

PO-CH/NL/0163 PTA

Part - A

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COMMERCIAL - IN - CONFIDENCE.

Begins: 13/1/88.
Ends: 11/5/88.



PO -CH /NL/0163



PART A

Chancellor's (Lawson) Papers:

THE GOVERNMENT DATA NETWORK

Government Data Network

Disposal Directions: 25 Years

[Signature]
4/9/95.

NL/0163

PO -CH

PART A

COMMERCIAL IN CONFIDENCE:
PERSONAL



FROM: PAYMASTER GENERAL

DATE: 13 January 1988

CHANCELLOR

CST

cc Financial Secretary
Sir Peter Middleton
Mr Anson
Mr Kemp
Mr Monck
Mr D J L Moore
Dr Freeman - CCTA

GDN - RACAL-SCICON CONSORTIUM

You may recall that Racal-Scicon Ltd (RSL) is one of the three consortia bidding for the GDN. Scicon is a wholly-owned subsidiary of BP, and CCTA gather that BP are considering selling them.

2. CCTA have now received a letter from RSL setting out the steps they have taken to safeguard their position in relation to the GDN. Basically, Racal would buy out Scicon's share of RSL, while Scicon would undertake to provide the necessary staff, support and services to enable RSL to compete effectively for the GDN contract.

3. None of this has yet reached the Press. But, given our wider sensitivities over BP at the moment, you may like to be aware of these moves. (So far as I can see, there are no wider BP implications.) The Director of CCTA proposes to outline the situation to the IT directors of the GDN departments at a private meeting next Tuesday.

P.B.

PETER BROOKE

mpw



FROM: MISS M P WALLACE

DATE: 14 January 1988

PS/PAYMASTER GENERAL

Chief Secretary
Financial Secretary
Sir P Middleton
Mr Anson
Mr Kemp
Mr Monck
Mr D J L Moore
Dr Freeman - CCTA

GDN - RACAL-SCICON CONSORTIUM

The Chancellor has seen and was grateful for the Paymaster General's minute of 13 January.

mpw.

MOIRA WALLACE

PMG 28 JAN 1988 - 12

ch/ to be aware
pup

DET222

↓

FROM: D E THOMAS
DATE: 28 JANUARY 1988

npw
29/1

PS/PAYMASTER GENERAL

CC: Dr Freeman
HODs

GDN - RACAL-SCICON

We have now been informed that Scicon Ltd has been purchased by Systems Designers Ltd. SDL is a large, well known Systems House in which British Aerospace have a significant holding.

A copy of the Company's Press Release is attached.

[Signature]

D E THOMAS
GDN PROJECT DIRECTOR

Mr DJL Moore

cc PS/Chandler

(As expected)

[Handwritten initials]

Sorry →

IMMEDIATE

FOR IMMEDIATE RELEASE
January 27, 1988

SYSTEMS DESIGNERS PLC ('SD') AGREES TO ACQUIRE
BP'S INTEREST IN SCICON CORPORATION ('SCICON')

SD and Scicon are to be merged through the acquisition by SD of BP's shareholding in Scicon. At SD's request, dealings in SD shares were suspended from 8.00 am this morning. The purchase is subject to the approval of SD's shareholders. It is proposed that the enlarged group, which will have a combined revenue of over £200 million, will be called SD-Scicon.

Scicon is the parent company of a leading international computer sciences and software group, employing some 3,800 staff predominantly in the UK, France, West Germany and the USA. Its business includes consultancy, processing services, facilities management and the design and implementation of customs systems and software products.

SD is the holding company for an international systems consultancy group, employing some 1,750 staff, specialising in the advanced technology aspects of computing. Its main activities are in the scientific, industrial, financial and communications markets.

Philip Swinstead, Chairman of SD, said: "We are delighted at the prospect of merging our two operations. We have the highest regard for the technical expertise of Scicon's staff and the quality image of the company. The skills, market coverage, and reputation of the enlarged group will create a strong and diversified software company with the ability to compete more effectively in world markets."

Commenting on the disposal, BP Managing Director Robert Malpas said: "With BP concentrating increasingly on its core businesses, we believe that Scicon will be able to develop more effectively as part of a dedicated international software group."

"SD-Scicon will become the largest software company in the UK, the second largest in Europe and a major player on the world scene offering increased opportunities and scope for staff of the new group."

Mr. Malpas said that the existing contractual arrangements between Scicon and BP will continue with the new group. "BP looks forward to an excellent ongoing relationship with SD-Scicon."

Mr. Swinstead added that under the agreement, the overall terms and conditions of Scicon staff would be no less favourable than they were with BP and that staff numbers within the operating companies would not materially alter as a result of the merger. It is expected that Scicon management will be represented on the board of the new group.

Full details of the proposed merger will be included in listing particulars on the enlarged group which will be published following the completion of the audit of the accounts of Scicon for the year ended December 31, 1987. A further announcement will be made in approximately one month. Due to the size of Scicon relative to SD, the enlarged group will be treated by the Stock Exchange as a new applicant for listing.

Press Enquiries:

Systems Designers

P.E. Swinstead, Chairman 0252 622161

BP

Press Office 01-920 6543
01-920 7738
01-920 6060

Samuel Montagu & Co Limited
(advisers to SD)

R.R. Faure Walker 01-260 9290
01-260 9000

Goldman Sachs International Corporation
(advisers to BP)

J.L. Thornton 01-489 5649

8/7/DCOO

COMMERCIAL IN CONFIDENCE



cc PS/Chancellor
PS/Sir Peter Middleton
Mr Anson
Mr Phillips
Dr Freeman - CCTA

Treasury Chambers, Parliament Street, SW1P 3AG

P R C Gray Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

14 March 1988

Dear Paul

GOVERNMENT DATA NETWORK (GDN)

The Paymaster General, who is Chairman of the Steering Committee for the GDN project, has asked me to let you know the companies that are involved in the three consortia bidding for it.

2. The Paymaster has explained to his Ministerial colleagues in the Treasury that throughout the period from the receipt of tenders (21 March) to the expected time for the award of the contract, if the GDN is approved (13 June), it will be necessary for them to be aware of the sensitivities involved in any contacts they may have with the representatives of the firms who make up the consortia.

3. The Prime Minister should also be aware of this information, which is as follows:

<u>Prime</u>	<u>Partner/ Sub-Contractor</u>	<u>Sub-Contractor Associate</u>
a. Computer Sciences Company	- British Telecom - BBN Communications	
b. Racal-Scicon	- Telematics Corp	- Northern Telecom - Racal Vodaphone
c. Cable & Wireless	- International Computer Ltd	- Mercury - Oasis Ltd - Northern Telecom

4. I am copying this letter to the Private Secretaries to the Home Secretary, the Secretary of State for Social Services, the Secretary of State for Trade and Industry, and Sir Robin Butler.

*Yours ever
Simon*

S P JUDGE
Private Secretary

COMMERCIAL IN CONFIDENCE



FROM: S P JUDGE
DATE: 14 March 1988

PS/CHANCELLOR
PS/CHIEF SECRETARY
PS/FINANCIAL SECRETARY
PS/ECONOMIC SECRETARY

cc PCC
Mr C D Butler
Dr Freeman - CCTA
PS/Customs & Excise
PS/Inland Revenue
Mr Tyrie
Mr Cropper Mr Call

GOVERNMENT DATA NETWORK (GDN)

As you know the Paymaster General chairs the Steering Committee for this major data communications project in Government. He has asked me to make arrangements for his Ministerial colleagues in the Treasury to be informed of the timetable for this project and the members of the three consortia who are bidding for it.

2. The timetable is that tenders will be received in the week beginning 21 March with contracts awarded, if the project is approved, by 13 June. Throughout this period Ministers may, through their normal engagements, have contacts with the companies involved. It is very important that sensible caution is exercised in those contacts so that there can be no accusations, however unjustified, that the result of the bidding process has in any way been influenced by considerations other than the merits of the bids.

3. At present the consortia parties are as follows:

<u>Prime</u>	<u>Partner/ Sub-Contractor</u>	<u>Sub-Contractor Associate</u>
Computer Sciences Company	- British Telecom - BBN Communications	
Racal-Scicon	- Telematics Corp	- Northern Telecom - Racal Vodaphone
Cable & Wireless	- International Computer Ltd	- Mercury - Oasis Ltd - Northern Telecom

4. I enclose a copy of a Press Notice issued in January which gives more background on the GDN.

S P JUDGE
Private Secretary

15th January 1988

**GOVERNMENT DATA NETWORK :
AGREEMENTS CLEAR WAY FOR TENDERS**

The development of the Government Data Network (GDN) passed a significant milestone on 11 January with the signing of Memoranda of Agreement by the Government departments involved and three potential suppliers.

The Memoranda of Agreement, the last stage in the process before the issue of invitations to tender, were finalised between HM Customs & Excise, the DHSS, Home Office, Inland Revenue and HM Treasury (CCTA) and the three consortia bidding for the contract (Computer Sciences Corporation / British Telecom, Cable and Wireless / ICL and Racal-Scicon Ltd).

This represents a considerable achievement by all concerned. In support of the teams working in departments and CCTA, Government has been helped by specialists and consultants from PA Computers and Telecommunications, BIS Applied Systems and Kermon Associates.

The suppliers have had to solve the technical challenges of linking thousands of terminals and computers into a secure private data network. But, however it is achieved, the suppliers must offer guaranteed service levels and costs that are lower than comparable public services. Data transmitted over the network will be protected against corruption and unauthorised access.

The fact that Memoranda of Agreement have now been signed indicates that the solution put forward by each of the three suppliers as their proposed service has been examined and is recognised as meeting at least the Government's minimum requirements. The way is now clear for the tendering procedure to begin very soon, in the light of which, decisions whether to proceed can be taken.

The first planned use of the GDN service will be on the VALID (VAT Access and Local Input of Data) project in HM Customs & Excise.

