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PRIME MINISTER

Pay as you Earn Computers  
(E(80) 68, 69 and 70)

BACKGROUND

The Inland Revenue's present largely manual PAYE system is to be replaced by a computer system by April 1987. Under the present computer procurement policy, which operates only to the end of this year, £30 million of computers and associated equipment could be procured by single tender from ICL provided that they could give satisfactory assurances on time, quality and price. The total cost of the project, including terminals and software and buildings, is in the order of £150 million.

2. In their memorandum E(80) 68, the Chancellor of the Exchequer and the Lord President of the Council say that they are not persuaded that ICL can give the assurances necessary to justify single tender. Their judgment is based on technical advice from the Inland Revenue, assisted by consultants, and the Civil Service Department's Central Computer and Telecommunications Agency (CCTA). They argue that ICL, in contrast to the multi-nationals, are offering an unproven system. This could well lead to delays, at a cost of £40 million a year mainly because of deferred staff savings. Major changes in tax policy could be held up; and 1 million employers and 27 million employees affected if there were major problems with the new system. They reluctantly recommend open tender and point out that some of the multi-nationals have substantial manufacturing capacity in the United Kingdom.

3. In E(80) 69, the Secretary of State for Industry argues forcefully for going to ICL by single tender; and he attaches the letter of 4th July to you from the Chairman of ICL. The Secretary of State is persuaded that ICL could deal with the risks. He points out that if they were not to get this contract there would be considerable damage to their international standing and their future prospects from, effectively, a vote of no confidence in them by Her Majesty's Government. He further points out that an adverse decision could call in question the credibility of the Government's new public purchasing policy.

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4. The CPRS' paper, E(80) 70, offers a summary of the arguments on either side, with a useful tabulation in the Annex. They suggest some further points which might be pursued before a final decision is taken, namely:-

- (i) if single tender were approved, ICL should be required to work closely with one of the leading United Kingdom software and system companies (such as Logica) with a view to getting the best results both for the Revenue and the United Kingdom information technology industry (their paragraph 8(a));
- (ii) if the decision were for open tender, the industrial damage might be mitigated if arrangements were made for United Kingdom software and systems companies to participate in the design and development work, or even in the management of the project (paragraph 8(b));
- (iii) either way, the terms of the tender should ensure that the lead company could not limit the opportunity for United Kingdom suppliers to compete effectively for the subsequent contracts for terminals, and network, hardware and software.

HANDLING

5. The Chancellor of the Exchequer and the Lord President, the Secretary of State for Industry and Mr. Ibbs will each wish to speak to their papers. Other Ministers will then wish to comment on the alternatives and to put questions.

6. I understand that you will not wish to reach a final decision at this meeting. The discussion might therefore centre on commissioning the further work which may be necessary before a final decision can be taken. I suggest that, in view of the considerable Parliamentary and Press interest generated by this project and of the need to make progress with the contract, you might aim to take decisions in time for a statement before the Recess. This points to further discussion by E in the week beginning 28th July. The further points which Ministers might wish to explore are:-

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(i) What are the employment consequences of the alternatives?

I understand that the direct employment consequences are relatively insignificant since the computer orders would be spread over a number of years. However, the Secretary of State for Industry can advise colleagues on this; and he will no doubt want to stress that it is the indirect and longer term consequences of losing this order which matter for ICL. Even so, if the decision were for open tender, the Committee may well wish to insist that the company concerned should manufacture as much as possible in the United Kingdom.

(ii) What further conditions should there be if there is to be single tender to ICL?

Here Ministers will wish to consider the CPRS' proposal, in paragraph 8(a) of their paper, that one of the leading United Kingdom software and system companies should be involved. You might also question to what extent the contract would provide for penalties on ICL if they were to be responsible for delays.

(iii) What should be the conditions if Ministers were to favour open tender?

The Committee will wish to consider the points in paragraphs 8(b) and 9 of the CPRS paper on the participation of United Kingdom software and systems companies and on the scope for ensuring that the successful company (whether ICL or a multi-national) would give opportunities for United Kingdom suppliers to compete effectively for subsequent contracts for ancillary equipment.

CONCLUSIONS

7. On the assumption that the Committee will not reach a final decision, you will wish to invite the Lord President of the Council to arrange for officials of the Central Computer and Telecommunications Agency, in consultation with the Department of Industry, the Inland Revenue and the CPRS, to report further on:-

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- (i) the proposals in paragraphs 8(a) and (b) and 9 of the CPRS paper (E(80) 70);
- (ii) any further questions raised in discussion; and in time for discussion by E in the week beginning 28th July with a view to a statement before the Recess.

RA

(Robert Armstrong)

15th July 1980

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