

PREM 19/2946

~~SECRET~~

Confidential Filing

The Inland Revenue's proposed PAYE
Computer Project.

ECONOMIC
POLICY

ICL

PE 1: DECEMBER 1979

PE 3: APRIL 1984

| Referred to | Date | Referred to | Date | Referred to | Date | Referred to | Date |
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PREM 19/2946

Cabinet / Cabinet Committee Document

The following document, which was enclosed on this file, has been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES.

Reference: CC (84) 28th Conclusions, Minute 4

Date: 26 July 1984

Signed W Dayland Date 10 November 2016

PREM Records Team

ar/ICL.dgg
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FILE

SECRET
COMMERCIAL IN CONFIDENCE MARKET SENSITIVE



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

30 April 1990

ICL AND FUJITSU

The Prime Minister has noted without comment your Secretary of State's minute of 26 March on ICL and Fujitsu, and the Chancellor's views as set out in his minute of 29 March.

I am copying this letter to John Gieve (H.M. Treasury), Simon Webb (Ministry of Defence) and Sir Robin Butler.

Charles Powell

Martin Stanley, Esq.,
Department of Trade and Industry.

SECRET
COMMERCIAL IN CONFIDENCE MARKET SENSITIVE



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

MO 26/8/2S

TELEPHONE 01-218 9000
DIRECT DIALING 01-218 2111/3

2nd April 1990

wbl
Per 6
dx

Dear Nick,

Prof.
Thank you for sight of your minute of 26th March to the Prime Minister concerning the possible acquisition by Fujitsu of a 60% stake in ICL.

Provided that the proposals continue to exclude ICL Defence Systems the MOD's security concerns are adequately met and I am content with the line you propose.

I am copying this minute to the Prime Minister, the Chancellor of the Exchequer and to Sir Robin Butler.

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Tom King

The Rt Hon Nicholas Ridley MP

JAPAN: Watan 179





Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

PRIME MINISTER

Handwritten notes:
 Zin
 CBN
 29/3
 [Signature]

ICL AND FUJITSU

Nicholas Ridley copied to me his minute to you of 26 March, and invited the Treasury's views on the implications for the Government as a major purchaser of IT systems.

2. Our policy on mergers is that they should be primarily assessed on their effect on competition. In this case it does not appear that there are significant competition concerns. The market is currently very competitive; because of the existing agreement between the two companies, direct competition between them is not strong and so the proposed merger appears unlikely significantly to diminish competition.

3. As regards other issues of public interest, there is the question of security of supply and future development of systems. A number of major Government IT systems are built around ICL products; obviously we wish to ensure that these are not adversely affected. I think it is right therefore, as Nicholas suggests, that in response to Fujitsu, the company's attention should be drawn to the need to consider carefully their stance on future commitments. If they cannot give satisfactory assurances to major customers, confidence will fall and both company and customers could suffer.

b



4. There may be some reaction to ICL passing into foreign hands, but, depending on how STC and Fujitsu present the deal, it should be possible to demonstrate that continued UK ownership was not a realistic option.

5. I recognise that, because of his Fair Trading Act responsibilities, Nicholas needs to tread warily. I am content with the line he proposes that Eric Forth should take, though the possible public reaction will need to be played carefully with Fujitsu. It would be unfortunate if they thought they were being warned off.

6. Copies of this go to the Secretaries of State for Trade and Industry and for Defence, and to Sir Robin Butler.

John Major
pp JOHN MAJOR
29 March 1990

[Approved by the Chancellor of the Exchequer & signed on his behalf]

JAPAN: Relations Pt 9.



CONFIDENTIAL

Prime Minister

SECRET

COMMERCIAL IN CONFIDENCE

MARKET SENSITIVE

PRIME MINISTER

ICL AND FUJITSU

You may like to be aware of this - but await the comments of other colleagues before giving a view.

The electronics company STC is at an advanced stage of negotiation with Fujitsu, of Japan, on the acquisition by the latter of a 50 per cent shareholding in ICL, currently a wholly-owned subsidiary of STC. In this minute I wish to set out the background, and to suggest to colleagues the line we should take if, as I expect, Fujitsu seeks the views of Government on the proposed acquisition before deciding whether or not to proceed with the deal. STC are pressing for a meeting. I would therefore be grateful for any responses by lunchtime on Thursday 29 March.

But part of looks about right to me
CSD
27/3

Background

1 The STC board has wanted for some time to develop some form of international collaboration for ICL. Although ICL is more profitable than any other European computer company (in 1988-89 it contributed £128m of STC's £220m profits) STC considers that ICL's increasingly competitive trading environment compels the company to find a partner for ICL.

2 Left to itself, STC would probably have wanted to conclude an Agreement with Olivetti (the two companies had extensive discussions last year). STC is not, however, the master of ICL's destiny. In 1981, shortly after the Government provided a tapering five year bank guarantee to help the company surmount its trading difficulties, the company entered into a Technology Agreement with Fujitsu, under which the latter currently supplies crucial components for ICL's mainframe computers. Under that



agreement Fujitsu has the right to end the association should a near-controlling shareholding in ICL go to a company of which it disapproves. STC's discussions last summer with Fujitsu revealed considerable antipathy towards Olivetti, and from those discussions emerged the proposal that Fujitsu should become shareholders in ICL.

3 The current proposition is that Fujitsu should acquire 60 per cent of ICL (possibly with some of the remaining 40 per cent being sold to a European company). This proposal was put by STC to Fujitsu. STC not only sees advantage in ICL forming part of a larger group but also would welcome the £600m or so cash it would receive which it would invest in its telecommunications interests.

4 According to STC, Fujitsu will want to seek some assurance, before going ahead with such an arrangement, that the Government did not object to its proposed investmet. Fujitsu itself has not yet sought a meeting, and before I did see either that company or STC I would want to agree with colleagues the approach I should take

Government considerations

5 In my view we should tread warily here. In the first place it would not be appropriate for me, given my Fair Trading Act responsibilities, to give a view one way or the other on a specific proposition. Fujitsu can, however, seek confidential guidance from the Director General of Fair Trading whether he would be likely to advise me to refer the merger to the MMC.

6 There could be competition issues for the Government as a purchaser of IT systems. ICL remains an important supplier to Government Departments, and my Treasury colleagues will wish to consider whether majority foreign ownership of ICL would present such difficulties to purchasing Departments that STC's preferred course should be strongly discouraged on those grounds. We must

assume that Fujitsu would very much want to maintain ICL's customer base, and would therefore provide assurances on future product development. That said, the Treasury will need to contemplate the feasibility of relying, if necessary, on IT suppliers other than ICL. If they have doubts on this score, they would have an opportunity to express their views to the Office of Fair Trading, if Fujitsu decide to take the deal forward. (I might add that ICL Defence Systems would not be included in the Fujitsu arrangements. That company would remain a wholly-owned STC subsidiary, supplying the MoD and related interests.) It does seem to me that the STC Directors are right to want to secure a more powerful base for ICL for the future: there must be a question mark as to how long it will be able to survive on its own.

7 Against this, we have to recognise the likely hostile reaction to a Fujitsu/ICL deal from the media and from Parliamentary quarters e.g the Trade and Industry Select Committee. Whatever the actual marketplace position, ICL is perceived in the media as the "flagship" of the UK's IT effort. Although ICL is owned by STC, which itself proposed the Fujitsu deal, the Government would be blamed for "allowing a Japanese company to wrest control of the UK industry's flagship".

Proposed Line

8 Against this background, I do not consider that the Government should give Fujitsu a "green light" (nor a "red light") in respect of its proposed acquisition of control of ICL. I propose asking Eric Forth (who should see Fujitsu instead of myself in view of my Fair Trading Act responsibilities) to say that:

- 1) the Government welcomes inward investment when it is part of an open international trading system;

- d
- ii) the Department could not comment on a specific Fujitsu/ICL proposition because of my Fair Trading Act responsibilities; but Fujitsu might take advantage of the procedure for securing confidential guidance from the Office of Fair Trading. The guidance would not be binding on my decision but it should help Fujitsu to decide what to do;
- iii) in developing its proposals Fujitsu would need, in its own interest, to take account of two important groups - Government Departments as purchasers of ICL equipment and, quite separately, Parliamentary and media commentators who were bound to be highly critical of the proposal. How Fujitsu dealt with these concerns had to be for the company to determine (and the DTI could not take on an intermediary role). But the nature of Fujitsu's commitment to maintain/expand ICL's R and D, product development, assembly and production facilities in the UK - and, equally important, the development of ICL's European and international business - would be a matter deserving very careful Fujitsu attention.

9 I hope that you and my colleagues are content with this approach.

10 I am copying this minute to the Chancellor of the Exchequer, the Secretary of State for Defence and to Sir Robin Butler.



N R
26 March 1990

DEPARTMENT OF TRADE AND INDUSTRY

JWIAKU



RESTRICTED

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
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PS/ Secretary of State for Trade and Industry

16 August 1985

Mark Addison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

*The Prime Minister
decided not to write
as proposed*

Dear Mark,
ICL

Jr 2/18

I refer to Tony Kuczys' letter to Andrew Turnbull of 6 August and write to say that we fully support the suggestion that the Prime Minister should write to Lord Soames about the success of the "Heineken" project.

2 Besides directly helping the Inland Revenue, the project has important implications for other Government Departments. For instance you will know that E(A) recently agreed a single tender to ICL for the LOP mainframes and the "Heineken" validation work will be useful to DHSS in the implementation of that project.

3 The PM's letter, besides affirming the Government's support for ICL, could also be welcome since the Group is experiencing a difficult time: STC, ICL's parent company, has just announced a half-year loss, and Sir Kenneth Corfield has resigned as Managing Director and Chairman.

4 Not having been involved in drafting, we suggest that the tone of the PM's suggested letter is inadvertently a little grudging (although you must bear in mind we have not seen the exchange of correspondence between the PM and Lord Soames which Tony Kuczys refers to). "Heineken" has already proved a great success for both ICL and the Government Departments involved. We therefore suggest you add a sentence, before the last sentence, after "...as your own." as follows:

"I congratulate all concerned with the success so far of this project, and I am sure Inland Revenue's decision to order the 39 series computers will have

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an important bearing on the deliberation of other Government Departments - and, in turn, I hope, on the markets perception of the new machine".