PN 28/88

NOTES FOR EDITORS**Background**

1. The four departments initially involved in planning GDN (DHSS, Inland Revenue, Customs & Excise and Home Office) are all heavily dependent on data communications and had each been pursuing independent strategies aimed at providing their own individual integrated data communications networks. All four are at different stages in this activity but none has yet implemented a single comprehensive data communications system.
2. The major departments recognise the potential benefits of sharing a Government-wide networking facility. These include greater value for money through economies of scale; alleviating skill shortages; improved security stemming from a private network; and the potential smoothing of peak loadings resulting in a lower maximum capacity requirement and reduced costs.
3. GDN will link geographically dispersed computers and terminals, improving the flow of information to the user at his desk and allowing the input of information closer to its source. The infrastructure will consist of a single, private data network based on X25 packet switching techniques, providing better service and diagnostic information than is available on public services. Data will not be shared. But, within the network, circuits and switches can be shared by different users, significantly reducing costs.

Security

4. The aim is to provide each department with at least the same level of privacy and protection they would have enjoyed on their own separate departmental networks. The importance of security was recognised at the outset. The Data Protection Registrar was consulted early on, and subsequently, in order to review proposals and reports. BIS Applied Systems were engaged to review suppliers' security proposals and to advise on policy and implementation. As part of this they have produced guidelines for departments' use of the GDN. Security will also form part of the Tender Evaluation process.

Saving costs

5. There are disadvantages in an approach which would lead to each department introducing several independent data networks to meet tactical, rather than strategic, requirements. There is a high basic cost, in terms of skilled staff resource and running costs, for each network established - and these costs vary little as the size of the network increases.

6. The present plans for the GDN take account of the current planned needs of the four initial users. However, because of the size of the Inland Revenue and DHSS applications, and the wide geographical spread of all four users, the network could readily form the core of a much broader Government data communications service if this offers the best value for money in meeting needs. It will be designed from the outset to facilitate rapid and easy growth and increased geographical coverage.

7. The actual cost to each department will depend on its use of the network. The successful contractor will have to offer the service at lower cost than a comparable public service and to guarantee service levels.

Facilities Management

8. The planned network will not be owned by the Government. It will be provided, owned and operated by the successful contractor under a commercial Facilities Management contract. The supplier will be responsible for designing, procuring, implementing and running the network to provide the service stipulated by the users. A small central Government team will be needed to safeguard the Government's position, and to organise developments and changes to the network. It is intended that any contract would include clauses allowing the Government to take over the network if necessary.

Standards

9. The GDN is also intended to be a major practical example of the Government's continued support of Open Systems Interconnection (OSI) standards. OSI simplifies interworking between different systems, allowing users to mix together equipment and software from different suppliers. This effectively improves competition, increases customer choice and tends to lead to lower prices.

The tendering process

10. The Memoranda of Agreement (MOA) define the scope and quality of the services which the consortium is prepared to tender as meeting Government requirements and which Government is prepared to accept. Thus the act of signing MOA with a consortium implies that the solution offered is up to at least the minimum standard required. Depending on tendered prices and subject to contractual terms the Government can then decide if GDN represents best value for money.

11. Of the consultants used, Kermon Associates and PA Computers and Telecommunications have been involved in the planning of the project from an early stage. BIS Applied Systems contributed specialised advice on the security aspects of the network.

12. Contacts

CCTA Press Officer	Mike Miller	01 217 3402
GDN Project Director	Eryl Thomas	01 217 3050

FROM: H PHILLIPS

DATE: 14 April 1988

CHIEF SECRETARY

cc Chancellor
Paymaster General
Financial Secretary
Economic Secretary
Sir P Middleton
Mr Anson
Dr Freeman
Mr Beastall
Miss Peirson
Mr Luce
Mr Turnbull
Mr Richardson
Mr White
Mr S Willis
Mr P Rayner
Mr D Thomas
Mr Nicol
Mr Baker
Mr Hoare
Ms Wiseman
Mr P H Brook

GOVERNMENT DATA NETWORK (GDN): FINANCIAL ISSUES AND HANDLING

You will receive shortly, via the Paymaster General, a submission from ST on the financial case for the Government Data Network (GDN). The handling of this major project within the Treasury has involved CCTA (as project sponsors), four expenditure divisions (with ST3 in the lead), and GE and RC on control issues. The project has four initial departmental customers - the DHSS, and the Home Office; and two of the Chancellor's departments - the Inland Revenue and Customs and Excise. The Steering Committee is chaired by the Paymaster General.

2. This note is to brief you on the main issues that need to be decided. It covers the background to GDN; the financial issues which have been dealt with so far, and those which remain outstanding; a preliminary view of the costs and PES implications; and the proposals for timing and handling up to award of contract.

What GDN is

3. With the development of computer technology, there are increasing opportunities to improve productivity within Government by making available through a terminal on an individual's desk an increasing range of information needed to carry out tasks, together with the ability to update that information as business is conducted. Two major examples are the Inland Revenue Computerisation of PAYE and the DHSS Local Office Project.

4. But to support these applications on a wide geographical basis, data communications are necessary between all the offices involved and the computer processing centres. These are provided by data communications networks, which usually comprise trunk cables and switches to provide the backbone network, and further cables from the switches on the backbone network to individual office locations.

5. A number of departments already have major data communications needs to support their information systems, and this number will grow significantly over the next few years. The GDN project started because the four departments I have mentioned decided to explore with CCTA the financial and performance advantages of a single Government network to meet their needs, rather than adopting different and separate approaches. A project team was set up to carry the task forward.

6. The financial case for GDN will examine the costs of GDN compared with other ways of meeting the data communication needs of the four initial departments, including whether the project passes our private finance tests. Basically, the project stands or falls on this financial comparison. If it stands, it will offer wider benefits: a data communications infrastructure which can be expanded to meet the needs of other departments, thereby removing much of the risk, and potential for cost escalation, inherent in introducing new IT systems. No department would be forced to use GDN unless it offered the best option in terms of both service and cost.

Providing the network service

7. The approach adopted for GDN is that it should be designed, built and operated by a private contractor. Thus it is very much in line with contracting out and privatisation policies. The costs of GDN, including the capital cost of building the network, would be paid by user departments through service charges. The main arguments for this approach are:

- a. lack of in-house skills to build and/or manage a Government data network;
- b. need to be able to expand and update the network to take account of application changes, demand growth and technology change;
- c. because of the risks in (a) and (b), the advantages of transferring the risk to the private sector.

On purely financing grounds it would probably be cheaper in principle for HMG to pay for the capital equipment itself and franchise its operation to a contractor. In practice it is thought that this would blur the lines of responsibility between Government and contractor. This would make it impossible to achieve the transfer of risk and accountability, and might not actually be cheaper. For these reasons it is argued that an all-in contract in which the contractor provides both capital and current services would be more cost-effective. These arguments are being examined by expenditure divisions in considering the financial case.

Private financing and the PES provision

8. Because it is proposed that the capital expenditure element of GDN should be recovered by the contractor through service charges, it is necessary to apply the normal private finance control principles:

i. does private finance provide the most cost-effective solution?

ii. If it does, should public expenditure provision be adjusted to take account of private financing of a public expenditure project?

9. The first principle will be considered as part of the financial case, which will examine the basis for the arguments in paragraph 7(a)-(c) above. We consider that if these arguments and the overall financial case are sound, then this would satisfy the first principle.

10. The object of the non-additionality rule at (ii) above is to ensure that a department's capital programme should not receive a windfall gain by undertaking a private financed project instead of a publicly financed one. Typically the latter involves high capital costs at the start, followed by years of lower running costs. In an all-in deal such as the GDN, there would be a service charge with a more even profile. It would bias departments' choices and alter priorities in an unplanned way if a department were able to choose the lower payments of the privately financed option and divert the difference between that and its original provision in the early years to other projects.

11. This bias can be eliminated in two ways. If there is already provision in a department's plans for data networking, the correct procedure would be for that provision to be stripped out of the baseline and for the profile of spending on the new project, assuming it passes the financial appraisal and is approved by Ministers, to be substituted. If, on the other hand, there is no provision, the starting assumption would be that the costs of the project should be absorbed within existing provision. This could be done by first adding in the profile of payments under GDN but then making offsets from a department's programme to reflect the path of spending that would have recurred had the publicly financed option been pursued. The effect of this would be that the amount a department has left to spend on the rest of its programme is the same under either option. It would, of course,

be open to a department to submit a bid in the Survey for its programme to be restored, or what amounts to the same thing, for the GDN payments to be additional. But this should be a conscious decision not an accidental by-product of the method of finance.

12. Which of these routes is used depends on the empirical question of whether departments can demonstrate that they already had provision for data networking. In the case of DHSS the position is complex. DHSS originally had provision for its own conventionally financed project. In the 1987 Survey adjustments were made to its provision to reflect a decision to proceed using BT's PSS service. Like the GDN this would be paid for through recurrent charges. All capital provision was surrendered and lesser running costs provision substituted. In its case the correct procedure would now be to strip out this running costs provision and replace it by its share of the GDN costs and this is what we expect to do.

13. Customs and Excise are in a similar position except that the provision for their own conventionally financed project does not seem to have been rescheduled. In their case consistent treatment would be to strip out the capital and current expenditure and replace it by adding back into running costs their share of GDN costs. Customs have already indicated that the 'spare' provision has been earmarked for other IT projects and they can be expected to argue strongly against any suggestion that they surrender the excess provision and be asked to rebid for it.

14. Inland Revenue is in a somewhat different position. It already has its own network and its existing provision consists of the costs of running the existing network (estimated at £4.5 million per year by CCTA) plus some provision for enhancements. The position is complicated, however, since in the event of the successful GDN contractor not taking over the Inland Revenue Network that part of the existing provision earmarked for running the system would still be needed in the PES period, pending transfer to GDN, while incurring GDN costs for other applications. In the event of the contractor taking over their existing network, Inland Revenue might receive about £2.7 million

MANAGEMENT AND COMMERCIAL IN CONFIDENCE

(to be negotiated) in one year or spread over several years. To be consistent with the basis of allocating GDN costs we assume that the contractor will take over the Inland Revenue Network and therefore all existing provision should be surrendered and substituted by GDN costs.

