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Qa 05172

To: MR LANKESTER

From: J R IBBS

Computerisation of PAYE

1. The revised scheme set out in the Chancellor's paper (E(80)123) is undoubtedly much less risky for an ICL contract than the previous scheme. The CCTA assessment (attached as Annex A to the Lord President's paper E(80)124) supports the view that the project, as revised, is within ICL's technical competence. Because of the more gradual take-on of work and functions, it is probably in any case, regardless of supplier, to be preferred to the earlier scheme.
2. Even with this scheme ICL is likely to cost more than the lowest acceptable tender made in open competition, but one should not put too much weight on the estimated differences between ICL's and alternative suppliers' prices (Annex B of E(80)124). In the absence of a formal open tender they cannot be established with certainty. Once it is decided that ICL should have the contract the important thing is to get the best possible deal from them.
3. There are difficulties in concluding a contract by the end of the year. But these should be surmountable. The pressures on ICL in the negotiations, if the Government plays its hand properly and does not let ICL regard the contract as a certainty, should be no less, and arguably greater, than those on the Government.
4. Moreover, the fact that a contract with ICL has to be signed by the end of the year does not mean that effective checks and disciplines cannot be exercised subsequently. These should include:
  - (a) Making it clear to ICL (both in the contract and otherwise) that a change of supplier would be considered if it were to fail to prove its competence either at the 1981 demonstration of performance, or

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during the initial contract (worth around £2 million) for the test centre and "vanguard" region, or at any time during the subsequent extension of the system (when other manufacturers' terminal and peripheral equipment may in any case be used).

← (b) Requiring ICL to design and build the system to international standards; this would simplify the substitution of another manufacturer's hardware and software for ICL's making it possible to convert at a cost which, when added to another supplier's equipment price, could still be below that charged by ICL to finish the job.

← (c) Ensuring that an experienced and competent software house is effectively included in the development team to supplement ICL's and the Revenue's own resources.

5. We understand that the Revenue and CCTA intend to provide checks on these lines. It is important that they should be effective. If so, they should go a long way to protect the Government's interests and to avert the risk that ICL, having secured the project, might be tempted to exploit its favoured position, e.g. by increasing prices unreasonably or by diverting its most capable people away from the project.

6. I am sending a copy of this minute to Sir Robert Armstrong.

*SRJ*

4 November 1980