5 I am copying this letter to Tony Kuczys (HM Treasury) and to Stephen Hickey (DHSS).

Yours Sincerely,

Andrew Lansley

ANDREW D LANSLEY
Private Secretary

JP4ACF

ECON POL : PAYE & ICL : FEB



COMPTON





10 DOWNING STREET

MS2A55
8 August 1985

From the Private Secretary

Thank you for your letter of 6 August about ICL. The Prime Minister was pleased to hear of the successful co-operation between Government and ICL which has brought to market early a new ICL mainframe development. She does not however think that a letter to Lord Soames along the lines proposed was needed.

Tim Flesher

Tony Kuczys Esq
HM Treasury

PRIME MINISTER

PPT's P32

You will recall your recent correspondence with Lord Soames about ICL. The Treasury have informed us that co-operation between Government and ICL has brought on to the market early a new ICL mainframe development needed for the expansion of the Inland Revenue computerisation programme. They suggest you might like to write to Lord Soames marking this fact and a draft is attached. I think that it is a little pointed to do so - we don't really need to score points off Lord Soames.

I agree - no need
for the letter -

and it has a
rather loose in the
last sentence
not

TIMOTHY FLESHER

7 August 1985



10 DOWNING STREET

THE PRIME MINISTER

Following our recent correspondence about ICL, I understand that the Inland Revenue has now ordered a number of your new 3980 computers considerably earlier than might have been the case had it not been for the joint collaborative testing effort involving CCTA, Inland Revenue and DTI resources as well as your own. I hope that you see that as the 'right' kind of support from Government for the company.

The Rt. Hon. Lord Soames, C.H., G.C.M.G., G.C.V.O., C.B.E.



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

6 August 1985

Andrew Turnbull Esq
10 Downing Street
London SW1A 0AA

Dear Andrew

ICL

In view of the recent exchange between the PM and Lord Soames (on the computerisation of tax and benefits) you might like to see this note from the Revenue about the success we have had in bringing to the market early a new ICL mainframe development needed for the expansion of the Inland Revenue computerisation programme (and relevant elsewhere in Government). This took a lot of effort (from IR, DTI and CCTA as well as ICL) and provides a convincing demonstration of support for the company. You might think a further short note from the PM to Lord Soames would be appropriate. If so, a draft is attached.

I am copying this letter to Andrew Lansley at DTI and Stephen Hickey at DHSS.

*Yours sincerely
Tony Kuczys*

A W KUCZYS

DRAFT LETTER FROM PRIME MINISTER TO LORD
SOAMES

following our recent correspondence
~~Following up our recent exchange about~~
~~remarks critical of ICL,~~ I understand that
the Inland Revenue has now ordered a number
of your new 3980 computers, considerably
earlier than might have been the case had it
not been for the joint collaborative testing
effort involving CCTA, Inland Revenue and DTI
resources as well as your own. I hope that
you see that as the 'right' kind of support
from Government for the company.

SM5AAE



COMMERCIAL IN CONFIDENCE

INLAND REVENUE
MANAGEMENT DIVISION
SOMERSET HOUSE

30 July 1985

FINANCIAL SECRETARY

COMPUTERISATION OF PAYE (COP) AND SCHEDULE D (CODA): PROGRESS WITH ICL

This note is for information. It reports on our plans to use ICL's new Series 39 range of mainframes in our computer centres.

We have reached the stage of being able to order the first of these for development and operational use and that represents a significant step forward in our relationship with and support for the company. There are also wider implications in that the method by which this has been achieved represents an excellent inter-Departmental example of the Government's Public Procurement Initiative (PPI).

CURRENT POSITION

2. ICL has now formally announced its new range of equipment which has been under test for some time both on ICL premises in Manchester and on Revenue premises in Telford. It is this

c. Chancellor
Chief Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Monger
Dr Freeman (Riverwalk House)
Mr Watson
Mr Lord

Sir Lawrence Airey
Mr Rogers
Mr Isaac
Mr Pollard
Mr Matheson
Mr Pinder
Mr Cockcroft
PS/IR

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testing process which I believe represents a very worthwhile example of what can be done through PPI. The process was neither easy nor cheap - and it needs to continue - but it has proved successful so far. The validation work in Manchester is being carried out by an ICL team incorporating Inland Revenue and CCTA personnel in a project known as Heineken (because it validates the parts of systems which other testing mechanisms never reach) and the work of that team is overseen by a Steering Group of which I am a member under the Chairmanship of Dr Freeman of the CCTA. DTI is also represented and has provided funds.

3. I think it is generally agreed that this joint effort has been highly successful and has resulted in the delivery to the market of this major new ICL product, perhaps as much as twelve months ahead of the time when it might have been released had ICL been left to its own devices. This has been a highly effective and convincing demonstration of Government support and encouragement for the company. It has, of course, very much suited the Revenue's plans and should prove useful in a general way for DHSS and Customs and other users in the very large Government ICL base.

4. A number of strands come together here in a way that merits comment. First, there is the Government 'preference' for domestic suppliers through giving them early access to emerging

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requirements, as part of the PPI. Then there is the use of Science and Technology funding from DTI to help the supplier develop the means of meeting those requirements. And finally there is the involvement of the user (the IR in this case) in the development and validation work itself.

5. Results so far have been encouraging. We have, therefore, now ordered some of the new 3980 configurations from ICL under the existing contract to be delivered during the course of this financial year and the company should see that as a considerable boost so we have all come a long way from 1980. We are nevertheless maintaining our fallback position so as to be able to run our development activity and our processing centres on the existing range of equipment should anything go seriously awry with the Series 39 programme between now and the end of the year.

6. I expect the company will want to make some sort of statement about the Revenue commitment to the purchase of the new range equipment this year so I thought you ought to have a short note about the background. There are still risks and a huge amount of work still to do by the company and by ourselves but notwithstanding that this is a considerable step in what we would all regard as the "right" direction. In particular, I believe that it demonstrates the worth of the very considerable effort which Government has put into the Heineken validation programme

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and the effect that had on the company in gearing itself up to meet the challenge of that Government commitment.

Steve Matheson

STEVE MATHESON

COMMERCIAL IN CONFIDENCE

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Equipm PT3

ICL





10 DOWNING STREET

THE PRIME MINISTER

5 July, 1985

Dear Christopher,

Thank you for your letter of 21 June. May I reassure you that my remarks were not intended to be critical of ICL. They were in the context of a computer programme for the Inland Revenue which will take us up to 1988 and one for the DHSS which extends over an even longer period. My purpose was, therefore, to indicate that the potential for combining the tax and social security systems, which was what I was asked about, is some considerable way off, even should we wish to proceed in that direction.

I understand that the Inland Revenue PAYE project remains on schedule in time and cost terms and I am glad that ICL, like everyone else, is determined to keep it that way.

On the DHSS side, I note what you say and I understand that discussions are continuing.

Yours sincerely

Margaret



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

3 July 1985

Andrew Turnbull Esq
10 Downing Street
London SW1

Dear Andrew,

COMPUTERISATION OF TAX AND BENEFITS: LORD SOAMES

Your letter of 28 June asked for a draft reply for the Prime Minister to send Lord Soames a short note setting out the timetable for computerisation of tax benefits and the extent to which it is being adhered to.

A draft reply is attached.

There is not one timetable for computerisation of tax and benefits, since the IR and DHSS projects are quite separate. All this was gone into in some detail last year, following a note dated 24 April 1984 from Tim Flesher to David Peretz here asking for a report on COP and DHSS Operational Strategy. Detailed timetables for both IR and DHSS are attached. The timetable for COP remains as originally set out and is being adhered to.

The DHSS Strategy comprises a number of independent but closely related projects. Two major projects are being implemented this year and ICL mainframes have been procured for one of these. The timescale for implementation of the other projects, including the key Local Office Project, reflects the scale and complexity of the undertaking.

I am copying this letter to Stephen Hickey (DHSS).

Yours sincerely,

P WYNN OWEN
Assistant Private Secretary



10 DOWNING STREET

From the Private Secretary

25 June 1985

Dear Philip.

COMPUTERISATION OF PAYE

Lord Soames has picked up the Prime Minister's remark that the computers for the COP programme "will slowly be coming in". The purpose was to indicate that this is a long term programme and to dampen hopes about early steps to bring tax and benefits closer together (something she is wary of, in any case, on policy grounds). It was not intended as a criticism of ICL.

I would be grateful if you could prepare a draft reply for the Prime Minister, together with a short note setting out the timetable for computerisation of tax and benefits and the extent to which it is being adhered to. Could this reach me by 2 July.

I am copying this letter to Stephen Hickey (Department of Health and Social Security).

Yours sincerely

Andrew Turnbull

ANDREW TURNBULL

Philip Wynn-Owen, Esq.,
H M Treasury



10 DOWNING STREET

From the Private Secretary

25 June 1985

I am writing on behalf of the Prime Minister to thank you for your letter of 21 June.

This is receiving attention and a reply will be sent to you as soon as possible.

ANDREW TURNBULL

The Rt. Hon. Lord Soames, C.H.

cc DW



ICL United Kingdom

ICL (UK) Limited
4 Carlton Gardens London SW1Y 5AA
Telephone 01-930 2454

The Rt. Hon. Lord Soames, CH
Chairman

21st June 1985

Dear Margaret,

Handwritten initials: R 22/6

I saw in Hansard of 18th June, Column 165, the answer you gave to David Steel's question on the Government's plans for combining the tax and social security systems.

It may be that I am reading more into your answer than I should do, but your mention of the fact that the computers had been ordered from ICL "and will slowly be coming in" made me wonder whether you were under the impression that we were behind schedule. Anyway, I take this opportunity of writing to you to bring you personally up to date with the situation which is as follows:

- 1) We are dead on time with the Inland Revenue PAYE Project and have every intention of remaining so. I believe they are satisfied with progress and are working closely with us.
- 2) I and my people had what I believe was a good meeting with Norman Fowler and his about how we could help him over the whole field of social security. At the same time we also told him how we saw the imaginative use of Information Technology maintaining an option for a closer relationship between the tax and benefit systems should it be required. Your Policy Unit also knows our thoughts on this.

*All good wishes,
Yours ever
Christopher*

The Prime Minister.

particular, will she give consideration to the concern being felt in Scotland at the proposed takeover of Arthur Bell? Is my right hon. Friend aware that whisky does not benefit from being diluted too much, and Scotch whisky has already been too greatly diluted by overseas control?

The Prime Minister: As my hon. Friend is aware, my right hon. Friend the Chancellor of the Exchequer is concerned about the Scotch whisky industry because he has a great admiration for it, and has tried to give some help to it. As to the dilution by the Guinness bid, that will be considered under the Monopolies and Mergers Act by my right hon. Friend the Secretary of State for Trade and Industry. He will be making the decision about whether to refer the case after he has received advice from the Director-General of Fair Trading.