15. In the case of the Home Office, the baseline provision is for current expenditure to run a rented network. The intention is that the existing network will be dropped in about 18 months' time and therefore the correct procedure is to substitute the Home Office's share of GDN provision in place of its existing provision. The additional provision required is small and our presumption would be that the Home Office should absorb it.

16. The position can be summarised in the following table:

	<u>£000's</u>			
	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92(2)</u>
<u>Existing provision</u>				
IR(3)		5,400	8,970	9,194
C&E	1,519	3,531	3,421	3,507
DHSS		1,183	12,811	13,131
HO		80	80	82
Total	1,519	10,194	25,282	25,914
<u>GDN costs (worst case, VAT inclusive)</u>				
IR(1)		9,639	11,360	12,109
C&E	279	1,143	1,218	2,276
DHSS		1,282	6,963	15,709
HO		71	163	191
Total	279	12,135	19,704	30,285
<u>Balance</u>				
IR		4,239	2,390	2,915
C&E	-1,240	-2,388	-2,203	-1,231
DHSS		99	-5,848	2,578
HO		9	83	109
Total	-1,240	1,959	-5,578	4,371

(1) The costs for Inland Revenue do not take account of any service credit for the existing system.

(2) On the basis of a 2½ per cent uplift. Departments have estimated they require provision of £52 million without the GDN.

(3) Includes £4.5 million from 1989-90 for running existing systems.

17. The table shows that while Inland Revenue (for all 3 years) and DHSS (for the third year) have insufficient provision to meet their share of GDN costs, the position for the four departments taken together (VAT inclusive and on a worst case basis) is close to balance over the three Survey years before allowing for the service credit. Providing the amounts indicated above are surrendered no department will receive a windfall gain as a result of choosing GDN rather than going it alone and the private finance rules on additionality will be satisfied. Only DHSS and Inland Revenue are likely to have to bid for additional provision in the Survey for GDN. DHSS will require no net addition over the 3 Survey years whereas Inland Revenue will require about £9.5 million before allowing for an anticipated £2.7 million service credit. However Customs are likely to submit a bid in the Survey to restore the offset which is being required.

Timetable and handling

18. It is desirable to take an early decision on GDN. Customs, DHSS and Home Office all need to take strategic decisions on their approach to data communications in the next couple of months. Obviously, the longer the decision takes, the greater the risk of highly sensitive commercial information about the bids leaking out. With this in mind, the Steering Committee has approved the timetable at Annex A. It is tight but probably manageable.

19. If you approve the financial case, I think we should make it clear to departments how we intend to proceed ie agreed surrenders of existing provision as set out in paragraph 16, and when the Steering Committee has taken a view on the best bid, agreed bids for GDN itself. That will leave the Survey to deal with any bids to restore required offsets. The Paymaster General may then wish

to take the lead as Chairman of the Steering Committee in getting the agreement of the Ministers in charge of the four departments and then collective endorsement of the letting of the contract. The latter can be done through E(A) and, unless the previous stages reveal unresolved controversial issues, probably in correspondence.

20. If it is decided to let the contract, decisions will have to be taken on how this should be announced, and how much can be said publicly. An important issue here will be the public perception of GDN as a threat to privacy and civil liberties: a mistaken perception, but one that is always difficult to remove completely in public debate. This problem will in my view be enhanced if the Home Office wish to use GDN for the new Police National Network, which I understand they are considering. This is not part of the GDN financial case, and does not affect the viability of GDN; but its handling is something which I suggest you and the Paymaster General should settle with the Home Secretary in advance of any GDN announcement.

HP.

HAYDEN PHILLIPS



FROM: S P JUDGE
DATE: 15 APRIL 1988

PS/FINANCIAL SECRETARY
PS/ECONOMIC SECRETARY

cc PS/Chancellor
PS/Chief Secretary
Mrs Wiseman

GOVERNMENT DATA NETWORK

I mentioned to you yesterday that the financial case for this project was now in the Treasury, and that it would be submitted to the Chief Secretary at the end of next week - with the aim of reaching a decision on it over the week-end.

2. If the case is approved, there will then be a separate decision, with the Paymaster General in the lead, to select which consortium should be awarded the contract.

3. Mr Phillips will be putting a "scene-setting" submission to the Chief Secretary later today, setting out the background to the project and identifying the decisions and issues that the Chief Secretary will need to address. I have asked him to copy this submission to you, and he has agreed - on the reasonable condition that it is not copied to Customs and Revenue.

4. I suggested yesterday that you might like to enquire whether Customs and the Revenue proposed to consult your Ministers about this procurement: they have been asked to confirm that they are content with the financial case by the middle of next week.

S P JUDGE
Private Secretary

FROM: H PHILLIPS

DATE: 21 April 1988

1. PAYMASTER GENERAL
2. CHIEF SECRETARY

cc Chancellor
Financial Secretary
Economic Secretary
Sir P Middleton
Mr Anson
Mr Turnbull
Mrs Case
Miss Peirson
Miss Sinclair
Mr Richardson
Mr Hansford
Mr A White
Mr Hoare
Mr Brook
Mr Willis
Mr Nicol
Mr Call

GOVERNMENT DATA NETWORK

I attach a submission which sets out the financial case for the GDN and which invites the Chief Secretary, in the light of any additional comments you wish to make, to approve the financial case and the arrangements for handling expenditure implications.

2. Our basic stance on PES, and particularly on ensuring that our private financing rules were satisfied, were set out in my submission of 14 April. If the Chief Secretary agrees he is invited to write to the Home Secretary, the Secretary of State for Social Services, the Economic Secretary and Financial Secretary (in respect of Customs & Excise and the Inland Revenue) early next week. Our proposal is that these letters should be followed up by letters from you in the light of the Steering Committee's decision on the tender bids.

3. I agree with the arguments in the submission on the balance of the financial case. If it is agreed, it should be noted that one additional advantage arising from a contract of the sort envisaged is that it would be likely to reduce the vulnerability of data communications to industrial action.

4. On expenditure, three of the four departments will I believe be ready to go along with what we propose - namely stripping out provision for relevant data communications and inserting agreed provision for GDN on the basis of the selected bid. This is problematical only for Customs & Excise who now tell us that they have allocated some of the money which we understood was for data communications to other matters. I do not believe this should alter our stance. It would be embarrassing to be seen not to treat them on the same basis as the other departments and would risk other departments claiming that the figures they had given us should be reopened on similar grounds. If they can demonstrate that they are in real difficulty over their three year running costs agreement then this can be examined separately in the Survey.

5. On timing, it is possible that the Chief Secretary may have questions to ask of us which will require further work to be done; and there is the difficulty with Customs. You may therefore need to reconsider the timing of the Steering Committee meeting planned for Tuesday of next week. We all recognise the importance of pressing on with the timetable, but we have taken great pains to ensure that the decision on the financial case was taken before, and seen to be uninfluenced by, the price of the successful bid, and we should not lightly jeopardise that now. My view is that if the Chief Secretary is content with the case as presented, and the way of handling the expenditure implications, then you should go ahead with your meeting of the Steering Committee on Tuesday even though we may still need to sort out the position in relation to Customs & Excise.

HP.

HAYDEN PHILLIPS

FROM: A M WHITE
DATE: 21 APRIL 1988

1. MR PHILLIPS
2. PAYMASTER GENERAL
3. CHIEF SECRETARY

cc Chancellor
Financial Secretary
Economic Secretary
Sir P Middleton
Mr Anson
Mr Turnbull
Mrs Case
Miss Peirson
Miss Sinclair
Mr Richardson
Mr Hansford
Mr Hoare
Mr Brook
Mr Willis
Mr Nichol
Mr Call

GOVERNMENT DATA NETWORK

Mr Phillips' submission of 14 April set out the background and main issues on the proposal to acquire a Government Data Network (GDN) on a facilities management contract. This submission examines the financial case for the GDN and its PES implications and recommends that you write to relevant colleagues on the basis upon which the GDN project can proceed to award of tender.

Main Issues

2 The main issues are:

- (a) is the proposed GDN cost effective?
- (b) are the risks of this project acceptable?
- (c) the PES and private finance implications.

Cost effectiveness

3 There are two main alternatives to the proposed GDN contract:

- (i) departments building their own data networks; and
- (ii) using the existing publicly available service.

These alternatives are already been pursued by those Departments whose network requirements preceded the GDN proposal, and the key features of these options are set out in Annex A.

4 There is also an alternative financing option to the proposed facilities management contract, that is, buying the capital equipment for a GDN and contracting out the management. In theory meeting the capital cost of the GDN from public expenditure rather than paying for the private financing of GDN through the tariff would make it possible to reduce the overall cost of the GDN. However we have been unable to quantify the level of possible saving: it would depend, inter alia, on the proposed means of financing by the consortia. This information, although sought, was not given to us by the consortia in a form which enabled us to work out their financing intentions. Partly because of the difficulties in obtaining the relevant information but mainly because of the disadvantages covered in paragraph 5 below we recommend that this financing option should not be pursued further.

5 Against the possible savings of this financing option there are disadvantages. The option would inevitably raise questions of ownership of the equipment, and muddle accountability for its efficient and effective operation, for example it could blur responsibility for the non-delivery of a service. Decisions on the expansion of the GDN or the refreshment of its technology on a commercial basis could be inhibited by the need to obtain PES cover. It would also cost more in the early years.

6 It was accepted at the outset that the GDN would stand or fall on the financial case, excluding any qualitative benefits arising from creating a data network infrastructure which all Departments could use. A summary of the financial case is attached (top copy only).

