightened public purchasing, and on the other securing an efficient and economically run computerised PAYE system, and substantial resulting manpower savings, with the minimum risk and delay. It is not possible to reconcile these objectives fully.
2. At present, the PAYE system is run by the Inland Revenue largely on a manual basis. Feasibility studies by the Revenue, aided by the CCTA, consultants and external reviewers, have concluded that the system can best be computerised by linking terminals in almost 600 local tax offices through a data communications network to twelve regional computer centres. The total cost of the project is well over £100 million, including all computers, terminals and software. Adding buildings, computer rooms and telecommunications services takes the figure beyond £150 million. About £30 million will be spent on computers and associated equipment (for the regional centres) which are normally regarded as coming within the ICL preference. Terminals and communications equipment costing a similar sum will in any case go to competitive tender. The Revenue's own staff will do much of the programming. The Post Office will provide the communications lines and the PSA the buildings. Computerisation when complete will save about 8,000 Revenue staff (equivalent to about £40 million per year).
3. On the immediate issue, viz. the basis of tender for the £30 million or so computers and associated equipment, the papers from the Chancellor and the Lord President (E(80)68) and the Secretary of State for Industry (E(80)69) present the two courses between which Ministers are invited to choose.

CONFIDENTIAL



CONFIDENTIAL

4. The Secretary of State for Industry argues that the right course is to go ahead now with a single tender to ICL. The Chancellor and Lord President accept that this course would be in line with the new approach on public purchasing endorsed by E earlier this year. They do not dispute that, given time, ICL should be capable of doing the job. And, although ICL's price is likely to be higher than that which would emerge from an open tender, this by itself, given the existing ICL preference, is not decisive. The crucial problem, given ICL's relative inexperience with systems of this type and scale, is the risk of substantial delay before reaching the stage when the project could be launched 'live' with confidence. The CCTA has assessed this risk as one of at least a further year's delay. (This additional risk is distinct from the general risk that a project of this size and complexity may, for a whole variety of reasons and whichever supplier is chosen, not be completed within the original timetable.) Delay would be expensive in terms of postponed manpower savings. It would also further extend the period (already stretching to 1987) during which major changes in the existing PAYE system (as opposed to normal Budgetary changes) will not be possible. If Ministers choose to invite a single tender from ICL, the risk of paying these penalties of additional delay cannot in the CPRS's view be avoided.

5. The alternative course (advocated by the Chancellor and the Lord President) is to go for open tender. This would almost certainly mean the project going to one of the established multinational companies. The Secretary of State for Industry argues in his paper that the damage to ICL in terms of prestige and future business, particularly in export markets, would be very serious.

6. There is no easy solution to this dilemma. The opposing arguments which seem to the CPRS important are set out briefly in the Annex.

7. If it were not for the importance of ensuring that public procurement supports our information technology industry the CPRS would without hesitation recommend open tender. Only if ICL can be reinforced by the best of the United Kingdom information technology industry, on the lines suggested in paragraph 8(a) below, would the CPRS support going to ICL. However, if Ministers believe that open tender is the better course, then in order to minimise damage to our information technology industry, the CPRS recommends an arrangement along the lines set out in 8(b). Either of these suggestions would need to be examined further before it could be adopted. Both recognise

CONFIDENTIAL

CONFIDENTIAL

that UK expertise and capability relevant to a project of this sort are not confined to ICL. ICL is the only UK main frame computer manufacturer, but there are several established and reputable UK owned and based firms whose competence in software, in systems and other computing equipment is in some respects better than ICL. Furthermore, they too have export prospects to enhance. For the 1980s it will be important to sponsor and promote UK competence in information technology generally under a wider definition than the scope of the existing ICL preference.

8.(a) If Ministers were to favour single tender to ICL, the CPRS believes it would be essential, in order to minimise the risks, to require that ICL work closely with one of the leading UK software and system companies (together with the CCTA and the Revenue). Together they would ensure initially that the overall planned system is adapted to make the best use of ICL computers in the Revenue's interests, and subsequently that additional skills are available throughout system development and implementation. ICL has talked of a partnership (with Logica) on these lines. It is important that both the choice of partner, and the methods of working, should be acceptable to Government (as well as to ICL) and give the best results both for the Revenue and the UK information technology industry. We recommend that CCTA be invited to consider how this could best be achieved.

(b) If Ministers were to favour open tender, the CPRS believes it might be possible to mitigate the undoubted industrial damage if UK software and systems companies could participate in the design and development work, or even in the management of the project. We recommend that CCTA be invited to consider how this might be achieved, e.g. by making such participation a mandatory requirement for a bid by a multinational computer manufacturer seeking the prime contract, or by making it explicit that in evaluating bids considerable weight would be given to the benefits to the UK information technology industry.

9. It will also be important to ensure that neither ICL under single tender, nor the successful company under open tender, limit (e.g. through the design of the system) the opportunities for UK suppliers to compete effectively for the subsequent valuable contracts for terminals and network hardware and software. CCTA should be asked to consider whether any special safeguards in the tender are required for this purpose.

CONFIDENTIAL



CONFIDENTIAL

Conclusion

10. Our preference would be for a final decision to be deferred for two or three weeks so that the possibilities under paragraph 8 above can be further considered by CCTA, in consultation with the Revenue and the Department of Industry. If, however, Ministers decide now between single or open tender, we still believe that the relevant possibility put forward in paragraph 8 should be explored. In any case the suggestion in paragraph should be considered.

Cabinet Office

14 July 1980

CONFIDENTIAL

CONFIDENTIAL

ANNEX

The Main Arguments

The case for single tender to ICL

Industrial policy:

ICL's prestige, and future business, particularly exports, will be damaged unless they get the job.

ICL's success with big projects requires big project experience. No other country with such IT capability (viz. USA, France, Germany or Japan) would now place such a Government contract abroad.

Opportunities to support our IT industry in this way will be constrained from 1 January 1981 by the EEC Supplies Directive and the new GATT procurement code.

Risk assessment:

There is a risk of additional delay with ICL but this must be assessed against the likelihood of some delays whoever supplies a project of this complexity.

It is accepted that given time ICL can do the job.

Political repercussions:

ICL is seen as the national company and the Government will be criticised if it does not support it.

The case for open tender

Risk assessment:

The project is more likely to be successfully completed on schedule.

Each year's delay costs £40 million in postponed staff savings (8,000 staff).

Price:

Open tender will bring out the lowest acceptable bid.

Industrial policy:

Some foreign suppliers could add more UK value than ICL, and/or provide more opportunity for other members of UK IT industry.

ICL has not been notably successful in exploiting its preference hitherto, and its potential export benefits from this order may be overstated.

CONFIDENTIAL



CONFIDENTIAL

Political repercussions:

If major project problems were to arise, then adverse criticism  
(for not going to ICL) would be severe.

Moratorium on major tax changes is likely to be shorter.

CONFIDENTIAL

- 7
- 74
- 76
- 78
- 80
- 82
- 84
- 86
- 88