Mr. Steel: Before today's debate on the Green Paper, may I ask whether the Prime Minister recalls that in 1973 the Conservative Government discussed the potential for combining the tax and social security systems in one tax credit scheme? Why is it that, 12 years later, with all our computer technology, we are still miles away from that desirable goal?

The Prime Minister: As the right hon. Gentleman is aware, computers were ordered from ICL, and will slowly be coming in. It would not have been possible to carry out that reform before, but before we go into fundamental change, we should look at the consequences of combining the two systems completely.

Mr. Stokes: At a time of increasing terrorism, does my right hon. Friend think it wise that the EC should attempt to abolish controls at all frontiers?

The Prime Minister: This is about the movement of goods. Last time we had a European Council I raised the subject of the need to keep strict controls on frontiers for the movement of criminals, terrorists and particularly drugs. All other heads of Government agreed with that very much.

Q2. Mr. Lofthouse asked the Prime Minister if she will list her official engagements for Tuesday 18 June.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Lofthouse: Will the Prime Minister consider extending the regional aid programme to mining communities where job opportunities have been wiped out by her policies? If not, what advice would she give to her children if they were unfortunate enough to be in these mining communities with no hope of a job?

The Prime Minister: The hon. Gentleman will be aware that NCB (Enterprise) Ltd has been set up and some £10 million has already been set aside for it. A considerable number of applications have been made under the scheme and the largest ever contract of its kind, for adult retraining, has now been signed between the National Coal Board and the Manpower Services Commission.

Mr. Sumberg: Will my right hon. Friend take this opportunity to send a message of sympathy and understanding to the American people at this tragic time, and will she tell President Reagan that, if it is his policy not to negotiate with terrorists, it is a policy that has our support?

The Prime Minister: I will, of course, pass on the precise message, which I am sure will be very welcome. We all have great sympathy with the plight of those who are on the hijacked aircraft and the difficulties that face the American Government. I will pass on my hon. Friend's message to President Reagan.

Q3. Mr. Tony Lloyd asked the Prime Minister if she will list her official engagements for Tuesday 18 June.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Lloyd: Is the right hon. Lady aware of the damage that will be done to the Health Service by the decision not to fund the nurses' pay claim? *[Interruption.]* Is she aware, in particular, that the general manager in the county of Powys is talking about a 12-month curtailment of capital spending, putting back nurse training programmes and a £300,000 cut in facilities for mental health? Can she tell the House what damage her policies will do to the ill and the elderly in Powys?

The Prime Minister: I thought that the hon. Gentleman started off with the nurses' pay claim—*[Interruption.]* It is not always easy to hear against the background of noise precisely what is being said. May I point out that by February the recommendations of the review body on new scales for nurses will be in full operation. If nurses' pay were at the same real level that we inherited, a nursing sister on the maximum of the scale would be over £2,000 worse off than under the new agreement with this Government.

Mr. Donald Stewart: In view of the continued damage being done by certain aspects of the EC, for instance, by the appalling trade deficit against us and by the promise to reform the common agricultural policy, which never comes to anything, what action does the right hon. Lady intend to take against the latest lunatic suggestion that we might get a rebate provided we give the EC the funds to do so?

The Prime Minister: The 1,000 million ecu rebate will come. As the right hon. Gentleman knows, it has been approved and has been through the European Parliament. With regard to new expenditure under the new agreement, this country will be liable for only 7 per cent. because of the Fontainebleau agreement.

Q4. Mr. Michael Forsyth asked the Prime Minister if she will list her official engagements for Tuesday 18 June.

The Prime Minister: I refer my hon. Friend to the reply that I gave some moments ago.

Mr. Forsyth: Is my right hon. Friend aware that, although deficit funding has failed to create jobs in the United States, the tax-cutting programme there has enabled the American economy to create more jobs in May of last year than all the EC countries together have managed in more than a decade? Will she therefore give her urgent attention to implementing a job creation programme in Britain based on similar tax reductions?

The Prime Minister: As my hon. Friend is aware, what we can do on tax cuts depends partly on what we do about public expenditure and the level of borrowing. However, my hon. Friend will be aware that during our time in Government successive Chancellors of the

TIMETABLE - INLAND REVENUE
COMPUTERISATION FOR PAYE (COP) AND SCHEDULE D ASSESSING (CODA)

The aim is to complete the conversion from manual to computer based working for PAYE by the end of 1987, to implement the Schedule D assessing system in two regions in 1987 and in the rest of the country in 1988. The timescale is a long one but it covers a great deal of activity, not just the detailed technical work of designing, developing and testing the computer system but also the work of converting the local offices, training the staff and commissioning the computer centres across the whole country. In detail, the timetable from Ministerial approval in 1980 is as follows:

- selecting equipment and initial systems design November 1980 to mid-1982
- detailed design and development of the initial computer system mid-1982 to July 1983
- user acceptance testing July to September 1983
- detailed design and development of the next phase of the computer system, mid-1982 - December 1983
- user acceptance testing, January to March 1984
- rapid setting up of taxpayer and employer records, operation and evaluation of the COP system in 14 pilot offices October 1983 to June 1984

- Ministerial decision to extend system to the rest of the country July 1984
- Ministerial decision to broaden the system to include Schedule D July 1984
- delivery of the balance of the first (West Midlands) region's equipment October 1984 to June 1985
- setting up COP in the ten remaining regions April 1985 to the end of 1987
- analysis, design, development and testing of the CODA computer system April 1984 to June 1986
- CODA system testing and integration July to October 1986
- CODA user testing and staff training November 1986 to March 1987
- introduction of CODA in two regions, April to June 1987
- completion of CODA in remaining regions 1988/89

The projects remain wholly on schedule.

TIMETABLE FOR DHSS OPERATIONAL STRATEGY PROJECTS

Financial year in which phased national implementation is scheduled to take place

Project

1985-86

Unemployment Benefit, Terminal Replacement and Enquiry Service (TRES)

This project will provide DE unemployment benefit offices with some 10,500 VDU terminals giving staff direct access to claimants' computer records. Implementation starts towards the end of this year.

Local Office Microcomputer Project (LOMP)

This project, which will introduce microcomputer support to DHSS local offices, will help supplementary benefit staff with the assessment of claims, the location of casepapers, and a number of specialist functions. It should improve the accuracy of payments and help reduce waiting times in local offices. Staged national implementation began on 24 June and should be completed during 1986.

1985-86 onwards

Computerisation of Benefits for the Disabled

This project will create a unified database serving benefits for the disabled administered at North Fylde Central Office. The first stage has been implemented this year and work on the next stage is under way.

1986-87

Interim systems providing direct access to records at Newcastle

These will provide clerks dealing with Child Benefit and Retirement Pensions with an enquiry facility enabling them to obtain information via VDU's from the existing computer systems in advance of the major system re-writes described below.

1988/89

Local Office Project (LOP)

This key project will establish a mainframe based DHSS local office computer network providing clerks with access to records and computing facilities via visual display units. The first stage will computerise the assessment and payment of supplementary benefit. The system will then be extended to cover incapacity benefits.

1988/89 (cont)

Retirement Pensions

When the present batch computer system nears the end of its life it will be replaced by a new system offering full update and enquiry facilities to staff in both local offices and central branches.

National Unemployment Benefit System redevelopment (NUBS)

The NUBS central system will be replaced by 1989 and planning work is in hand.

1989-90

National Insurance Contributions System (NICS)

The present computer system is due for replacement towards the end of the decade and work on the new design is in hand.

1991-92

Child Benefit - When the present batch computer system reaches the end of its life it will be replaced by a new system offering full update and enquiry facilities to staff in local offices and central branches.

PAYE Computer Project: ECON POL.

AT3





KENO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU992

PS / Secretary of State for Trade and Industry

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

6 September 1984

Prime Minister ②

This seems a satisfactory outcome

AT 6/9

Dear Andrew

STC BID FOR ICL

My Secretary of State announced yesterday his decision not to refer STC's bid for ICL to the Monopolies & Mergers Commission, in accordance with the advice of the Director-General of Fair Trading. A copy of the press statement is attached.

2 I said in my letter of 27 July that my Secretary of State felt that the proposed merger had distinct attractions, but that some of its implications would have to be evaluated carefully, in particular as regards the maintenance of ICL's mainframe product strategy (and the collaboration with Fujitsu on which it depends) because of its significance for Government computing, and the consequences for the Government's remaining financial exposure in ICL. You will have seen that since then STC have increased their offer and that the Board of ICL are recommending their shareholders to accept it.

3 I am glad to be able to report that STC have given assurances that they intend to continue ICL's current product strategy for mainframes. Fujitsu have the right to withdraw from their agreement with ICL in the event of a takeover, and were concerned at the prospects of ICL becoming linked to ITT, whom they view as competitors and who have a poor reputation in Japan. However, they have been persuaded to maintain the collaboration on the basis of safeguards which STC have been able to offer against leakage of Fujitsu technology to ITT and an undertaking from ITT to reduce their shareholding in STC to 24%. ITT have also confirmed to the Department that they would consult the Government should they consider increasing their shareholding in STC above 24%.



4 On the question of the Government's financial exposure, STC have confirmed that the termination of the loan guarantee to ICL, which currently stands at about £80m, would cause them no difficulties. They are also likely to be prepared to redeem the £20m of guaranteed preference shares held by ICL's banks at an early date, though the Secretary of State has no powers to require them to do so.

5 My Secretary of State has therefore concluded that while the merger is not without its risks, it is to be welcomed as a solution to the question of ICL's longer-term future and as providing the opportunity for a significant British grouping in the IT market to take advantage of the convergence of computing and telecommunications technologies.

6 I am copying this letter to the Private Secretaries to the Chancellor, Mr Hayhoe, Secretary of State Defence, Secretary of State DHSS, Secretary of State Employment, Lord Cockfield and to Sir Robert Armstrong.

Yours truly,
Andrew Lansley

ANDREW LANSLEY
Private Secretary

1 Victoria Street, SW1H 0ET Press Office: 01-215 3919/3788 Ref: 498
Out of hours: 01-215 7877

September 5, 1984

CLEARANCE OF MERGER PROPOSALS

The Secretary of State for Trade and Industry has decided, on the information at present before him, and in accordance with the recommendation of the Director General of Fair Trading, not to refer to the Monopolies and Mergers Commission, under the provisions of the Fair Trading Act 1973, the proposed acquisition of ICL PLC by STC PLC and the associated acquisition by ITT of a stake in ICL. The Secretary of State has accepted the view of the Director General that the merger raised no competition issues requiring investigation.