7 The three alternatives (individual networks, public network, and GDN on a facilities management contract) were appraised. Treasury were closely involved in the appraisal and the sensitivity analyses. The results show the following discounted costs for the three options over a ten year period:

GDN facilities management contract	
(worst case)	£229.8m
Individual Networks	£337.5m
Public Service network	£547.6m

GDN emerges, even on a worst case basis, as the best option. The 4 Departments have undertaken to use it for the applications identified in the operational requirement where it is shown to be the most cost effective option.

Risks

8 The main risks which have been quantified are the realism of the critical assumptions, all of which have been agreed with the 4 departments, about price and traffic volumes. These critical assumptions are the rate of tariff increase in the public service network, changes in demand arising from variations in the number of network access points or in traffic, and the potential for growth. The sensitivity of the options to these assumptions has been analysed and the results are summarised in Annex B. It shows that the ranking of the options is not changed by variations in the critical assumptions.

9 There are also other potential risks, mainly

(a) either financial failure of the selected consortium or technical problems leading to inadequate performance or delay in delivering the GDN;

(b) of getting locked into the GDN when unforeseen technology improvements might offer a better alternative deal some time in the life of the GDN contract;

(c) of BT operating predatory pricing, reducing its prices by more than appeared realistic in the sensitivity analyses so as to protect its public switched service network (PSS) business; and

d) of BT folding up its PSS business, following the loss of its largest customer, which would reduce the options and eliminate the price comparator.

10. We consider these risks to be supportable, and minimised under the terms of the proposed contracts, which have been agreed with Treasury Solicitor's Department. The contractual framework comprises a Network Agreement, with the Treasury as principal, which would be an enabling contract for the Access Agreements between the contractor and the User Departments.

11. The contract provides for protection from any additional costs arising from a failure to provide services at the specified times and levels. The prestige of the project and the possibilities of expansion should also encourage the selected consortium to ensure that the project is successful.

12. On locking in, all of the options involve limiting departments flexibility to move from one data communications solution to another. The chief limitation of GDN, and the PSS solution, is that the development of the IT skills needed to pursue the individual network solution are foregone. On the other hand the forecasts of the gap of the numbers of skilled IT staff required and those available will tend to make individual networks a costly alternative, and there would need to be a strong reason for changing from GDN once it had been selected. Also the contract and the tariff structure increases the incentive to the contractor to provide a satisfactory service to encourage users to expand their applications and attract new users.

13. On competitive pricing, the draft contract includes a clause which requires the GDN charge always to be less than the comparable PSS charge. This may become uncomfortable for the consortium if BT sharply reduce charges on the basis of an expansion of PSS. (Both they and we would expect OFTEL to intervene if BT adopted predatory pricing to undermine GDN.) The risk of BT opting out of this field of business is small in view of the likely growth in data communications, and the risk (to BT) that Mercury would want to fill any gap with the intention of capturing some key elements of telecommunications business with it.

PES and Private Finance

14. Mr Phillips' submission set out the position on PES, which shows that GDN, on a worst case basis, leading to net PES changes of:

<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>£M</u>
-1.2	+1.9	-5.6	+4.4	

Under a facilities management contract almost all departmental expenditure on the GDN would score as running costs and be paid through the tariff. As the present provision comprises both capital and current expenditure total running costs will be increased - by about £7m in 1989-90 (0.05% of total running costs) - but with clear and publicly justifiable reason.

15. These net figures will change once the tender is selected. The actual figures would be somewhat lower than the worst case shown above. Taking account of this and the possible credit to the Revenue for their existing system, the PES increases may be eliminated, and the savings increased.

16. Even on a worst case basis, in PES terms the GDN contract appears to be a good buy. To secure these advantages and to satisfy the criteria on non-additionality (paragraphs 8 - 11 of Mr Phillips' submission of 14 April) we recommend that you now write to the Secretary of State for Social Services, the Home Secretary and the Financial Secretary (for Inland Revenue) and Economic Secretary (for Customs and Excise) explaining that substitution in PES of GDN costs for the earlier assumptions about network requirements are a condition of your agreement to the GDN going ahead.

17. We believe that DHSS will accept this. The Home Office position is slightly different. As they stand to make a small gain through substitution a slightly different approach is needed there to avoid diluting the principle of non additionality and the

risk of argument about exceptions from the other departments. Also the Home Office have yet to take a decision that using GDN is the most cost effective solution for the project included in the operational requirement. To avoid these complications we propose making no change to the Home Office baseline at this stage but to that you write to the Home Secretary to ensure that, when he has reached a decision, his GDN costs will be dealt with in the way applied for other departments.

18. I attach draft letters to DHSS and Home Office Ministers. I attach minutes in similar terms to the Financial Secretary and Economic Secretary.

19. As for DHSS we see no problem with Inland Revenue. The position on Customs is more difficult. The financial case included information provided by Customs on the amount included in their baseline for GDN, and on a worst case basis there will be significant savings on this baseline. On this basis using GDN would not present any problems for C&E. However it has recently emerged that Customs re-allocated provision to other priorities following the 1987 Survey settlement having taken a "calculated gamble" about the outcome of the GDN tenders.

20. We do not recommend allowing Customs and Excise to retain that element of relevant data network provision which has been re-allocated to other Customs priorities. Any favourable treatment of Customs would be apparent to other Departments and would be difficult to defend. Insofar as Customs have real problems in managing their expenditure within the agreed 3 year plan, these could be looked at in the 1988 Survey. The Economic Secretary will be minuting you separately on this. The draft minute to the Economic Secretary may need to be revised to take account of his minute.

21. On private finance, Mr Phillips' submission discussed the question of additionality. Given the proposed handling of PES we are satisfied that the criteria are met. Paragraphs 3-7 above confirm that the prime criterion of cost-effectiveness is met.

Future Handling

22. The GDN Steering Committee has planned a meeting on 26 April to consider the results of the evaluation of the three tenders for GDN and, subject to your agreement, make a decision on the award of the tender. The next stage would be to seek endorsement of the award of tender by the Ministers of the 4 Departments concerned. The actual costs would be known at this stage, which should just give departments time to adjust accordingly their bids in the 1988 Survey.

23. Given the wider departmental interests in the GDN, and Parliamentary interest in the privacy aspect of the data network, it is intended to seek the agreement of interested Ministers, probably by correspondence, before the contract is awarded. It is hoped that these stages can be completed by June.

Conclusion

24. The case for GDN on a facilities management basis has been considered on the basis of known and agreed requirements of 4 Departments, and the results of the appraisal show that it represent very good value for money compared with the alternatives, even after allowing for reasonable risks.

Recommendation

25. On the basis of this evaluation of the financial case we recommend that you support the proposal and write to the Ministers concerned as proposed in paragraph 18 to secure the PES position. These letters will deal with the PES position. Following the Steering Group meeting it is proposed that the Paymaster General should write to Departments about the recommended tender.



A M WHITE

DRAFT LETTER TO

Secretary of State for Social Services

GDN

Our officials have been exploring the case for establishing a Government Data Network to meet certain agreed data communications needs of your department and those of three other departments.

Tenders for the GDN were received last month, and a financial case has been developed, comparing the costs of the GDN with the available alternatives. This case shows the GDN to be the most cost effective option.

The financial case includes a comparison of the costs of meeting your department's declared data communications needs through GDN with the existing PES provision which was necessarily determined at a time when the GDN costs were unknown. If the GDN is to be established by private finance and paid for by service charges this will involve a different profile of expenditure than that included in your existing provision.

I propose that we handle this by deleting from the PES baseline the provision that has been identified in the financial case for relevant data communications (whether capital or current) and replacing it with provision to meet the GDN costs, which will be virtually all running costs expenditure paid via the tariff.

On the basis of GDN worst case costs this will lead to an increase in your baseline for 1989-90 of £0.099m, a reduction in 1990-91 of £5.848m and an increase in 1991-92 of £2.578m. These figures will be revised following the tender evaluation and selection of the preferred tenderer at the end of this month, allowing you to determine the effect on your baseline before the 1988 Survey.

I should welcome your confirmation that you are willing to proceed with the GDN proposal on this basis. It would be helpful to have this confirmation by 3 May. Your final endorsement of GDN will be sought soon afterwards following the selection of the winning tender. We would expect put the decision to other colleagues before making it public in June.

DRAFT LETTER TO

Home Secretary

GDN

Our officials have been exploring the case for establishing a Government Data Network to meet certain agreed data communications needs of your department and those of three other departments.

Tenders for the GDN were received last month, and a financial case has been developed, comparing the costs of the GDN compared with the available alternatives. This case shows the GDN to be the most cost effective option.

The financial case, which has been agreed with your officials, includes a comparison of the costs of meeting your department's declared data communications needs through GDN with the existing PES provision which was necessarily determined at a time when the GDN costs were unknown. If the GDN is to be established by private finance and paid for by service charges this will involve a different profile of expenditure than that included in your existing provision.

I propose that we handle this by deleting from the PES baseline the provision that has been identified in the financial case for relevant data communications (whether capital or current) and replacing it with provision to meet the GDN costs, which will be virtually all running costs expenditure paid via the tariff.

On the basis of GDN worst case costs this would lead to a reduction of £9,000 in your baseline for 1989-90, and increases of £83,000 and £109,000 in 1990-91 and 1991-92 respectively. These figures will be revised following the tender evaluation and selection of the preferred tenderer at the end of this month.

However I understand that you are have not yet satisfied yourself that GDN does offer the most cost effective solution to the project identified in the GDN operational requirement. That being so I do not propose to make the substitution at this stage, but you will wish to take it into account in considering your position on the 1988 Survey.

I should welcome your confirmation that you are willing to proceed with the GDN proposal on this basis. It would be helpful to have this confirmation by 3 May. Your final endorsement of GDN will be sought soon afterwards following the selection of the winning tender. We would expect put the decision to other colleagues before making it public in June.

DRAFT MINUTE TO

Financial Secretary

GDN

Our officials have been exploring the case for establishing a Government Data Network to meet certain agreed data communications needs of the Inland Revenue department and those of three other departments.

