E(80)123
31 October 1980 COPY NO. 55

CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

COMPUTERISATION OF PAY AS YOU EARN : REVISED APPROACH

Memorandum by the Chancellor of the Exchequer

At E(80)31 I was asked to arrange for the Inland Revenue to consider, in consultation with the CCTA and DOI, how best to meet the Department's requirement for computerisation with a less centralised and complex system than originally proposed; and to report the results in time for a decision to be taken by the end of this year. Officials have been working on the assumption that the intention was to give the contract to ICL, and that the revised system would therefore have to be one which ICL was competent to provide.

2. The PAYE team has now devised a scheme on these lines. I still have serious reservations, on the grounds of cost and the risk of delay if the development of ICL's hardware and software do not come up to the company's current expectation: past experience suggests that they will not. The Lord President's paper (E(80)124) will deal with this area in more detail. Colleagues will want to consider these matters carefully because the cost of supporting ICL in this way is not only an immediate higher cash outlay, but may also emerge in the form of a sub-standard tax system for some years to come. But the essential difference between the revised scheme and the original proposal is that it is probably within ICL's technical competence, which the original one was not. The Lord President's paper will also consider whether it will be possible to

avoid the EC/GATT pitfalls through a single tender arrangement for the revised scheme by the end of this year, while still protecting the Government against an open-ended commitment to the company.

The Revised Approach

3. The main technical area of concern over ICL's ability to meet the original requirement in full related to the company's capacity to process the work of the PAYE system through the local office terminals and at the same time to provide an inter-regional communications network through direct machine to machine communication. If this communications network aspect was cut out and left for implementation at a later stage (if and when ICL had proved its ability to cope with it) that would deal with the main worries about performance and delivery dates - as distinct from worries about price and operating cost.

4. The revised plan therefore splits the project into two distinct phases. Under Phase 1, the various computer configurations would each deal with a small number of tax offices - say 12-15 - and would stand alone, even if some of them were housed in the same building. The work of PAYE (coding, assessing, repayments) would be introduced gradually. The proposal involves the establishment of a National Tracing Centre or central communications point to which each computer centre would be connected through a simple "off-line" link not involving direct communication between the computers. (The original proposals did not call for a national index, but with no inter-regional network, a tracing mechanism of this kind will be essential.) Phase 2 would provide the full communications network.

Viability of the revised approach

5. The new approach would give more confidence that ICL could handle the workload satisfactorily, although the company's proposals look expensive compared with those of its competitors, as the Lord President's paper will make clear. Leaving cost to one side, however, under the revised approach most of the PAYE functions would be left intact (together with the bulk of staff savings estimated to accrue from automating them. We estimate gross staff savings of

some 7,500 should accrue from this first phase, compared with 8,400 under the original proposals.) In present circumstances, the loss of potential staff savings of nearly 1,000 cannot lightly be brushed aside. But in addition to this, the operation of the PAYE system would be a more cumbersome affair with more need for manual intervention under the revised system than that originally proposed.

6. Assuming single tender to ICL, we estimate that the total cost of the first phase of the revised project at 1980 prices, between now and the end of 1987, if we can complete by then, would be of the order of £m175 to £m180:

	£m
Hardware and software, computers, terminals and other equipment, maintenance and software hire charges	97
Accommodation and associated costs	37
Staff, including external support	45

Over the same period, we can expect savings of some £m41 (excluding accommodation savings). Once Phase 1 is fully implemented, the annual savings would reach £m46 (at 1980 staff costs). I conclude that the project remains viable and worth pursuing under the revised approach.

Centralisation

7. The pros and cons of moving from 12 computer centres to a larger number of sites have been carefully considered. It has been possible to reduce the complexity of the process by cutting out the requirement for one computer to talk directly to another but merely increasing the number of sites does not of itself reduce technical complexity. There would in theory be some marginal gain in reduced vulnerability, but this is more apparent than real. Firstly, the proposed 12 computer centres would not involve large concentrations of staff: each centre would have no more than 60 staff operating two shifts. Secondly, the PAYE process is not the real risk in terms of disruption: the vulnerable point of the tax system is the

collection process, which is already computerised in two national centres. And thirdly, to increase the number of sites from 12 to no more than 20 would add some £m15 to the cost, as well as adding significantly to the time required for securing sites and buildings. I conclude that increasing the number of sites is neither necessary nor cost-effective.

Conclusion

8. There are still important reservations about a commitment to ICL under single tender. The Lord President's paper will deal with contractual arrangements and comparative costs while my letter of 28 October to the Secretary of State for Employment sets out the concern I still feel over the potential difficulty and delay in implementing the project in conjunction with ICL. Those potential difficulties are important ones and, in the light of the company's track record so far, seem more likely than not to materialise. Once we have announced the intention of proceeding by single tender, our control over the company in relation to price and performance must become weaker, whatever safeguards we try to build in by way of demonstrations or monitoring arrangements or options. I do not say that on the downgraded basis now proposed ICL will not be able to meet the requirement after a fashion. But the system they will provide will clearly be technically inferior to what could be obtained on open tender and will cost a great deal more. Speaking in my departmental capacity, I could not recommend that we should go ahead on such a basis. If therefore a decision is taken to go to ICL on single tender, it will need to be defended on the broader grounds of industrial policy.

G.H.

H.M. Treasury
31 October 1980