In reaching his decision the Secretary of State noted that Fujitsu Ltd have agreed to maintain their technology agreement with ICL, and that ITT have announced their decision to bring their shareholding in STC down to 24%. The Secretary of State welcomed these decisions as providing for the future development of the merged STC/ICL as a major UK-based international IT company.

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6 SEP 1984

W.0579

14 August 1984

MR DAVID BARCLAY, NO 10

STC/ICL

I understand that Private Office has received a DTI minute on the proposal by STC to acquire ICL. Although I haven't seen this minute, I should make some general comments and these are attached.

I would be happy to advise further on specific points as and when the need for this arises.

I am copying this minute to Richard Hatfield.

RBW
ROBIN B NICHOLSON
Chief Scientific Adviser

PURCHASE OF ICL BY STC

1. The bid by STC to buy ICL at a valuation of around £370m offers an opportunity for ICL to acquire the backing of a strong parent company with expertise in telecommunications and related fields complementary to ICL's business. This is welcome both from the viewpoint of increasing confidence in ICL's future viability and of combining the separate talents of the two companies in one organisation. This integration of the telecommunications and computer industries is of course one of the characteristics of the development of Information Technology, as has been pointed out by both the Advisory Council for Applied Research and Development and the Information Technology Advisory Panel in their reports.
2. The association between ICL and Fujitsu is extremely valuable in providing for the transfer of Fujitsu's component and computer technology to ICL. It is important that this link is not jeopardised by doubts in Fujitsu that their technology will leak through STC to ITT, as a competitor. STC have some experience in dealing with this kind of problem, since it was a matter of concern in their collaboration on System X, where their safeguards to avoid ITT acquiring UK switching technology appear to have worked effectively. STC must give similar assurances about the confidentiality of information obtained by ICL from Fujitsu and must satisfy ICL and Fujitsu that their expertise will remain within the UK. It is possible that Fujitsu, like some members of the House of Commons, are unaware of the much reduced shareholding of ITT in STC.
3. It is not clear what plans STC has for the future business of ICL and this has implications both for the future of the UK mainframe computer industry and for the large investment in ICL computers within the public sector. It may therefore be advisable to seek assurances that there will be continued support for computers of this type and for their controlling (Operating System) software.
4. ICL has been very active in supporting the Open Systems Interconnection (OSI) standards for communication in computer networks, and Robb Wilmot has himself been a strong advocate of these standards as a means of avoiding domination of the market by a supplier with proprietary communication protocols.

IBM, with its SNA communication system, has been the main threat to an open market in this regard. The recent settlement of the EEC's litigation against IBM for alleged abuse of its market position, required IBM to release details of future SNA developments and this may ease the position with respect to open standards. It is still too early to see how effectively this will work in practice, and IBM's public statement after the EEC announcement that the settlement 'requires no significant change in our business practices' does not give one much confidence. In any case IBM clearly retains a substantial technical advantage over its competitors and there remains a strong case for continuing to pursue the adoption and use of the OSI standards, as perhaps the only credible alternative to SNA. As well as their importance for the future of ICL, open standards are vital if the future communications infrastructure of the UK is not to fall under the control of particular manufacturers. If the bid succeeds, STC should recognise this aspect of ICL policy and support ICL in its endeavours to gain general acceptance for OSI.

5. Apart from these points, the association of ICL and STC appears to offer mutual benefits in their related but separate markets. I conclude that it should be encouraged.



10 DOWNING STREET

From the Private Secretary

1 August, 1984.

PAYE: Employers Unpaid Liability

The Prime Minister has seen and noted the Chancellor's minute of 27 July. She has commented that this will create problems with small business.

Andrew Turnbull

David Peretz, Esq.,
HM Treasury.

DBJ

210

file

CND



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PS/ ^{IF7020} Secretary of State for Trade and Industry

30 July 1984

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Andrew,

STC

... I attach a copy of a note which has been prepared here which sets out the main elements of the relationship between STC and ITT. I hope you will find it helpful to have this.

Yours etc,

Andrew Lansley

ANDREW D LANSLEY
Private Secretary

Encls



STC

1 STC operates in a wide range of business areas, mainly in the electronics industry, and is a major manufacturer of telecoms equipment, with 17 major plants, employing over 28,000 staff and a turnover of over £900m. Until 1979 STC was a wholly owned subsidiary of ITT - a multinational with world wide interests in telecommunications and other areas of the electronics industry. In July 1979 ITT sold 15% of its STC shares on the stock market, the remaining 85% being held by ITT (UK) Ltd. In March and October 1982 further tranches of 10% and 40% respectively of STC's share capital was sold by ITT thus reducing its shareholding in STC to the present 35%. ITT still have a separate subsidiary ITT (UK), part of ITT (Europe), with diverse interests spread over 24 companies employing more than 5,000 employees and a turnover of more than £600m. ITT (UK) accounts for 6% - 8% of ITT (Europe)'s revenues and 6% of its investment programme.

Relationship Between STC and ITT

2 The major result of ITT moving to a minority position has been that STC are now responsible for their own corporate planning and investment decisions. They no longer are part of ITT's corporate planning process. ITT have 3 nominated directors on the STC Board though we are told that these operate like independent directors rather than ITT representatives. Of course their presence must give ITT some influence over major decisions it would regard as inimical to its interests and obviously complete insight into STC's strategic decisions. There is also a technology transfer agreement which provides for mutual access to technology emerging from the various STC and ITT Research Laboratories round the world. ITT have also publicly indicated their willingness to collaborate in particular markets where this would be mutually beneficial.

/Continued ...



3 A full public statement of this new relationship was set out in the new STC prospectus of 11 October 1982 (a copy of part of this is attached).

STC/ITT Creation of Jobs and New Investment

4 On 27 June Daniel Weadock, President of ITT Europe and also on the board of STC, announced £900m investment plans over the next five years in which 4,800 jobs are expected to be created. This is somewhat misleading in that most would be by the independent STC - STC Directors have confirmed that he was "taking credit" unjustifiably for decisions which were solely their preserve.

5 Of this STC plan to spend £600m - £700m creating 2,500 jobs at its electronic components plant at Harlow, Essex, the semi conductor factory at Foots Cray, Kent, and its switching and transmission plant at Monkstown, Northern Ireland. ITT will itself be investing £196m in its UK business and creating 2,300 jobs. These include 60 jobs at its engineering support centre in Harlow, Essex, for research, development and engineering work, which will become its European focal point for research.

Evidence of Collaboration

6 Evidence that STC and ITT continue to collaborate closely can be seen in STC bidding to supply to BT, as a second source to System X, ITT's System 12 which STC propose will be manufactured in Northern Ireland if they win orders from BT.

Offer for ICL

7 If the offer for ICL is accepted in full it would involve the issue of approximately 117m new ordinary shares in STC, representing



approximately 26.5% of the enlarged share capital of STC. This would result in ITT's holding in STC falling to just over 25.6% of the enlarged share capital.

branch changes. It is the principal supplier of teleprinters to British Telecom for use by business subscribers and also supplies a range of terminals, switches and associated systems in this rapidly growing market segment. STC links distinct networks for voice, data and telex services by means of a range of interface units, thereby creating a local area network within the office environment.

Industrial Users

STC manufactures a variety of cables for industrial and telecommunication purposes and is a supplier of high technology printed circuit boards to computer and electronics manufacturers in Europe. STC recently entered the industrial security market as a supplier of electronic alarms and monitoring equipment.

Components and Distributors

This business is divided between the manufacture and distribution of electronic components and instruments and the wholesaling of electrical products.

Electronic Components

The manufacturing operations are divided between four product units: Electron Devices, Quartz and Hybrids, Capacitors and Power Components, which supply the telecommunication, industrial, professional and consumer markets. STC is the largest manufacturer of capacitors in the UK.

STC is one of the largest electronic component distributors in the UK, providing an outlet for the products of more than 100 manufacturers.

Electrical Products

STC is amongst the largest wholesalers of electrical products in Great Britain. It has 60 branches, through which lighting equipment, electrical cables, switches, accessories and domestic appliances are supplied to electrical contractors and retailers and industrial users.

Research and Development

STC's success in its high technology business is based on a foundation of both basic research and product development, total expenditure on which in 1981 amounted to some £57 million. Of this, some £32 million was funded by contracts placed directly by customers, principally British Telecom but also including the Ministry of Defence and subsidiaries of ITT. STC's outstanding contributions to the evolution of telecommunications have included the invention of pulse code modulation and proposals for the use of optical fibre in transmission systems.

Standard Telecommunication Laboratories Limited ("STL"), an industrial research organisation of international standing, undertakes basic research and advanced product development and accounted in 1981 for slightly under half of STC's total research and development expenditure. STL, a subsidiary of STC, operates as part of ITT's worldwide research activities, but has in recent years become increasingly involved in activities which are in specific support of STC.

Product development is principally carried out within the laboratories of individual product groups and in 1981 this accounted for just over half of STC's total expenditure on research and development. There is an increasing emphasis on research and development expenditure on optical fibres and business communication systems. In particular, STC is involved in a major programme to develop optical fibre systems for submarine telecommunication and landline transmission systems. In business communication systems expenditure includes the development of a new digital private automatic branch exchange (the DCS 300) and local area network systems.

Relationship with ITT

Both STC and ITT believe that there are considerable mutual benefits to be derived from a continuing relationship between STC and ITT.

In maintaining its international position as a leader in high technology, STC gains greatly from its access through ITT to a broader range of basic research and product development than can be provided solely by STL.

ITT has a worldwide organisation of research, engineering, programming and manufacturing technology and facilities. Its research and development expenditures in all areas in 1981 amounted to approximately £650 million, ranking among the highest such corporate expenditures in the world. These expenditures include approximately £340 million of costs expended pursuant to specific contracts with customers and certain engineering and other development costs, with the balance provided by ITT and its subsidiaries including STC (the "ITT Group"). The ITT Group's investments in technology have yielded major continuing new market, product and cost advantages to the ITT Group, including its telecommunications and electronics businesses.