Tenders for the GDN were received last month, and a financial case has been developed, comparing the costs of the GDN with the available alternatives. This case shows the GDN to be the most cost effective option.

The financial case includes a comparison of the costs of meeting the Revenue's declared data communications needs through GDN with the existing PES provision which was necessarily determined at a time when the GDN costs were unknown. If the GDN is to be established by private finance and paid for by service charges as proposed this will involve a different profile of expenditure than that included in the existing provision.

I propose to handle this by deleting from the PES baseline the provision that has been identified in the financial case for relevant data communications (whether capital or current) and replacing it with provision to meet the GDN costs, which will be virtually all running costs expenditure paid via the tariff.

On the basis of GDN worst case costs this will lead to increases in your baseline from 1989-90 of £4,239,000, £2,390,000 and £2,915,000, after allowing for the costs of running the existing network. It also takes no account of the possible service credit for the existing system. These figures will be revised following the tender evaluation and selection of the preferred tenderer at the end of this month, allowing you to determine the effect on the Revenue baseline before the 1988 Survey.

I should welcome your confirmation that you are willing to proceed with the GDN proposal on this basis. It would be helpful to have this confirmation by 3 May. Your final endorsement of GDN will be sought soon afterwards following the selection of the winning tender. We would expect put the decision to other colleagues before making it public in June.

DRAFT LETTER TO

Economic Secretary

GDN

Our officials have been exploring the case for establishing a Government Data Network to meet certain agreed data communications needs of HM Customs and Excise and those of three other departments.

Tenders for the GDN were received last month, and a financial case has been developed, comparing the costs of the GDN with the available alternatives. This case shows the GDN to be the most cost effective option.

The financial case includes a comparison of the costs of meeting your department's declared data communications needs through GDN with the existing PES provision which was necessarily determined at a time when the GDN costs were unknown. If the GDN is to be established by private finance and paid for by service charges as proposed this involves a different profile of expenditure than that included in Customs existing provision.

I propose to handle this by deleting from the PES baseline the provision that has been identified in the financial case for relevant data communications (whether capital or current) and replacing it with provision to meet the GDN costs, which will be virtually all running costs expenditure paid via the tariff.

On the basis of GDN worst case costs this will lead to reductions in Customs' baseline from 1989-90 onwards of £2.388m, £2.203m and £1.231m. These figures will be revised following the tender evaluation and selection of the preferred tenderer at the end of this month, allowing you to determine the effect on Customs' baseline before the 1988 Survey.

I should welcome your confirmation that you are willing to proceed with the GDN proposal on this basis. It would be helpful to have this confirmation by 3 May. Your final endorsement of GDN will be sought soon afterwards following the selection of the winning tender. We would expect put the decision to other colleagues before making it public in June.

Individual Networks

The special skills required to design and manage data networks are scarce nationally, and more so in Government departments. ADP staff wastage in the 4 "GDN Sponsor" Departments (IR, C&E, DHSS and Home Office) is running at 8.6%, which is higher than the overall ADP wastage rate.

It would be costly to buy in these skills, particularly if Departments were competing with each other. In seeking to attract and retain the special skills that would be needed for a GDN there is a risk that ADP pay generally would be driven up.

For those Departments for whom the public switched service route is unacceptable, eg Inland Revenue, it represents the only alternative to GDN. The skills shortage is also an important argument supporting the proposed operation of GDN on a Facilities Management basis.

Public Switched Service

The main doubts about the public switched service approach are on performance and security. The only existing service (the PSS operated by BT) is used by DHSS for its Unemployment Benefit operations. To meet the full requirements of all four Departments would require significant enhancements to the existing system, and Government business would swamp BT's PSS capacity. (At present DHSS's applications using PSS amount to 40% of PSS capacity.)

**MANAGEMENT AND COMMERCIAL-IN-CONFIDENCE
INVESTMENT APPRAISAL**

TABLE 6

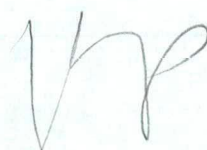
Sensitivity Analysis - effect on ranking (Paragraph. 6.19)

Original Ranking	£'million
1 GDN Worstcase	229.8
2 Enhanced Individual Private Networks	337.5
3 Enhanced PPSS for Individual Departments	547.6

Paragraph	Scenario	Effect +/- £'millions			End result £'millions			
		GDN	PN	PPSS	GDN	PN	PPSS	
6.20	BT PPSS tariff increases by	1% annually	NA	NA	+4	NA	NA	551.6
		2% annually	NA	NA	+8	NA	NA	556.6
	reduces by	2% in first year	NA	NA	-4	NA	NA	543.6
		5% in first year	NA	NA	-8	NA	NA	539.6
6.23	Increase in NAPs* by 3% annually after 1994	+2.7	NA	+4.5	232.5	NA	552.1	
6.24	Traffic increases at 10% above predictions from year 6	+3.4	NA	+8.4	233.2	NA	556.0	
6.25	Slower take-up by 40% Increased growth by 40%	-91	-135	-219	138.0	202.0	329.0	
6.26	Increase in NAPs* from 1991 to 1998 continues at half growth of earlier years. (Double NAPs years) - effect on <u>Initial costs</u>	-4.3	NA	NA	NA	NA	NA	
6.27	Acceptance delayed by 12 months	+29.8	+43.8	+82.1	259.6	381.3	629.7	
6.28	Increase in GDN tariff above rate of inflation by	5%	+7.4	NA	NA	237.2	NA	NA
		10%	+15.5	NA	NA	245.3	NA	NA

* Network access point

MANAGEMENT IN CONFIDENCE



FROM: M J HOARE

DATE: 22 April 1988

ECONOMIC SECRETARY

cc **PS/Chancellor**
PS/Paymaster General
PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr Anson
Mr H Phillips
Mr Culpin
Mr Turnbull
Miss Peirson
Miss Sinclair
Mr Hansford
Mr Richardson
Mr A M White
Mrs Wiseman
Mr Willis
Mr Call

GOVERNMENT DATA NETWORK

Introduction

1. Mr Russell's minute of 18 April, to you, which generally supported the introduction of GDN also contains something of a sting in the tail in the PES reference in the final paragraph. In short Mr Russell's message is that although the Financial Case showed that Customs will not need to bid for GDN provision, they are unwilling to surrender any excess data communications provision as this has already been diverted for other uses. Mr Russell's minute has been followed by a letter at official level (copy attached) which suggests that Customs approval of the Financial Case is conditional on the figures in the case being amended.

2. Meanwhile you will have seen Mr Phillips' minute of 21 April covering a submission by Mr White. This raises the same point and recommends that we should not agree

to Customs' proposal. The Paymaster General strongly agrees (Mr Judge's minute of 22 April to PS/Chief Secretary).

Background

3. In his submission of 14 April Mr Phillips explained the private finance control principles. In essence, these are that existing provision in the PES baselines for alternative in-house methods of providing a data communications service will be removed, and the costs of the privately financed method will then be added back. Departments would be free to bid in the Survey to retain any difference between the two.. On the basis of the figures provided by Customs and seen by them in draft, the GDN Financial Case shows that this would produce savings for Customs and Excise of between £1.2m and £2.4m per annum.

Customs Case

4. Customs have now claimed that there are no savings for them to surrender because they took a risk and allocated funds for data networking on the basis that GDN would go ahead. They have allocated the rest to make up a shortfall on budgets which impinge directly on outputs. They argue that this was necessary because we gave them less than they had bid for overall in the 1987 Survey; and that the Chief Secretary had indicated that they should maximise their outputs within their agreed PES provision. They therefore claim that the figures shown in the tables attached to Chapter 8 of the Financial Case are higher than the actual provision available for data communications.

5. The figures in Chapter 8 have appeared in a number of successive drafts of the Financial Case over recent months and we cannot accept the Customs argument that the need for them to be amended was missed by CCTA at the last minute. Nor is it acceptable for Customs to tell us at this stage that the figures were spurious from the outset - in that they intended to make no such PES allocation for data communications in their baseline. Equally, we cannot permit them to ignore the private finance rules. What is clear is that if, for any reason, GDN did not go ahead Customs would have to find provision for an in-house system from within their present PES baseline.

6. Whatever the outcome, there would be no great impact on the discounted costs of GDN over a ten year period (Mr White's submission of 21 April). But any concession

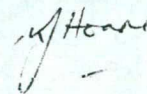
to Customs would offend against the private finance rules and add to the cash baseline for the 1988 Survey.

7. Mr White's submission of 21 April recommends that the Chief Secretary should make it clear that a condition of his agreement to the GDN going ahead is that GDN costs are substituted for existing baseline provisions for departments' own data network costs, with any difference being surrendered.

8. We cannot guarantee that the other departments involved (and those which are likely to join the GDN later) would not learn of Customs' bid to change the Financial Case figures. As the Paymaster General has already observed any concession would make it more difficult to hold the line on private finance treatment in PES - particularly when it is one of the Chancellor's own Departments that has "got away with it".

9. The only way of "legitimising" Customs' proposal would be for the Chief Secretary to agree to them retaining the provision which should have been surrendered, but which has been re-allocated to VAT control and drugs enforcement. We recommend against this as it would be tantamount to agreeing in advance of the 1988 Survey expenditure which we believe should feature as a bid. Customs should keep to the Financial Case figures they provided, and observe the private finance rules and surrender the savings. If necessary they must bid for the lost provision.

10. I recommend that your PS should minute to Mr Russell on the lines of the attached draft. ST, CCTA and GEP agree .



M J HOARE

ENC

DRAFT NOTE FROM PS/ECONOMIC SECRETARY TO MR RUSSELL (C & E)

The Economic Secretary has asked me to thank you for your minute of 18 April in which you acknowledge the benefits to the department of GDN and support its introduction.

