

EX(80)69
14 July 1980

COPY NO 55

CABINET
MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

ICL - PAYE COMPUTERISATION

Memorandum by the Secretary of State for Industry

1 I draw the attention of colleagues to the attached letters from myself to the Chancellor of the Exchequer and from the Chairman of ICL to the Prime Minister about the procurement of computer equipment for the Inland Revenue's PAYE system.

2 These letters contain the essence of the case for award of the contract to ICL by single tender action under the Government's stated procurement policy. The industrial policy arguments are in my view decisive. The technical arguments turn on the greater current experience of the multinationals and on the judgement reached by the Central Computer Telecommunications Agency (CCTA) about the risk of delay if ICL undertake the task. But no one is suggesting that ICL will be unable to provide an adequate system to computerise PAYE. ICL have made commendable progress with their developments of late; they have narrowed the gap in technical confidence even in the last few weeks; and the remaining doubts about possible delay must be seen, in the context of the project as a whole, as conjectural. We must set aside this residual element of risk the benefits to the UK computer industry from our going ahead with ICL and the damage if we fail to show the necessary resolve at this critical time.

3 In these terms the case for going to ICL by single tender seem overwhelming. I am convinced that there is total commitment in ICL from top management down to making the project succeed. I would only emphasise to the Committee the magnitude of a decision not to go to ICL; as ICL's Chairman says in his letter, an open tender decision would be a public expression of lack of confidence in the national computer industry and would have very serious consequences.

4 There are three points I would add to the attached letters:

- (a) ICL estimate that a decision against them would directly put at risk £300 million of business worldwide from applications similar to the PAYE one, which is a potentially huge future market. In addition there will be at least equal damage to prospects for a wide range of other business in ICL and other parts of the UK

/computer ... 264

70

7

74

76

78

80

82

84

86

88

CONFIDENTIAL

2

computer industry. This would not be mitigated by award of the contract to one of the multinationals which manufacture in the UK.

- (b) The seriousness and credibility of our recently launched public purchasing policy would be questioned throughout the public sector by an open tender decision on such a major project. The PAYE project is precisely the kind of demanding Government requirement where 'E' Committee agreed public purchasing should be used to improve our industrial prospects. It is because the US multinationals (to one of whom the contract would otherwise go) have felt the benefit of two decades of such preference in their home market that they are frequently able to demonstrate a capability before any European company in the computing and other fields.
- (c) In last Friday's debate on information technology the view was strongly and consistently expressed on both sides of the House that the award of this contract should go to ICL.

K J

Department of Industry
Ashdown House
123 Victoria Street

14 July 1980

CONFIDENTIAL

CONFIDENTIAL

ICL Limited ICL House Putney London SW15 1SW

Telephone 01-788 7272 Telex 22971

ANNEX A

The Rt. Hon. Margaret Thatcher MP.,
Prime Minister,
10, Downing Street,
London, SW1.

4th July 1980

Dear Prime Minister

The forthcoming Inland Revenue PAYE Computer Project is a procurement of critical importance to both ICL and the British computer industry.

The current procurement policy is designed to help strengthen the British computer industry to compete effectively against the dominant U.S. suppliers, who already hold a 70% share of the world market, and 85% of the EEC market.

A successful partnership exists between ICL and Her Majesty's Government. It has been reflected in the availability of development support through the mid 1970's, and the procurement policy for this high technological industry. It demonstrates that backing commercial winners by enlightened procurement does work. ICL's management over the years has responded to this opportunity and the U.K. now has a significant presence in the world computer industry. This national asset compares favourably with the German and French industries which with much greater support have done less well.

We have now had the opportunity of meeting your Ministers who are currently deciding whether to proceed to single tender with ICL for the PAYE Project, or to authorise open tendering when bids would also be invited from U.S. suppliers. If this happens it will, in our view, be seen as a public expression of Her Majesty's Government's lack of confidence in the national computer industry.

There can be no call for such a lack of confidence. I can assure you that ICL has the human skills and the technology to carry out the job successfully. ICL's management is totally committed to that success.