For more than fifty years, International Standard Electric Corporation ("ISEC"), a wholly-owned subsidiary of ITT, has had a network of agreements with ITT and certain of its telecommunication subsidiaries, including STC. These "general relations agreements" enable ISEC to grant to the relevant subsidiaries (including STC) royalty-free access to, and non-exclusive rights in respect of, the technical information and know-how (including patents) which have resulted from the research and development activities of the ITT Group in the areas of telecommunications and electronics. This mutual sharing of technical information and know-how excludes certain customer-funded research and development work, such as, in the case of STC, work in the UK for British Telecom and the Ministry of Defence; such work is kept totally secure, both technically and commercially, in accordance with customer requirements.

In consideration for access to such worldwide technology, each recipient makes an annual contribution (based on its relevant sales) to a pool of funds. This pool is then allocated amongst the ITT Group on an annual basis, in payment for research and development work. The level of annual allocation to STC from the pool of funds has generally been based on STC's research and development capabilities and the requirements of the ITT Group for such work.

A further element of STC's general relations agreement has been the provision by ITT to STC of certain financial, professional and managerial services for which STC has made an annual payment equal to one per cent. of sales as defined (the "Contract Service Charge").

The exchange of technological information between the ITT Group and STC is of considerable mutual benefit, and the general concept of STC's general relations agreement with ISEC will accordingly remain substantially the same, despite the

reduction in ITT (UK)'s investment in STC. Certain changes have, however, been agreed, effective as from 1st October, 1982, which take into account the fact that STC will no longer be an ITT subsidiary.

The revised arrangements have the following effects:

- There will continue to be mutual royalty-free access and non-exclusive rights in respect of technical information and know-how (including patents) as described above in relation to products of types similar to those already manufactured by STC (except, as before, in the case of certain customer-funded research and development work). In addition, provision is made for mutual access to technology in other fields, although, if STC desires to manufacture products using such technology or to sell products incorporating it, the grant of the necessary rights would be subject to terms negotiated at the time.
- STC will be entitled
 - to use its know-how developed under research and development contracts which it itself funds to manufacture worldwide, and to license third parties to manufacture, without recourse to ISEC (in whom, under the previous arrangements, the proprietary rights outside the UK and the Republic of Ireland were vested), and
 - to use know-how of the ITT Group (other than STC) to manufacture in the UK and the Republic of Ireland, and in certain circumstances overseas, and to sell worldwide, products of types similar to those already manufactured by STC.
- The Contract Service Charge will cease to be levied because ITT will no longer be providing the relevant financial, professional and managerial services.
- The revised arrangements will run for an initial period of twenty years from 1st October, 1982 and thereafter for consecutive one year periods, subject to the right of either party to terminate the arrangements by giving not less than three years' written notice expiring at the end of such twenty year period or of any such one year period. However, if ITT ceases to own beneficially more than 25 per cent. of STC's voting capital, either party may terminate by giving to the other not less than six months' notice of termination, expiring at the end of any calendar year. ISEC also has the right to terminate on similar notice if a third party acquires a beneficial interest in a greater proportion of the voting capital of STC than that then beneficially owned by ITT except that, if such third party is not engaged in the manufacture and sale of products of types similar to any of those now manufactured by STC, STC may require ISEC's notice of termination to be extended for a period of up to two years.
- In the light of the sharp escalation in research and development costs required to sustain a viable competitive position in international markets for high technology products, the level of STC's contributions (based on its relevant sales) to the general relations agreement pool of funds has been greatly increased. Likewise, in view of STL's significant contribution to ITT's overall research and development programme, as well as STC's part in such programme, the level of allocations to be received by STC/STL from the pool of funds has also been greatly increased and is guaranteed at a fixed level unless STL has not maintained its research and development performance, in which event the level would be appropriately reduced.

Had the new arrangements (including the cessation of the Contract Service Charge) been in effect for 1981, the net contribution by STC under its general relations agreement (after allocations from the pool) would have been approximately £200,000 higher than STC's actual net contribution. Had such arrangements been in effect throughout 1982, the estimated net contribution would have been £7.2 million. This compares with £10.5 million, which it is estimated would have applied had the previous arrangements continued throughout 1982. (The actual net contribution for 1982 is expected to amount to £9.4 million.) The net contributions for subsequent years should increase from the above notional estimate for 1982 of £7.2 million in line with any increases in relevant sales in those years.

The net payments made under the above arrangements may not reflect the extent of the benefit obtained by either party in any one year; expenditure on research and development is generally a long-term investment and one where the timing and the amount of the resulting contributions to profits are uncertain.

The operation of the new arrangements will continue to be reviewed in the light of changing circumstances and relevant legislation and, accordingly, it may be necessary to make further amendments in due course.

Hitherto, STC has made available to other ITT units in the UK the services of specific functions, e.g. treasury, legal and patent services and pensions administration, for which appropriate charges have been made. It is intended that these arrangements should continue for the time being but that they will be reviewed in the light of the continuing need for such services from STC and STC's continued willingness to provide such services.

In view of the substantial minority investment in STC which ITT (UK) will continue to own after this Offer for Sale, it is proposed that the Articles of Association of STC be amended to provide (inter alia) that, for so long as ITT continues to own beneficially over 25 per cent. of the voting capital of STC for the time being in issue, ITT will have the right to appoint up to three Directors of STC. This amendment and the other proposed amendments to the Articles of Association of STC, including amendments which would have the effect of requiring the sanction of an extraordinary resolution, rather than an ordinary resolution, for increases of share capital or the Directors' borrowing powers, are summarised in paragraph (3) of "General" below and will be proposed at the Extraordinary General Meeting referred to in "Extraordinary General Meeting" below.

STC's management is considering the possible acquisition for cash of certain ITT units in the UK. If it should be decided to proceed with any such acquisition, shareholders would be given full information and their approval sought at a meeting at which ITT (UK) would abstain from voting.



Prime Minister ②
To note

AT 31/7

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

There will be problems with
small business
M

PAYE: EMPLOYERS UNPAID LIABILITY

As you will know, under PAYE the employer is responsible for deducting tax and national insurance contributions and for paying them over monthly to the Inland Revenue.

2. The vast majority of employers and contractors (who make deductions from payments by subcontractors in the construction industry) pay over the money promptly but a sizeable minority do not. The Revenue estimate that towards the end of any month the total amount in arrear - PAYE and NIC combined - is getting on for £1 billion, some of it more than a month overdue. This is a small percentage of the annual figure of £45 billion but nevertheless a substantial sum. You will wish to be aware that we are proposing a change in the collection machinery to speed up collection of these arrears.

3. At present when an employer or contractor falls into arrear the Collector can visit him to inspect his records and "quantify" the amount due. Then if there is continued non payment enforcement proceedings may begin. About 300,000 such calls for quantification are made each year. Over the years this process has become increasingly protracted with some employers regularly holding out until a visit is made and the more hardened doing nothing even then until faced with distraint action.

4. I propose therefore that the Revenue should embark on consultations with a view to changes designed to streamline



the preliminaries and so secure prompt payment. The crucial change would give the Collector the power to issue a notice to an employer or contractor in arrear estimating the amount of his unpaid liability. A short period would be given during which he could pay either the amount of the estimate or the correct liability, but failing that the estimate would be enforceable in the same way as a "quantified" liability at present. If this system were introduced by April next it is estimated that there might be a once and for all improvement of the money flow of £2-400 million by the end of 1985-86. There would also be a staff saving of about 100 units later on when it was possible to computerise the estimation process.

5. These changes would not in any sense be penal as they involve no new sanctions but are in effect the speeding up of the quantification process. However, before taking a final decision it would be sensible for the Revenue to consult the main bodies representing employers and contractors. I therefore propose making a preliminary announcement in a parliamentary reply before the summer recess. This will pave the way for the Revenue to consult with the representative bodies over the next 3 months so that we can take a final decision later this year with a view to implementation in 1985.

A handwritten signature in dark ink, appearing to be 'N.L.' with a flourish underneath.

(N.L.)
27 July 1984



Secretary of State for Trade and Industry

Prime Minister (2)
AT 27/1

DEPARTMENT OF TRADE AND INDUSTRY
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(Switchboard) 215 7877

27 July 1984

CONFIDENTIAL

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Andrew,

My Secretary of State has asked me to write concerning STC's bid for ICL yesterday. It has three main implications for the Government.

2 On the competition policy aspects my Secretary of State will be receiving advice from the Director General of Fair Trading. The merger of two companies each with a turnover of approaching £1bn is obviously significant in economic terms. However, there is extremely little overlap between their activities. STC are mainly in telecommunications equipment, defence and electronic components while ICL are concentrated entirely in computers, software and office automation. My Secretary of State is as yet not aware that major competition policy problems will arise.

3 Industrially the proposed merger has distinct attractions. It has been recognised ever since the rescue of ICL in 1981 that a more permanent solution would have to be found for ICL's longer term viability and the ICL Board themselves have begun to consider the options. The merger of STC and ICL would create a true information technology company straddling communications and computing, of a size that could begin to hold its own in world markets. STC are still owned 35 per cent by ITT and have close links with the American company though they have become increasingly and aggressively independent under Sir Kenneth Corfield since ITT moved into a minority position. Acquisition by STC will obviously raise a question mark about ICL's developing collaborative relationships with AT & T and Fujitsu; ICL are depending on the latter for the technology for their future main-frames. The STC bid could well stimulate other bids and we should want to establish what the intentions of other bidders would be towards ICL.

JH2AVU



CONFIDENTIAL

4 Of particular concern to the Government will be their intentions in regard to ICL's mainframe business and the support of the existing customer base, of which the Government has a substantial part. STC have indicated informally that they envisage no change in ICL's policy. We shall need firm reassurances from any bidders on this score.

5 My Secretary of State feels that the Government will need to evaluate the implications of the STC bid carefully. In addition to the major policy implications we also have outstanding £100m of the original £200m loan guarantee and we will want to take this opportunity to eliminate this liability.

6 On balance the STC approach seems to us an attractive one. However, we will need to take a neutral position in public until we see if other bidders emerge and I have received advice from the Director General of Fair Trading.

7 I am copying this to Margaret O'Mara (Treasury), Ellen Roberts (DHSS), Nick Evan (MOD), Peter Smith (D. Employment) Alex Galloway (Lord Cockfield's Office) and to Richard Hatfield (Cabinet Office).

Jan 25,
Andrew Lansley

ANDREW D LANSLEY
Private Secretary

23 July 1984

Computerisation of PAYE

Further to your letter of 2 July and my reply of 4 July, I very much regret to have to tell you that the Prime Minister finds she will be unable to attend the Exhibition at King's College on Wednesday 25 July. Mrs Thatcher is very sorry to miss the Exhibition, and hopes that all those involved in it will understand the other pressures on her diary in this week of all weeks.