The Economic Secretary is concerned to learn that you now claim that the figures provided by Customs for the GDN Financial Case are misleading in terms of the data communication provision within your baseline. He understands that several successive drafts of the case containing these figures were circulated but it was not until very late in the day that you have sought to amend them.

The Economic Secretary considers that it is essential to adhere to the rules governing private finance. These require the costs of the alternative in-house provision of a service to be removed from the baseline, and replaced by the costs of the out-house option. If GDN were not to go ahead the provision you would have to find for alternative plans are those you have identified in the figures provided for the Financial Case. He considers that these must stand and the net savings attributable to GDN should be surrendered. To do otherwise can only cause argument among the other departments who are party to this proposal. The fact that Customs received less PES provision overall than bid for in the 1987 Survey is not relevant.

The amounts involved constitute only $\frac{1}{4}$ to $\frac{1}{2}$ per cent of total provision. The Economic Secretary would expect it to be possible to absorb pressures of that order

without any detrimental effect on activities in the areas of VAT enforcement and drugs control. Customs were granted a 3 year settlement in the 1987 Survey on the basis of an acceptable management plan. Part of that deal was that any unforeseen pressures should be offset within agreed provision. While the Economic Secretary accepts that pressures resulting from circumstances such as those we are considering now were not precisely the kind we envisaged when we set up the 3 year management plan system, he does not think it is unreasonable to ask you to offset these marginal costs in view of the overall benefits that you have acknowledge will accrue if GDN is accepted.



FINANCE & MANPOWER DIVISION
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11th FLOOR EAST
NEW KINGS BEAM HOUSE
22 UPPER GROUND
LONDON SE1 9PJ

M J Hoare Esq
FP Division
H M Treasury
Parliament Street
London SW1P 3AG

20 April 1988

Dear Mike

GDN FINANCIAL CASE

You will probably have seen Sandy Russell's minute to the Economic Secretary, copied to Robert Culpin, about this case. It might be helpful if I were to amplify the paragraph about PES, because the GDN case itself is incorrect and requires amendment.

The tables attached to chapter 8 of the case are based on figures which were in our PES bid: they were what it would have cost if we were not to go for GDN. As you know, we ended up with a provision which was below the level of our bid, but it was agreed with the Chief Secretary that we should attempt to maximise our outputs within that provision. No bar was placed on how the reconciliation should be made, although there was, I think, a clear understanding that we would seek to protect as far as we were able those budgets which impinged directly on outputs. This meant protecting in particular salaries, travel and subsistence, overtime etc, all of which affect the level of highly cost-effective VAT control visiting and drugs-related preventive work.

Consequently, our reconciliation focused as always, on what might be termed as support budgets. Clearly there is a limit to which these can continue to bear the brunt of reductions against need, and we shall no doubt return to this subject again in the context of the 1988 PES round; but, suffice to say at this point, that last year we saw every opportunity to cut back in areas where the impact on outputs was least. In some areas we took calculated risks, and one of these was in data communications: we allocated resources on the assumption that GDN would go ahead.

The financial case is defective in two respects. First of all, it does not reflect the money in our baseline for data communications. It is based on an assumption that our PES bid was agreed in total, whereas it should have been based on the provision allocated to the Department. The need for amendment was made clear to the CCTA but was missed at the last minute. Secondly,

the tables in chapter 8 do not compare like with like in so far as the figures for GDN do not include the costs of transitions: for example, there is an element of double running during the period of switching over to GDN.

Taking both these factors into account should have provided a run of figures (rounded up) as follows: £350k in 1988-89; £1 million in 1989-90; and £1 million in 1990-91.

As Sandy Russell stated in his minute to the Economic Secretary and in his formal reply on the case to Paul Freeman we see great benefits to this Department from the GDN and we support its introduction. But our agreement to the actual financial case accompanying Paul Freeman's submission of 12 April is conditional on the figures in it being amended in accordance with this letter.

A copy of this goes to Paul Rayner in the CCTA.

louis

Dennis

D F O BATTLE
FMD



FROM: S P JUDGE
DATE: 22 April 1988

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Turnbull
Mrs Case
Miss Peirson
Miss Sinclair
Mr Richardson
Mr Hansford
Mr A White
Mr Hoare
Mr Brook
Mr Willis
Mr Nicol
Mr Call

GOVERNMENT DATA NETWORK

The Paymaster General has seen Mr Phillips' and Mr White's submissions of 21 April about the financial case for this project. He supports the recommendation to approve it.

2. The Paymaster will look at this again over the weekend, and let the Chief Secretary have his further comments.
3. The Paymaster strongly endorses the proposed handling of Customs' public expenditure provision: to do otherwise would risk unstitching the deals with the other Departments.
4. The Paymaster hopes that the Steering Committee meeting next Tuesday can go ahead, but will reconsider this issue on Monday.
5. The Paymaster discussed the handling of the discussions with Customs and Revenue at Prayers this morning, and it was agreed that it would be better for the Chief Secretary to write to the Chairmen of the Boards, copied to the Financial and Economic Secretaries.

S P JUDGE
Private Secretary



FROM: S P JUDGE
DATE: 26 APRIL 1988

myp

MR PHILLIPS

cc APS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
Mr Culpin
Miss Sinclair
Mr Hansford
Mr Richardson
Mr A M White
Mr Hoare
Mrs Wiseman

GOVERNMENT DATA NETWORK

I attach a draft minute for me to send to the Chief Secretary's office following the GDN Steering Group meeting.

2. I would be grateful for any comments by 11.30am.

3. You will note that the comparison in paragraph ³ of the draft letter from the Chief Secretary is between:

- GDN costs on the one hand; and
- in-house costs, rather than last year's PES bid or some construction of what is in the PES baseline.

Surely this is the formulation implied by the private financ^{e rules?}es.
I just hope that the figures are the same.

4. Do you agree that it would be best not to amend the figures in the minute to take account of any decisions at the Steering Committee this morning?

S P J

S P JUDGE
Private Secretary

DRAFT

MANAGEMENT AND COMMERCIAL IN CONFIDENCE



FROM: S P JUDGE
DATE: 26 April 1988

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Turnbull
Mr Culpin
Miss Peirson
Miss Sinclair
Mr Richardson
Mr Hansford
Mr A M White
Mr Hoare
Mr P H Brook
Mr Willis
Mr Nicol
Mr Call

GOVERNMENT DATA NETWORK

Following this morning's meeting of the GDN Steering Committee, the Paymaster General suggests that the Chief Secretary writes to the Chairman of Customs & Excise, on the lines of the attached draft. FP, ST and RC are content with it.

2. The Paymaster General suggests that the Chief Secretary should also reply to Mr Rusell's minute of 18 April to the Economic Secretary - subject to the latter's views.

4. I hope it will be possible for this letter, together with those to Mr Hurd, Mr Moore and the Chairman of the Revenue, to issue today.

5. There was [some discussion] of this at this morning's meeting

S P JUDGE
Private Secretary

DRAFT LETTER FROM CHIEF SECRETARY TO CHAIRMAN, CUSTOMS & EXCISE

GOVERNMENT DATA NETWORK

The Paymaster General has reported to me on the discussions at the GDN Steering Committee this morning. I have also seen Mr Russell's minute of 18 April to the Economic Secretary.

2. Tenders for the GDN were received last month, and a financial case has been developed, comparing the costs of the GDN with the available alternatives. This case shows the GDN to be the most cost-effective option, and I know that Customs support its introduction.

3. The financial case includes a comparison of:

- the costs of meeting your Department's declared data communications needs through GDN; and
- the costs of the alternative in-house provision of these services.

If the GDN is to be established by private finance and paid for by service charges, the private finance rules require that your ^EPS baseline be adjusted by the difference between these two figures. The Paymaster General, the Economic Secretary and I consider that these rules should apply in this case: to do otherwise would be to treat Customs differently from the other three Departments involved at this stage in the GDN.

4. I understand that, consistent with the spirit of our discussions during the 1987 Survey, you have transferred provision from data communications to other running costs, in order to protect your main outputs. But I am afraid that neither this, nor the

MANAGEMENT IN CONFIDENCE

X fact that you received less than you bid for in the Survey, affects the way in which the private finance rules ~~are~~^{should} be applied.

5. On the basis of GDN worst case costs this procedure will lead to reductions in Customs' baseline from 1989-90 onwards of £2.388, £2.203 and £1.231 million. These figures will be revised following the tender evaluation and selection of the preferred tenderer at the end of this month, allowing you to determine the effect on Customs' baseline for the 1988 Survey.

6. I hope that you will be able to agree to proceed with the GDN proposal on this basis. We hope to seek final endorsement of the GDN by Departments early in May, with an announcement later that month.

JOHN MAJOR



FROM: S P JUDGE
DATE: 26 April 1988

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Mr Anson
Mr Phillips
Mr Turnbull
Mr Culpin
Miss Peirson
Miss Sinclair
Mr Richardson
Mr Hansford
Mr A M White
Mr Hoare
Mr P H Brook
Mr Willis
Mrs Wiseman
Mr Nicol
Mr Call

GOVERNMENT DATA NETWORK

Following this morning's meeting of the GDN Steering Committee, the Paymaster General suggests that the Chief Secretary writes to the Chairman of Customs & Excise, on the lines of the attached draft - which is similar to that submitted by Mr White last week. (A small but important difference is the inclusion of figures for 1988-89 as well as the three following years: Customs is the only department that has provision available this year.) Mr Phillips is content with it.


2. The Paymaster General suggests that the Chief Secretary should take this opportunity to reply to Mr Russell's minute of 18 April to the Economic Secretary. I understand that the Economic Secretary is content with this.

3. There was some discussion of this at this morning's meeting. Customs accepted the approach as a necessary one, but they will ask for the figures to be discussed further by officials or for a meeting between the Chairman and the Chief Secretary. (In

MANAGEMENT AND COMMERCIAL IN CONFIDENCE

addition to their doubts about the **baseline** figures, Customs were also unhappy with the figures for the **cost of GDN**, which did not take full account of the transitional costs.) I should add that the Paymaster General remains of the view set out in paragraph 3 of my minute to you of 22 April.

