

Ref. A02830

PRIME MINISTER

Computerisation of Pay As You Earn

(E(80) 85 and 90)

BACKGROUND

The Lord President of the Council was asked at the meeting of E on 16th July to arrange for the Central Computer and Telecommunications Agency (CCTA) to prepare a further technical assessment of ICL's proposals; and to consider the possibility of commissioning an urgent independent assessment (E(80) 25th Meeting, Item 2).

2. The technical assessment is annexed to the Lord President's paper, E(80) 85. He advises against commissioning an independent assessment. This would take several months to complete. The probable outcome is that it would confirm the CCTA's view that a firm judgment on the feasibility of ICL's proposals cannot be formed until well into 1981 when they will have completed further work.

3. Subject to the outcome of further work and demonstrations by ICL over the next year, the Lord President concludes that they "can probably just about do the job". But:-

(i) The Inland Revenue would probably have considerable teething problems and might have to accept a solution which did not meet their full requirements.

(ii) ICL would probably take at least a year longer than would other manufacturers; and although the CCTA have not had the same detailed discussions with the latter, they believe that a number of them are likely to be able to meet the requirement in full with proven products.

(iii) (A new point): ICL have revised their cost estimates from £33.5 million to £42.5 million and this is likely to be at least £10 million higher than IBM and others.

4. If ICL were chosen the Lord President advises that:-

(i) There should be no commitment under the contract until they have demonstrated the feasibility of this system, in about September 1981.

(ii) A consortium with Logica would be desirable but that would not avoid the delays or do much to reduce the problems as currently foreseen.

5. The overall project control could probably be given to a British consultancy or systems company. This would be a boost to the company concerned but would probably increase only marginally the United Kingdom content of the project. (See 9.2 of the technical assessment.) It could be a stipulation of open tender that all suppliers had to include a minimum British content; but the effect of this will be limited if the chosen manufacturer understandably wants to use proven products.

6. The CPRS's memorandum (E(80) 90) covers a useful checklist of the arguments for and against a single tender. They agree that there is no point in commissioning further detailed work, and they recommend that a decision should be reached now.

7. In his letter of 5th August to the Lord President, the Secretary of State for Industry continues to press his case for ICL. He acknowledges that there might be extra risks and costs in going for them, but he argues that these should be accepted as implicit in the Government's public purchasing policy for supporting United Kingdom firms. He accepts that any decision in favour of ICL should be conditional pending their further demonstration in the middle of 1981. He believes that ICL, together with Logica, could provide a satisfactory solution. In his paragraph 7 he questions the price differential that has now been quoted and suggests that this results from tactical moves by IBM and the other multinationals.

8. The pressure that ICL has been putting on Ministers means that their own activities have raised the stakes: it is more difficult for the Government not to award the contract to ICL, because the decision has in effect been turned into an issue of confidence. But Ministers have to weigh in the balance against that consideration not only the operational and financial risks and penalties of choosing ICL, but also the potential damage to the commercial reputation of ICL and the British software industry which would result from what would no doubt be well-publicised inadequacies of performance by an ICL system.

HANDLING

9. After the Lord President has introduced his paper the Chancellor of the Exchequer and the Secretary of State for Industry will each want to comment.

10. In discussion you will wish to cover the following main questions:-

- (i) Should a decision be taken now or deferred either to allow for an independent assessment or for further talks with ICL? In view of the Lord President's advice the Committee may feel that an independent assessment would take too long and would serve no useful purpose.
- (ii) If a decision is to be taken now, should it be for ICL or for open tender?
- (iii) If it is for ICL, what conditions should be imposed? The main proposals are that the order should not be finally confirmed until 1981 when ICL have satisfactorily demonstrated their proposals; and that Logica should be involved. You might ask what provision would there be in the contract for cost penalties on ICL related to additional costs to the Inland Revenue attributable to the ICL part of the system.
- (iv) If the decision is for open tender, what conditions should there be? The main proposals are that the project should be managed by a British systems or consultancy company; and that, in so far as it is practicable, there should be conditions in the contract for a minimum British content.
- (v) What should be the terms and timing of the announcement? In view of the intense Press and Parliamentary interest in this the Committee will presumably wish any decision to be announced before the Recess. As the Chancellor of the Exchequer is the Minister responsible for the customer Department it is presumably for him to make it, but that is a point which the Committee will wish to decide specifically. If the decision is for open tender the announcement will have to be in terms which minimises the damage to ICL's reputation. This will require some care in drafting in order to strike the right balance between explaining why the Government has taken a decision which will be unpalatable to many and not knocking ICL too hard. 1

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CONCLUSIONS

11. In the light of the discussion you will wish to record conclusions:-

either

(i) commissioning an independent study, or other further work,

or

(ii) deciding between ICL and open tender, and noting the conditions attached to either course,

and

(iii) on who should make the announcement, when, and in what terms.

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ROBERT ARMSTRONG

6th August, 1980

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