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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

COMPUTERISATION OF PAY AS YOU EARN: PROCUREMENT OF EQUIPMENT

Memorandum by the Chancellor of the Exchequer and the Lord President of the Council

The Issue

1. We are going ahead with computerisation of the Pay As You Earn (PAYE) system. This has been under examination for more than a decade by successive Governments. We are satisfied that the present proposals represent a worthwhile investment in terms of the staff savings achievable, are technically feasible, politically necessary and should proceed with maximum speed. The issue we now face is the basis on which the computers, and some directly associated equipment, should be procured for this large and important project.
2. The choice is between:-
  - (i) single tender to International Computers Limited (ICL); and
  - (ii) competitive tender, open to all.

For the reasons given below we are satisfied that, notwithstanding the significance of the decision for ICL, open tender is essential in this case.

Background

3. PAYE is administered by the Inland Revenue largely on a manual basis. The Revenue, assisted by a team of consultants and in conjunction with the Central Computer and Telecommunications Agency (CCTA), have completed a detailed feasibility study of an on-line computerised system, linking staff in 580 or so local tax offices to 12 regional processing centres. We have accepted this recommended system, and authorised its implementation.

4. Computerisation will:-

- (i) save about 8,000 staff in the Inland Revenue;

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- (ii) yield a satisfactory rate of return;
- (iii) increase the effectiveness of the tax administration, and improve the service for taxpayers;
- (iv) allow more flexibility in tax policy by opening the way to changes excluded whilst PAYE is largely operated on a manual basis.

5. About £30m of the total cost of the project relates to computers and equipment normally regarded as coming within the present ICL preference. A further, broadly similar amount of terminal and communications equipment will, even under present policy, be purchased by competitive tender, in which UK manufacturers are expected to have a good chance of success.

Method of Procurement

6. We have just settled our new approach on public purchasing. Our policy is not to favour domestic manufacture as such, but to develop relationships between public purchasers and suppliers of such a kind as are likely to encourage the economic development of products with good market prospects and so provide value for money not just for a one-off order but on an on-going basis. From the point of view of this policy, which is not new but has recently been restated as part of our new approach, we should very much like to see the order going to ICL.

7. The Inland Revenue and CCTA have engaged in detailed discussions with a wide range of manufacturers. The conclusions we have reached from these discussions, in which ICL have been given preferential treatment, are as follows:-

- (a) Some half dozen multinational companies would offer proven systems in which we could have high confidence. Some of these have substantial manufacturing capacity in the UK.
- (b) Serious reservations exist about ICL's ability to meet the technical requirements without serious risk of at least a year's delay at the systems design and testing stage (with a consequent delay in implementation) and the likelihood of an operationally unattractive system.

8. In ICL's case the main computers and some of the software required for on-line working are still under development and there is likely to be some delay before ICL can offer the demonstration of the basic feasibility of their system next year which is a requirement of the tendering process; but the main risk stems from ICL's inexperience of large systems involving a lot of terminals (which have initially caused all companies significant problems in development) and that is likely to result in delayed implementation.

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It is also possible that the system will not be up to the job and the attempts to remedy this could involve added complexity and low reliability resulting in a poor service to local tax offices. Experience with other projects shows that these risks are extremely serious for a project of this size and importance.

9. We are, therefore, faced with an unwelcome choice. On the one hand, we should naturally prefer to see this prestigious Government project in the hands of our major British computer company. However, we have had to balance this desire, and the potential harm to ICL's international reputation by a decision to secure the equipment other than by single tender, against the very serious risks involved in committing the PAYE project to untried equipment and a system which at present commands an insufficient degree of confidence, and which carries a high probability of delay to completion of the project. These risks are considerable:

(a) The target completion date for this large project is April 1987 for the full nationwide system; any further delay will cost over £40m a year in deferred staff savings and increased implementation costs.

(b) During implementation, and particularly during detailed systems design and testing between 1982 and 1984 (when the pilot region goes live) we shall face some constraint on making significant changes in the personal tax system: any further delay in this early crucial period would be serious.

(c) We cannot, above all, take any unnecessary risks in computerising the system on which the collection of the largest single component of the Government's income depends. The transition to computer working must proceed smoothly, with 27 million employees and a million employers affected; and we must be confident the new system will operate efficiently from the start.

10. We have concluded, with great reluctance, that the technical risks of proceeding by way of single tender to ICL are unacceptable for a project of this size and importance. Despite intensive discussions with ICL, our considered judgement remains of a significant risk that we should face a combination of delayed implementation, additional cost and a longer period of constraint to make other tax changes than if the project proceeded with a tried and tested system. Competitive tender offers the prospect of a choice of more proven systems, while leaving open the possibility that a significant part of the equipment will be manufactured in the United Kingdom. It does not exclude the possibility of a successful tender by ICL though the arguments which we regard as decisive against single tender must make it very unlikely that ICL would prove successful in competitive tender.

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the equipment in terms of this could involve either complexity and the  
possibility of a poor service to local tax offices.  
The evidence which other projects shows that these risks are extremely  
high for a project of this size and importance.  
It is also, therefore, faced with an extremely high risk of the  
kind to which naturally greater to see this project's completion.  
The fact that the major British computer company, ICL, has  
been asked to bid for this project, and the fact that ICL's  
reputation is such that a decision to award the contract to  
them would be a decision to award the contract to a company  
of high repute, against the very serious risks involved in  
starting the PAYE project to install equipment and a system which  
involves a high probability of delay in completion of the project.  
The risks are considerable.

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Recommendation

11. We invite the Committee to agree that the equipment required for computerising PAYE should be secured by open competitive tender.

HM Treasury  
11 July 1980

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