4. The way is now clear for the Chief Secretary to send all four letters. The Paymaster General hopes they can issue as soon as possible.



S P JUDGE
Private Secretary

DRAFT LETTER FROM CHIEF SECRETARY TO CHAIRMAN, C&E

GDN

As you know the case for establishing a Government Data Network to meet certain agreed data communications needs of HM Customs and Excise and those of three other departments has been explored.

Tenders for the GDN were received last month, and a financial case has been developed, comparing the costs of the GDN with the available alternatives. This case shows the GDN to be the most cost effective option.

The financial case includes a comparison of the costs of meeting your department's declared data communications needs through GDN with the existing PES provision which was necessarily determined at a time when the GDN costs were unknown. If the GDN is to be established by private finance and paid for by service charges as proposed this involves a different profile of expenditure than that included in Customs' existing provision.

I propose to handle this by deleting from the PES baseline the provision that has been identified in the financial case for relevant data communications (whether capital or current) and replacing it with provision to meet the GDN costs, which will be virtually all running costs expenditure paid via the tariff.

On the basis of GDN worst case costs this will lead to reductions in Customs' baseline from 1988-89 onwards of £1.240, £2.388, £2.203 and £1.231 million. These figures will be revised following the tender evaluation and selection of the preferred tenderer, allowing you to determine the effect on Customs' baseline before the 1988

MANAGEMENT AND COMMERCIAL IN CONFIDENCE

Survey.

I have seen your minute of 18 April to the Economic Secretary, and I recognise that your department have raised questions about the relevant figures provided for the financial case, and about the expenditure consequences for other activities. Nevertheless I believe it is right to pursue the approach I have outlined above, and I should welcome your confirmation that you are willing to proceed with the GDN proposal on this basis. It would be helpful to have this confirmation by 3 May. Your final endorsement of GDN will be sought soon afterwards following the selection of the winning tender. We would expect to put the decision to other interested colleagues before making it public in June.

I am writing in similar terms to the Home and Social Services Secretaries and the Chairman of the Board of Inland Revenue.

JOHN MAJOR

MANAGEMENT-IN-CONFIDENCE

pps pot



FROM: G R WESTHEAD
DATE: 26 April 1988

PS/CHIEF SECRETARY

- cc **PS/Chancellor**
 PS/Financial Secretary
 PS/Paymaster General
 PS/Sir P Middleton
 Mr Anson
 Mr Phillips
 Mr Turnbull
 Miss Peirson
 Miss Sinclair
 Mr Richardson
 Mr Hansford
 Mr A M White
 Mrs Wiseman
 Mr Hall
 Mr P H Brook
 Mr Willis
 Mr Nicol
 Mr Call

BF mp

GOVERNMENT DATA NETWORK

The Economic Secretary has seen the papers on this.

2. The Economic Secretary very much agrees with the Treasury line that Customs should adhere in this case to the usual principles governing private finance, whereby in-house provision for a service is netted off from a department's public expenditure baseline and replaced by the cost of the out-house alternative.

3. The Economic Secretary concludes that Customs' net saving attributable to the Government Data Network should be surrendered in the same way that other departments are doing. He doubts whether it would be too difficult to absorb the additional pressures on Customs' resources without an adverse impact on VAT enforcement and drugs control.

Guy Westhead

GUY WESTHEAD
Assistant Private Secretary

MANAGEMENT AND COMMERCIAL IN CONFIDENCE



mp.

cc:
Chancellor
FST
PMG
EST
Sir Peter Middleton
Mr Anson
Mr H Phillips
Mr Turnbull
Mr Culpin
Mrs Case
Miss Peirson
Miss Sinclair
Mr Richardson
Mr Hansford
Mr A White
Mr Hoare
Mr Brook
Mr Willis
Mr Nicol
Mr Call

Treasury Chambers, Parliament Street, SW1P 3JZ

The Rt Hon John Moore MP
Secretary of State for Social Services
Department of Health and Social Security
Richmond House
79 Whitehall
London
SW1A 2NS

Dear John,

28 April 1988

GOVERNMENT DATA NETWORK

Our officials have been exploring the case for establishing a Government Data Network to meet certain agreed data communications needs of your department and those of three other departments.

Tenders for the GDN were received last month, and a financial case has been developed, comparing the costs of the GDN with the available alternatives. This case shows the GDN to be the most cost effective option.

The financial case includes a comparison of the costs of meeting your department's declared data communications needs through GDN with the existing PES provision which was necessarily determined at a time when the GDN costs were unknown. If the GDN is to be established by private finance and paid for by service charges this will involve a different profile of expenditure than that included in your existing provision.

I propose that we handle this by deleting from the PES baseline the provision that has been identified in the financial case for relevant data communications (whether capital or current) and replacing it with provision to meet the GDN costs, which will be virtually all running costs expenditure paid via the tariff.

On the basis of GDN worst case costs this will lead to an increase in your baseline for 1989-90 of £0.099 million, a reduction in 1990-91 of £5.848 million and an increase in 1991-92 of £2.578 million. These figures will be revised

MANAGEMENT AND COMMERCIAL IN CONFIDENCE

following the tender evaluation and selection of the preferred tenderer at the end of this month, allowing you to determine the effect on your baseline before the 1988 Survey.

I should welcome your confirmation that you are willing to proceed with the GDN proposal on this basis. It would be helpful to have this confirmation by 3 May. Your final endorsement of GDN will be sought soon afterwards following the selection of the winning tender. We would expect to put the decision to other colleagues before making it public in June.

I am writing in similar terms to Douglas Hurd, and to the Chairmen of the Boards of the Inland Revenue and Customs and Excise.

*Yours Ever,
John*

JOHN MAJOR

MANAGEMENT AND COMMERCIAL IN CONFIDENCE



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Douglas Hurd CBE MP
Home Secretary
Home Office
50 Queen Anne's Gate
London
SW1H 9AT

28 April 1988

A handwritten signature in black ink, appearing to read 'Douglas Hurd'.

GOVERNMENT DATA NETWORK

Our officials have been exploring the case for establishing a Government Data Network to meet certain agreed data communications needs of your department and those of three other departments.

Tenders for the GDN were received last month, and a financial case has been developed, comparing the costs of the GDN compared with the available alternatives. This case shows the GDN to be the most cost effective option.

The financial case, which has been agreed with your officials, includes a comparison of the costs of meeting your department's declared data communications needs through GDN with the existing PES provision which was necessarily determined at a time when the GDN costs were unknown. If the GDN is to be established by private finance and paid for by service charges this will involve a different profile of expenditure than that included in your existing provision.

I propose that we handle this by deleting from the PES baseline the provision that has been identified in the financial case for relevant data communications (whether capital or current) and replacing it with provision to meet the GDN costs, which will be virtually all running costs expenditure paid via the tariff.

On the basis of GDN worst case costs this would lead to a reduction of £9,000 in your baseline for 1989-90, and increases of £83,000 and £109,000 in 1990-91 and 1991-92 respectively. These figures will be revised following the tender evaluation and selection of the preferred tenderer at the end of this month.

MANAGEMENT AND COMMERCIAL IN CONFIDENCE

However I understand that you have not yet satisfied yourself that GDN does offer the most cost effective solution to the project identified in the GDN operational requirement. That being so I do not propose to make the substitution at this stage, but you will wish to take it into account in considering your position on the 1988 Survey.

I should welcome your confirmation that you are willing to proceed with the GDN proposal on this basis. It would be helpful to have this confirmation by 3 May. Your final endorsement of GDN will be sought soon afterwards following the selection of the winning tender. We would expect to put the decision to other colleagues before making it public in June.

I am writing in similar terms to John Moore, and to the Chairmen of the Boards of the Inland Revenue and Customs and Excise.

*Yours Ever,
John*

JOHN MAJOR

MANAGEMENT AND COMMERCIAL IN CONFIDENCE



Treasury Chambers. Parliament Street, SW1P 3AG

A M W Battishill Esq
Chairman
Board of Inland Revenue
Somerset House
Strand
London
WC2R 1LB

28 April 1988

D. J. T. T. T.

GOVERNMENT DATA NETWORK

As you know the case for establishing a Government Data Network to meet certain agreed data communications needs of the Inland Revenue department and those of three other departments has been explored.

Tenders for the GDN were received last month, and a financial case has been developed, comparing the costs of the GDN with the available alternatives. This case shows the GDN to be the most cost effective option.

The financial case includes a comparison of the costs of meeting the Revenue's declared data communications needs through GDN with the existing PES provision which was necessarily determined at a time when the GDN costs were unknown. If the GDN is to be established by private finance and paid for by service charges as proposed this will involve a different profile of expenditure than that included in the existing provision.

I propose to handle this by deleting from the PES baseline the provision that has been identified in the financial case for relevant data communications (whether capital or current) and replacing it with provision to meet the GDN costs, which will be virtually all running costs expenditure paid via the tariff.

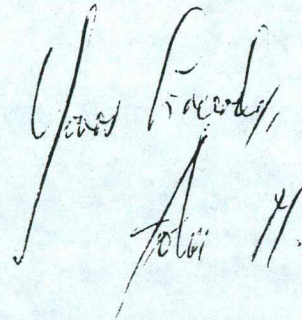
On the basis of GDN worst case costs this will lead to increases in your baseline from 1989-90 of £4,239,000, £2,390,000 and £2,915,000 after allowing for the costs of running the existing network. It also takes no account of the possible

MANAGEMENT AND COMMERCIAL IN CONFIDENCE

service credit for the existing system. These figures will be revised following the tender evaluation and selection of the preferred tenderer at the end of this month, allowing you to determine the effect on the Revenue baseline before the 1988 Survey.

I should welcome your confirmation that you are willing to proceed with the GDN proposal on this basis. It would be helpful to have this confirmation by 3 May. Your final endorsement of GDN will be sought soon afterwards following the selection of the winning tender. We would expect to put the decision to other colleagues before making it public in June.