The PAYE Project is attracting widespread attention and comment in Parliament, the computer industry, and the international press. Speculation that the order may go to open tender and not to ICL under the terms of the present Government procurement policy is also arousing concern in the City.

ICL's 1979 positive contribution to the balance of payments of £53 millions helped to contain the current annual deficit of nearly £200M created by those U.S. suppliers who might expect to bid against ICL for this Project.

E P Chappell CBE
Chairman

Registered office ICL House Putney London SW15 1SW Registered in England no 142200

CONFIDENTIAL

265

70

7

74

76

78

80

82

84

86

88

CONFIDENTIAL

- 2 -

Should the PAYE order go to open tender, then irrespective of the outcome, ICL's competitive position at home and especially overseas would undoubtedly be damaged as well as that of the other British software and communication equipment companies who would be working on the project with us. The wider strategic implications of this order go beyond just the interests of ICL.

On the other hand, the award of this highly important order to ICL will be seen everywhere as a signal mark of your Administration's confidence in British industry, and in my Company.

I believe ICL deserves and has earned the full support of Her Majesty's Government as a British company which by any standard is demonstrating success and Britain's will to win, despite severe competition and present economic uncertainties. Your approval for Her Majesty's Government to proceed to single tender with ICL under the terms of the current U.K. procurement policy is therefore strongly urged.

ICL can meet the requirements of Inland Revenue, and the charge to do so will be undertaken with dedication and the full resources of my Company.

This is such an important national issue that I would request the opportunity of visiting you with Dr. C.M. Wilson, our Group Managing Director, to secure your support.

Yours sincerely,

Philip Chappell

E.P. Chappell
Chairman

CONFIDENTIAL

CONFIDENTIAL

ANNEX B

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 2301
SWITCHEBOARD 01-212 7076

11 July 1980

Secretary of State for Industry

Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers SW1

Jan Geoffrey

ICL AND PAYE COMPUTERISATION

1 I should like to enter this postscript to last Thursday's meeting.

2 No-one is suggesting that ICL will be unable to provide an adequate system to support PAYE. The concern is over delay. But whether, and if so to what extent, selection of ICL as opposed to another manufacturer will increase the risk of delay is a matter of conjecture, not certainty. In this connection I understand that the CCTA have pointed out that the main risk of delay to the overall programme (which is not scheduled for completion until 1987 at the earliest) will lie in the work for which the Inland Revenue is responsible - and not to possible delay attributable to ICL in the very early stages of the project.

3 What is certainty, not conjecture, is that the loss of this major contract (coming so soon after the decision on the CAA radar) will strike a further extremely damaging blow at the UK's electronics industry which hitherto has been one of our success stories. This is not simply a question of jobs or loss of morale among the skilled workforce of ICL - or even of a reduction in immediate earnings. It puts at serious risk what is generally acknowledged (even within the industry itself) to be the key component in the UK's indigenous computer industry: ICL has production plants and software design facilities ranking with any in the world in terms of equipment, skills and quality of product.

4 I recognise of course that the Inland Revenue have not had an altogether happy experience with ICL in the past and that they have an understandable concern to reduce as far as possible the risks and problems which are inherent in any major computer project. However the fact remains that ICL's new products have

/stabilised ...

266

CONFIDENTIAL

70

7

74

76

78

80

82

84

86

88

CONFIDENTIAL

2

stabilised significantly, and its general performance significantly improved, over recent months. This process will continue throughout the quite considerable period which remains before the first equipment is required next year. In this situation I am convinced that a decision not to award the contract to ICL will generate vociferous criticism of a kind which we will not effectively be able to rebut by pointing to possible difficulties at a future date.

5 My conclusion is this: the choice is between a possible increase in additional risk if we select ICL for this project, and the certainty of severe damage to ICL if we try to protect ourselves from this potential risk.

6 I am copying this letter to the Prime Minister and to Paul Channon.

*Eric C...
Kerr*

CONFIDENTIAL

70

7

74

76

78

80

82

84

86

88