David Barclay

Miss Margaret O'Mara,
H.M. Treasury.



10 DOWNING STREET

From the Private Secretary

4 July, 1984

Computerisation of PAYE

Thank you for your letter of 2 July. The Prime Minister was glad to be kept in touch with progress on the computerisation of PAYE, and will try to look in at the exhibition at Kings College on 25 July. We will let you know definitely nearer the time.

DAVID BARCLAY

Miss M. O'Mara,
H.M. Treasury

ls



cc. D. Health

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

2 July 1984

David Barclay Esq
10 Downing Street
LONDON
SW1

Prime Minister⁽¹⁾

Agree to look in if possible?
(The diary is not too bad so far)

Yes no

Dear David,

DMS

3/7

COMPUTERISATION OF PAYE

The Prime Minister will know from the recent note of progress on the Inland Revenue and DHSS computer systems (Judith Simpson's letter of 31 May to Tim Flesher) that the target initially set in 1980 for the computerisation of PAYE (COP) project is being kept both in time and cost terms. Treasury Ministers will shortly have the evaluation report and will then be able to take a firm decision. But the pilot system has been running successfully since October last year and all the indications are that Ministers will be authorising its extension to the rest of the country. They expect to announce their decision in July but at the same time state that the project is being extended further to include the assessment of Schedule D income.

COP has been a notable success so far and the Chancellor believes it is a good example of what can be achieved by a judicious blend of public and private sector resources. He therefore thinks it is worth giving the decision to extend COP across the country substantial publicity, supported by a carefully prepared exhibition (in Kings College next door to Somerset House). The exhibition will be preceded by a press launch on the morning of 25 July at which the Chancellor will give a keynote speech.

A session has been reserved from 5.30 - 7.00 p.m. on 25 July for special guests to see the exhibition. The Chancellor knows that a visit from the Prime Minister, however brief, would be particularly appreciated by all those who have been involved in the venture and he would therefore be delighted if she could spare the time to come herself. He would also like to extend an invitation to those Ministers to whose offices I am copying this letter - to the Foreign Secretary and the Chancellor of the Duchy of Lancaster (who might like to see progress since they started the project rolling in 1980), to the Secretary of State for Social Services, and the Secretary of State for Trade and Industry (as the colleagues with perhaps the most immediate interest in the developing COP system and ICL's involvement in it) and to Sir Robin Ibb.

I am copying this letter to Steve Godber (DHSS), Callum McCarthy (DTI), Roger Bone (FCO), Alex Galloway (Chancellor of the Duchy's office) and Ian Beesley (MPO).

Yours sincerely,
Margaret O'Mara

MISS M O'MARA
Private Secretary

ECON POL FAME + ICE AT7



2 JUL 1984

CONFIDENTIAL



D/F with DWS comment
MT 7/16
CCD/D
No need to chase
at 11/6

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

31 May 1984

Tim Flesher Esq
10 Downing Street
LONDON
SW1

Dear Tim,

COMPUTERISATION OF PERSONAL TAXATION AND
SOCIAL BENEFITS

Your letter of 24 April asked about the current state of the operational strategy for the computerisation of social benefits, the computerisation of PAYE and the relationship between the two.

PROGRESS

Inland Revenue

The project for the computerisation of PAYE (COP) is running on time and within budget. The new computer system has been running live in 14 pilot local offices since October. Though there are still some reservations about ICL system software, the indications are that a decision can be taken this summer to extend the pilot system to the rest of the country. If the decision is taken to go ahead the process should be completed by the end of 1987 or early 1988.

The next step would be to extend the successful COP system to other work in local offices, notably Schedule D. This would yield useful additional savings and improve efficiency.

The Department is planning to base the future architecture of the system on the new generation of ICL computers as they become available, subject to the same rigorous testing procedures. COP makes substantial use of external resources from the private sector, fully integrated into the development and testing teams at the COP Development Centre in Telford.



Department of Health and Social Security

The DHSS first introduced a computer for the graduated pension scheme of 1961, and since then have steadily increased the involvement of computers in the recording of contributions and the calculation and payment of benefits and pensions. The present computer operations are substantial with little communication between them and hence inevitably there is a measure of duplication and inconsistency of records. The Operational Strategy which was first mooted in 1982 is intended to create a technical and managerial framework under which a series of projects can be developed to provide a more coherent set of benefit operations and in so doing avoid duplication and inconsistency of records. Starting with several projects relating to the Department of Employment's unemployment benefit offices and to DHSS local offices on which work is already under way, it will achieve step by step a more efficient system which uses a whole person approach in dealing with the Social Security problems of the 20 million people who receive cash benefits each week. This process will continue through the 1990s before it is entirely complete.

The DHSS operational strategy thus is at a different stage from the Revenue's COP. However, like COP, it is being developed with full participation of private sector consultants. Further, a major strategic review of the 1982 proposals has just been completed and will shortly be submitted to Treasury. This will enable Government as a whole to be aware of, and to endorse, the latest developments in a strategy which is of direct concern to DHSS and to the Department of Employment and of widespread interest in Inland Revenue and elsewhere.

SCOPE FOR CHANGE

It has been a fundamental requirement in both Departments that the "architectures" - the framework within which their computer systems operate - should be flexible and able to accommodate change. In the case of COP this has been achieved through the organisation of the database and by a modular approach to system design and programming. Together, these enable parts of the system needing to be changed to be identified and the changes carried out with a minimum impact on the rest of the system. The design of the DHSS operational strategy systems will be similar.

In any large computer project, there needs to be some restraint in changes to the job being computerised while systems design and implementation are under way. In practice, however, this has not so far prevented the Government from



making some major changes in the tax and benefits field: for example, the taxation of unemployment benefit or giving of mortgage income relief at source. Indeed, in many cases the existence of flexible, general purpose computer systems would actually enable changes to be made that could not easily be contemplated under a purely manual system, for example the taxation of further benefits.

For DHSS, the changes which are most immediately on the horizon are those flowing from the benefit reviews which the Secretary of State for Social Services is putting in hand. These appear likely to lead to legislation in 1985/86 and implementation thereafter. While it is not known what detailed changes may be made, it seems certain that the functions which DHSS computers already perform or for which they are being installed - the maintenance of records from which derive a series of mathematical calculations leading to the determination of a rate of benefit, and the payment of that benefit to an individual at a particular location - will still be central to the Department's operations. There is accordingly no conflict between the review and the continued development of the operational strategy.

What will need to be managed carefully, however, is the timing of change. It will be important to ensure that amendments to benefit rules and procedures and the impact of new computer-based operations are so phased that there is neither an overwhelming burden on staff nor a disruption of service to the public at any time. What this means, however, in terms of the exact timetable for the introduction of particular strategy projects cannot be foreseen at this stage.

On the Inland Revenue side, prior computerisation would in any case be essential for the most far reaching changes which have been canvassed recently, including universal self assessment. In practice, COP is now no longer on the critical path for changes of this kind, given the time required for the private sector, notably employers, to adapt their own computer system.

At the technical level, much the same is true of proposals to bring the personal tax system and social security system close together through some form of tax credit/negative income tax scheme operated on a weekly or monthly basis. So far from a move of this sort being inhibited by the systems which have already been developed or are envisaged



in the two Departments we should be able to build in them, although there would have to be substantial re-writing of programs and perhaps the need for major new equipment. However, the main considerations here are not computer ones, but wider issues of political, financial and social policy.

To sum up, both Departments are alive to the need to provide flexibility to cope with change. They would obviously like as much warning as possible of impending change; other things being equal, the shorter the notice, the more a change is likely to cost. Both Departments are concerned not only to accommodate change, but to search out the scope for change made possible by technology.

COMPATIBILITY

The DHSS and Revenue projects are separate, but both Departments and the CCTA keep in touch at policy and working levels. The DHSS will keep the architecture of the social security project as far as possible in line with COP, and as a minimum will ensure the compatibility of data and allow exchange of information.

This level of compatibility already operates in the long-standing arrangements whereby Inland Revenue collect national insurance contributions, and the intention is to use the national insurance number as the prime reference for both DHSS and the Revenue's COP. It could also be developed to facilitate schemes of tax/benefit interaction including forms of tax credit/negative income tax. Going further with the integration of the separate computer systems would be a very complex and difficult process and could require a common technical architecture, with common suppliers and basically similar software in both Departments.

SAVINGS

COP is planned to yield savings of some 4,000 staff by April 1988, with additional savings, not yet quantified, arising thereafter. Extending the COP project to include Schedule D work would yield a further 1,700 annual staff savings, arising mainly in 1988/89. Implementation of the Schedule D side of the computer system should be completed by 1989 and by then it should be possible to extend the computer support further still to other areas of the Department's work.

Of the projects already developed in some detail in DHSS

- (a) 2,000 Department of Employment staff will be saved in unemployment benefit offices by April 1988 by modernisation and enhancement of the existing computer system.



- (b) Pilot studies suggest that over 1,000 staff should be saved in DHSS local offices by the phased introduction during 1985 of some 2,700 microcomputers.
- (c) Some 4,000 staff savings are envisaged by the early 1990s from the first phase of the local office project; the phasing is under review to see if more savings can be achieved sooner.

Work on other projects is less advanced. Nevertheless, given a continued thrust stretching into the 1990s for the full exploitation of information technology in social security administration, the potential exists to realise staff savings of the order of 20,000 in total. This estimate is based on current manpower levels. To the extent that staff savings are achieved in the interim by other means, the final net figure could be less.

Both Departments are aiming for and expect to achieve not only these considerable savings in numbers but also improvements in administrative efficiency, in service to the public, and in the working environment of staff.

CONCLUSION

More detailed documentation is available, if required, from the two Departments. DHSS will shortly, as has been said, be circulating an update of their operation strategy and I have sent a fuller progress report from the Inland Revenue to the Policy Unit. The people concerned would, of course, be very happy to come over and explain any points which may not be quite clear, or answer any questions.

Yours ever

David A. Simpson

MISS J C SIMPSON
Private Secretary

Exam PD.

PT 3

PAGE 1 CL

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Agreed
AT
16/5

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 8000

15 May 1984 AT to note

Tim Flesher Esq
10 Downing Street

AT
16/4

Dear Tim,

COMPUTERISATION OF PERSONAL TAXATION AND SOCIAL BENEFITS

Your letter of 24 April asked for a note to be produced on this subject, jointly with DHSS and Inland Revenue, by 21 May. We understand from David Willets that an extension until 4 June would be acceptable. DHSS have been preparing a paper for the Treasury which will cover the kind of issues raised in your letter. A short delay may make it possible to include the paper as an annex to our reply, and I therefore hope that you can agree to extend the deadline to 4 June.

Yours ever,

JCS

MISS J C SIMPSON
Private Secretary

Exam Pt 3

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10 DOWNING STREET

From the Private Secretary

2 May 1984

ICL and BT

The Prime Minister has seen your Secretary of State's report of 30 April on BT's computing requirements. She is very pleased to see that an outcome acceptable to all parties has been achieved and is grateful to your Secretary of State for the part he has played in bringing this about.

(Andrew Turnbull)

Callum McCarthy, Esq.,
Department of Trade and Industry

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SM

Prime Minister ①

Agree X

AT 1/r

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Yes

mt

MR TURNBULL

1 May 1984

BT AND ICL

We are pleased that Norman Tebbit has been able to produce a solution to BT's area computing requirements which is acceptable both to BT and to ICL.

This outcome has been the result of considerable work and Norman Tebbit is to be congratulated. We have played some part in these discussions and are pleased that a satisfactory commercial arrangement has been agreed between the parties without the need for the Prime Minister to become involved.

Although we have some doubts whether the proposal to split the procurement between IBM and ICL is in BT's best commercial interests, the important point is that all parties have accepted this outcome.

We have all along considered that BT would be taking an acceptable technical and commercial risk in purchasing ICL equipment and that the loss of this contract for ICL would have very damaging implications for their strategy at a time when IBM is gaining a stranglehold on world markets.

Since the 1981 rescue, ICL has been developing a range of non-IBM compatible mainframe computers which is capable of competing with IBM in world markets. The next 18 months see the launch of two machines in this programme which are critical for ICL's strategy.

The loss of the BT contract now would have been a damaging blow to customer confidence and to ICL's efforts to convince the world that it can survive in IBM's shadow.

Nevertheless ICL's future in mainframe computers is by no means assured. With the convergence of computing, telecommunications and information technologies, Norman Tebbit is right that ICL will need to form worldwide strategic alliances in order to compete internationally.

This appears to be happening. ICL already have the collaborative deal with Fujitsu and are developing relationships with AT&T on a number of fronts.

Conclusion

X | We recommend that the Prime Minister should welcome a mutually agreed solution to the problem presented by BT's area computing requirements. Norman Tebbit is to be congratulated.

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- 2 -

We consider that ICL's future will depend upon forming worldwide strategic alliances and that they should be encouraged to pursue this strategy.

DLP.

DAVID PASCALL

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PRIME MINISTER

ICL AND BT

pt 2
In November I warned you that BT's computing decisions would continue to be a source of concern for ICL. I am now minuting to let you know the outcome of protracted discussions.

2 BT wish to purchase new district customer services computer systems (CCS). The choice lies between IBM-type systems, for which BT initially expressed a very strong preference, and what ICL wish to offer, based on their own systems. BT were on the edge of committing themselves to IBM-compatible systems, on the basis that they judged ICL's existing Superdual 2988 computers inadequate; they were not prepared to wait for the new Estriel machine; and they suggested that the cost of the delay involved in the ICL route, in terms of delayed staff savings, could be as much as £30m. That decision was, I believe, in BT's narrow interests commercially defensible in that it avoided delay and risk.



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3 I was, however, very much concerned about the effects that this decision would have had on our wider national interest. It would clearly have been a blow to ICL: the desertion of ICL by their biggest public sector customer (outside HMG) would have signalled a loss of confidence just before ICL were ready to launch their new product range. The recent publicity - orchestrated by IBM - for a minor Post Office order shows just how much would have been made of such a move. It would, moreover, have been embarrassing in the context of our arguments with the American Administration about their extra-territorial claims; it would have been damaging if, having argued about computers in particular, we were then to have allowed BT to increase the extent of their dependence on IBM systems. In addition, after considerable investigation by our own independent expert advisers the advantages of the IBM route did not appear to be nearly as great as BT suggested. For these reasons, I pressed Sir George Jefferson very hard indeed on the national importance of the decision which BT had to make. I pointed out to him that this is a case which will be repeated many times after BT become a private sector company. If BT, as a private sector company, used their power to collaborate with British manufacturers, we had the prospect of establishing an extremely strong information technology industry, capable of earning exports and creating jobs. On the other hand, if BT took the easy way



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out, and bought IBM equipment, the industrial outcome on a wider canvas might be very different indeed.

4 I am glad to be able to report that Sir George has accepted the force of this argument. He has told Sir Michael Edwardes that he will divide the BT order between IBM-compatible systems and the ICL systems. The order of both systems will be announced simultaneously and software development will proceed in parallel, although ICL hardware will not be installed until the new Estriel machines become available next year. This outcome is acceptable to ICL, who recognise that they will be on their mettle in a direct competition between their systems and products and those of IBM. They will be able to claim, correctly, that BT have made clear that they are using the new ICL range as soon as it comes available; and they will no doubt represent the use of IBM-compatible systems as a necessary stop-gap. I shall be concerned, of course, to ensure that BT honour the spirit of this arrangement. I believe that the decision will not harm ICL in the short term; and that it will help establish the direct commercial relationship between ICL and BT which must be the basis for a successful business.

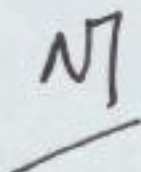
5 The long term position of ICL is more hard to judge. The balance sheet is strong, and this year the company should consolidate modest but steady growth in profits achieved since 1981. Beyond this year, everything depends



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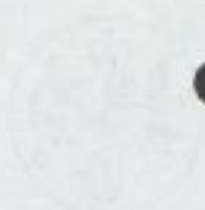
on the success of the new product range resulting from Wilmot's reshaping, and from the collaboration with Fujitsu. The first models are due to be launched late this year and early next: development is on time and the products look competitive. But there must obviously be doubts as to whether a company of ICL's size, with limited resources and market presence, can in the long run hope to compete effectively with IBM and the Japanese. ICL will therefore have to think in terms of increasing specialisation in chosen market segments and of finding strong partners capable of providing the necessary financial and technological resources. It is this which lies behind their collaboration with Fujitsu and their developing relationship with AT&T. To survive, they must secure growth in sales in the next few years - which means successful penetration of emerging markets such as office automation.

6 With these long term difficulties still to be resolved, I am therefore pleased that we have reached a short term solution which should avoid damaging ICL. Retaining an independent UK capability committed to becoming internationally competitive remains a worthwhile priority. Without this, we become less able to oppose dominance of the market by IBM, and risk abuse of that dominance by the US Administration for national or commercial purposes.

 NT

30 April 1984

Exon P01 ICL + PAYE A3



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11/11/84

ECL
EEDW



10 DOWNING STREET

From the Private Secretary

24 April 1984

Computerisation of Personal Taxation and
Social Benefits

The Prime Minister would be grateful for a note on the current state of the operational strategy for the computerisation of social benefits, the computerisation of PAYE and the relationship between the two.

In addition, she is particularly interested in the following four areas. First, she hopes that both during and after computerisation of the present systems of personal taxation and social security, there will be scope for change, and that we will not be trapped in the present structure. Secondly, she thinks it is important that the computerised tax and social security systems should be compatible. Thirdly, she has asked to what extent changes in the social security system are ruled out whilst computerisation is being carried out. She presumes that any proposals for simplifying and pruning benefits which emerge from your Secretary of State's reviews could be implemented at the same time as the operational strategy is being pursued. Finally, she attaches great importance to the prospects for saving staff and other current expenditure as a result of computerisation, and would welcome broad estimates of potential savings.

BF

The production of such a note will need to be undertaken jointly with DHSS and Inland Revenue. I am therefore copying this letter to Steve Godber (DHSS) and Inland Revenue. Could the note be completed by 21 May.

Timothy Flesher

David Peretz, Esq.,
H.M. Treasury,

JLP



10 DOWNING STREET

Prime Minister ⁽²⁾

Sir Alan Walters raised with you the question of whether computerization of income and social security benefits was being undertaken in a way which increased the opportunities for rationalizing the two systems.

Mr Willetts has summarized the position in the attached note.

I suggest I write along lines of attached draft to Treasury and DfSS, asking for a report.

AT
ms

AT

18/4

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17 April 1984

MR TURNBULL

COMPUTERISATION OF PERSONAL TAXATION AND SOCIAL BENEFITS

You asked for a note on where things now stand with the computerisation of PAYE and social security payments. You also asked for a letter to send to the relevant Departments enquiring about progress and about the compatibility of their operations.

Computerisation of PAYE

Is it this late??

This is going well. The ICL equipment and software is performing up to specification. Work should be completed by about 1988. The next stage, about which the Treasury is likely to be minuting the Prime Minister in the next few weeks, is to extend the computerisation of income tax to Schedule D. This would bring significant additional staff savings - possibly about 1,700.

Computerisation of Social Security

This is not one mega-project. The DHSS have identified 14 major innovations in the use of information technology which should, over the next 20 years, completely transform the system for assessing and paying out all the major benefits as well as recording National Insurance Contributions. Three main elements are:

- i. Providing local offices with micro computers to enable them to calculate and pay out supplementary benefits, leading to an integrated local office network.
- ii. The Unemployment Benefit Office system is currently run separately from the other social benefits, and is already computerised. The introduction of a new generation of computer hardware and software from about 1986 provides an opportunity to integrate them more closely with other DHSS operations.
- iii. Further computerisation of contribution records so that local offices have on-line access to them immediately.

Phase 1 is under way already and all local offices should have computer facilities by 1986.

The DHSS are keen to press on with the operational strategy which they set out in September 1982 and for which there is already PESC provision. The Treasury are concerned that the DHSS have not yet planned their strategy carefully enough

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nor assessed the costs and savings rigorously. It might be worth opening up this simmering departmental disagreement.

Key Issues

I suggest there are four key issues which need to be raised with the relevant departments.

- a. Are they just computerising present structures of tax and social security?

Both the Revenue and the DHSS claim that computerisation will increase flexibility. The Revenue say they have allowed for the possibility of a local income tax, tax credits, and a move to self-assessment in planning their computerisation. The DHSS are less forthright. BUT the current mish-mash of benefits with separate benefit numbers and codes will be replaced by one key number - the national insurance number - and one computer network will handle all the benefits. This should give greater flexibility.

- b. Would it be possible to integrate the two computerised systems?

There are several angles to this:

- i. Procurement. Whilst the DHSS will obviously need to meet their EEC and GATT obligations in tendering for their computer hardware and software, the two systems will obviously be more easily compatible if they use the same ICL software (and to some extent hardware) as the Revenue. Given the good track record so far of ICL in their Revenue work this would probably be defensible on other commercial grounds anyway.
- ii. One index number. This is the key to bringing the two systems together. Instead of being known by a variety of different code numbers as at present, the individual will eventually be known both to the Revenue and for all his or her different social benefits by the one unique national insurance number.
- iii. Privacy and data protection. There is already a one-way traffic of DHSS information to the Revenue. A radical change in the system, moving for example to tax credits, would require total pooling of information. This would require careful public handling.

- c. While the systems are being computerised, is significant reform ruled out?

The Revenue tend to argue that reform is ruled out while they computerise PAYE. We can press them again on this, as it is vital to keep open options for reform. It is not clear to what extent the computerisation of social security rules out major structural changes. It certainly does not rule out simplification and pruning of benefits. But it is important the Mr Fowler's reviews and any proposals which emerge are compatible with his own plans for social security computerisation.

What are the costs and the savings?

- d.

Departments should not lose sight of the fact that the computerisation should save staff and save money.

The attached draft letter aims at raising these issues with the Departments so as to ensure that they are being properly considered.

Linda Frost

ff DAVID WILLETTS

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DRAFT LETTER FROM ANDREW TURNBULL TO DAVID PERETZ, HMT

Computerisation of Personal Taxation and
Social Benefits

The Prime Minister would be grateful for a note on the current state of the operational strategy for the computerisation of social benefits, the computerisation of PAYE and the relationship between the two.

In addition, she is particularly interested in the following four areas. First, she hopes that both during and after computerisation of the present systems of personal taxation and social security, there will be scope for change, and that we will not be trapped in the present structure. Secondly, she thinks it is important that the computerised tax and social security systems should be compatible. Thirdly, she has asked to what extent changes in the social security system are ruled out whilst computerisation is being carried out. She presumes that any proposals for simplifying and pruning benefits which emerge from your Secretary of State's reviews could be implemented at the same time as the operational strategy is being pursued. Finally, she attaches great importance to the prospects for saving staff and other current expenditure as a result of computerisation, and would welcome broad estimates of potential savings.

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-2-

The production of such a note will need to be undertaken jointly with DHSS and Inland Revenue. I am therefore copying this letter to Steve Godber (DHSS) and Inland Revenue. Could the note be completed by 21 May.

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File

MR TURNBULL

6 April 1984

ICL AND BT

Norman Tebbit considers that BT should purchase ICL equipment for their new district computer systems.

The Government should not normally become drawn in to what is essentially a commercial decision. But this case involves a strategic judgement by BT about the future of ICL and the growing dominance of IBM in world-wide markets. Furthermore, the public sector has a significant commitment to ICL's products and the Government is guaranteeing £100 million of the company's debt.

In these particular circumstances, we have carefully analysed the issues involved.

The Technical and Commercial Case

We are confident that this decision does not depend upon ICL's technical capability to meet BT's requirements. The price of the contract is also not an issue.

ICL are prepared to guarantee, with penalty clauses, that they can meet both BT's operational and development requirements in the timescale specified.

The Consequences for ICL

A decision by BT to purchase IBM equipment is likely to have serious consequences for ICL.

Since the 1981 rescue, the company has been developing a range of non-IBM-compatible mainframe computers which is capable of competing with IBM in world markets. The next eighteen months see the launch of two machines in this programme which are critical for ICL's strategy.

The loss of the BT contract now would be a damaging blow to customer confidence and to ICL's efforts to convince the

world that it can survive in IBM's shadow.

ICL consider that this would seriously jeopardise the rescue strategy and could lead to a collapse similar to 1981.

We doubt that an immediate collapse would occur. It seems more likely that there would be a gradual shift by ICL's current customers to IBM. Without the cash flow generated by mainframe computers which account for 80% of the company's profits, ICL would find it very difficult to develop new models. The large public sector commitment to ICL alone would not be enough to sustain the rescue strategy.

The company would then be forced to concentrate on more specialised market segments and would not be a viable alternative to IBM in mainframe computers. Although ICL is not the complete UK computer industry, it is the only UK mainframe manufacturer.

The Atlas Compromise

BT have offered to purchase the ICL Atlas computer as a compromise solution.

However, this machine is IBM-compatible and would as effectively undermine the ICL strategy as the purchase of IBM equipment. As part of the Fujitsu collaboration, ICL only agreed to market the Atlas, a Fujitsu mainframe, in return for access to Fujitsu chip technology.

IBM-compatible mainframes play no part in ICL's future strategy and the Atlas will shortly be withdrawn as ICL's new machines appear. The Fujitsu agreement on technology access will be renegotiated.

The Strategic Case

We consider that the main reason why Sir George would prefer an IBM or IBM-compatible system is that he feels that the world is going IBM.

This raises an increasingly serious question about growing IBM dominance in all markets. There are fears about Europe becoming technologically dependent upon the US.

Nevertheless, this in itself is not a reason for supporting a British computer company unless it is able to compete effectively in world markets. With the convergence of computing, telecommunications and information technologies, ICL will need to form world-wide strategic alliances in order to compete internationally.

This appears to be happening. ICL already have the collaborative deal with Fujitsu and are developing relationships with AT&T on a number of fronts.

The company has signed a Memorandum of Understanding for the establishment of a joint venture in Value Added Network Services using international standards. They have proposed to AT&T that it considers adopting ICL's operating system in order to reduce AT&T's present dependence on IBM mainframe software. AT&T are assessing this proposal. ICL are also adopting AT&T's UNIX minicomputer operating system, the system preferred by the Alvey Directorate, as its standard.

ICL are convinced that AT&T's interest depends upon a successful ICL mainframe customer base in the UK. The company feel that this would be seriously threatened if BT, their major "Government" customer, were to choose IBM equipment.

The Risks

BT's position is that there is a greater degree of technical and commercial risk associated with the ICL option.

We accept this judgement but consider that the technical viability of ICL's proposals, the progress of the new ICL range and the commitments which ICL's senior management are prepared to give should make the risks acceptable to BT.

Nevertheless, there are risks on the other side. Progress towards privatisation could be more difficult if BT feel that Government pressure forced them to accept a second best solution. There is also no guarantee that ICL's strategy will be successful even with the BT procurement. Withdrawal from mainframe computers at a future date would have serious consequences both for BT and the Government.

Conclusion

On balance, we conclude that

- 1) BT would be taking an acceptable technical and commercial risk in purchasing ICL equipment
- 2) the loss of this contract would have very damaging implications for ICL's strategy at a time when IBM is gaining a stranglehold on world markets.

We recommend that the Prime Minister should

- 1) support Norman Tebbit's judgement that an ICL solution is preferable
- 2) meet Sir George Jefferson to resolve the issue.

DLP.

DAVID PASCALL

Post + Telecoms.

COMMISSION

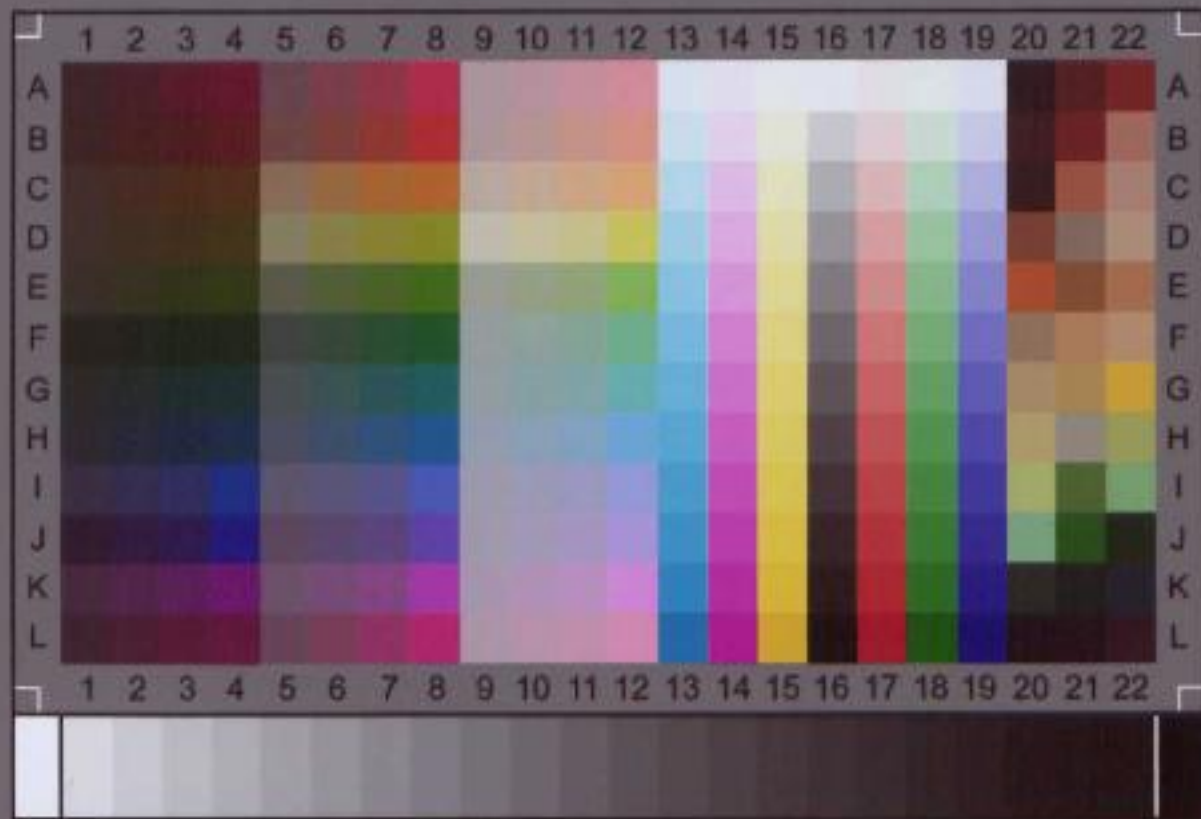
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● PART 2 ends:-

P Ewing to Mr J Bowden 16.2.84

PART 3 begins:-

D Pascall to AT 6.4.84



IT8.7/2-1993
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Charge: R090212