I am writing in similar terms to the Home Secretary, the Secretary of State for Social Services and the Chairman of the Board for Customs and Excise.

A handwritten signature in dark ink, appearing to read 'John Major', with a date '20/5/88' written below it.

JOHN MAJOR

MANAGEMENT AND COMMERCIAL IN CONFIDENCE



Treasury Chambers, Parliament Street, SW1P 3AG

J B Unwin Esq CB
Chairman
H M Customs & Excise
King's Beam House
London
EC3R 7HE

J B Unwin
28 April 1988

GOVERNMENT DATA NETWORK

As you know the case for establishing a Government Data Network to meet certain agreed data communications needs of H M Customs and Excise and those of three other departments has been explored.

Tenders for the GDN were received last month, and a financial case has been developed, comparing the costs of the GDN with the available alternatives. This case shows the GDN to be the most cost effective option.

The financial case includes a comparison of the costs of meeting your department's declared data communications needs through GDN with the existing PES provision which was necessarily determined at a time when the GDN costs were unknown. If the GDN is to be established by private finance and paid for by service charges as proposed this involves a different profile of expenditure than that included in Customs' existing provision.

I propose to handle this by deleting from the PES baseline the provision that has been identified in the financial case for relevant data communications (whether capital or current) and replacing it with provision to meet the GDN costs, which will be virtually all running costs expenditure paid via the tariff.

On the basis of GDN worst case costs this will lead to reductions in Customs' baseline from 1988-89 onwards of £1.240, £2.388, £2.203 and £1.231 million. These figures will be revised

MANAGEMENT AND COMMERCIAL IN CONFIDENCE

following the tender evaluation and selection of the preferred tenderer, allowing you to determine the effect on Customs' baseline before the 1988 Survey.

I have seen your minute of 18 April to the Economic Secretary, and I recognise that your department have raised questions about the relevant figures provided for the financial case, and about the expenditure consequences for other activities. Nevertheless I believe it is right to pursue the approach I have outlined above, and I should welcome your confirmation that you are willing to proceed with the GDN proposal on this basis. It would be helpful to have this confirmation by 3 May. Your final endorsement of GDN will be sought soon afterwards following the selection of the winning tender. We would expect to put the decision to other interested colleagues before making it public in June.

I am writing in similar terms to the Home and Social Services Secretaries and the Chairman of the Board of Inland Revenue.

Yours faithfully,
John M.
JOHN MAJOR

SIR WILLIAM CLARK, M.P.

MINISTER IMMEDIATE



HOUSE OF COMMONS
LONDON SW1A 0AA

28th April 198

The Rt Hon. Peter Brooke, MP
Paymaster General
HM Treasury
Parliament Street
London SW1P 3AG

Dear Peter.

Recently I met the Directors of Racal-Scicon Limited and they raised with me the question of the Government Data Network.

Racal explained the position to me in great detail and I asked them for a resume of their case, a copy of which is enclosed herewith.

(Please let me know if you want this <)

I would like to bring Racal to see you so that they can convince you that from a competitive point of view they should be awarded this contract.

I would be grateful if you would let me have your comments.

Yours ever

William

Mr Phillips

cc

PS/Chancellor
PS/FST
PS/FST
PS/EST

Mr AM White

Mr Freeman } CCTA

Mr Rayner }

Mr DE Thomas }

Mr Call

CCTA have the action copy. I will get a steer from the PMG later today. SOS. 4/5 S. P. JUDGE



J B Unwin CB
Chairman

Board Room
H M Customs and Excise
New King's Beam House
22 Upper Ground
London SE1 9PJ
Telephone: 01-382 5001

MANAGEMENT IN CONFIDENCE

The Rt Hon John Major MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

CHIEF SECRETARY	
REC.	3 - MAY 1988
	Mr A.M. White
	Ex, FSI, PMG, EST, Sir P. Middleton, Mr Anson, Mr H. Phillips, Mr Turnbull, Mr Culpin, Mrs Case Miss Pearson, Miss Sinclair, Mr Richardson, Mr Harcourt Mr Hoare, Mr Brook, Mr Willis, Mr Nicol, Mr Call, Mr Rayner, Mr E. Thomas, Dr Freeman (cc)

3 May 1988

John Chief Secretary

GOVERNMENT DATA NETWORK

Thank you for your letter of 28 April about proceeding with the GDN proposal. I confirm that Customs and Excise strongly support the introduction of the GDN which we believe will provide excellent value for money.

2. I understand your approach to adjusting the PES baseline but, as you will be aware, we have raised important questions about the precise application in our particular case. This is being discussed with Treasury officials as a matter of urgency and I hope that it will not hold up final decisions.

John Unwin

J B UNWIN



Inland Revenue

The Board Room
Somerset House
London WC2R 1LB

PWP

CHIEF SECRETARY	
REC.	3 - MAY 1988
ATTN	<i>Mr A.M. Jute</i>
COPIES TO	<i>Cx, FST, PWB, EST, Sir P. Middleton</i>
	<i>Mr. Dawson, Mr Phillips, Mr Turnbull, Mr Culpin</i>
	<i>Mr. Case, Miss Pearson, Miss Sinclair, Mr Richard</i>
	<i>Mr. Hansford, Mr. Heare, Mr Brock, Mr Willis, Mr. (107</i>
	<i>Mr. Call, Mr. Kayser, Mr E. Thomas, Dr Freeman</i>

3 May 1988

CHIEF SECRETARY

(CCFA)

GOVERNMENT DATA NETWORK

Your letter of 28 April asked for early confirmation that I am willing to proceed with GDN on the basis of an addition to the Inland Revenue's PES baseline derived from the financial case for GDN.

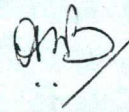
I am happy to give that confirmation, subject to the following points which I understand have already been discussed between officials in the course of preparing the financial case.

The differences between the GDN "worst case" figures and the Inland Revenue's provision for relevant datacommunications identified in the financial case are, I fear, higher than those quoted in your letter to me, particularly in the two later years of the PES period. The actual adjustments needed to our running cost baseline are as follows:

(£m)	<u>89/90</u>	<u>90/91</u>	<u>91/92</u>
	4.91	5.8	6.36

I accept, of course, that the adjustments are likely to need to be revised in the light of the tender evaluation and selection of the successful tenderer.

In practice, our costs in the PES period, particularly in the earlier years, may turn out to be a mixture of in house costs and GDN charges, depending on the arrangements and timing for the take over of the Revenue's own data network by the GDN supplier. The figures set out above are based on the assumption that we will be able to cut over completely to GDN on 1 April 1989, which we very much hope will be the case. If implementation of GDN for the Revenue were to be delayed in whole or in part beyond 1 April 1989, the figures might need some further adjustment.



(A M W BATTISHILL)



mp

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

CHIEF SECRETARY	
REC.	- 9 MAY 1988
ACTION	<i>Mr Allwhite</i>
COPIES TO	<i>EST, PMG, EST</i>
	<i>Sir M. Mideleton, Mr Phillips</i>
	<i>Mr Turnbull, Mr Culpin, Mrs Cox</i>
	<i>Miss Harrison, Miss Sinclair</i>
	<i>Mr Richardson, Mr Hamford,</i>
	<i>Mr Hoare, Mr Brock,</i>
	<i>Mr Willis, Mr Nicol, Mr Call</i>
	<i>Mr Rayner, Mr E. Thomas,</i>
	<i>Dr Freeman.</i>

The Rt Hon John Major MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
LONDON
SW1P 3AG

6 May 1988

*Mr Willis, Mr Nicol, Mr Call
Mr Rayner, Mr E. Thomas,
Dr Freeman.*

GOVERNMENT DATA NETWORK

Thank you for your letter of 28 April 1988 about how GDN costs should be provided for in this year's PES.

I am prepared to accept the adjustments to the baselines set out in your letter as the figures which should be incorporated in PES at this stage. As you say, however, being worst case costs, they will be revised following final selection of the preferred tenderer.

JOHN MOORE



CHIEF SECRETARY..	
REC.	- 4 MAY 1988
ACTION	Mr Ann White
COPIES TO	Ex. SST, AMG, ESTS, P. Middleton
	Mr Phillips, Mr Tombell, Mr Culpin
	Mrs Case, Mrs Benson, Mrs Sinclair, Mr Richardson,
	Mr Humphreys, Mr Heare, Mr Brook, Mr Willis, Mr Nicol
	Mr Call, Mr Rayner, Mr E. Thomas, Dr Freeman

QUEEN ANNE'S GATE LONDON SW1H 9AT

4 May 1988

Dear John,

GOVERNMENT DATA NETWORK

Handwritten signature

Thank you for your letter of 28 April.

As you say, there is no immediate cost advantage for my Department in using the GDN service, but as our networking demands grow the GDN should yield the benefits which are apparent now to the larger GDN participants. As a result we think we should do some further work before deciding the best time for us to join the GDN. This could be as early as 1989/90 or later. This work will not be complete for some while.

I note the proposals which you made about PES adjustments but agree with you that no decision need be taken until we are clearer about the use of the GDN and its timing.

*Yours,
Douglas.*

The Rt Hon John Major, MP

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Phillips
Mr A M White
Dr Freeman - CCTA
Mr Rayner - CCTA
Mr D E Thomas - CCTA
Mr Call
Mr Michael Stern MP



Treasury Chambers, Parliament Street, SW1P 3AG

Sir William Clark MP
House of Commons
LONDON SW1A 0AA

5 May 1988

Dear Sir William

GOVERNMENT DATA NETWORK: RACAL-SCICON LIMITED

Thank you for your letter of 28 April, in which you ask to bring Racal-Scicon to see me.

2. I am sure you will understand that, until the results of the tendering process have been announced, I am unable to discuss the GDN with any of the three consortia that have tendered for it.

Yours sincerely

pp PETER BROOKE

[Approved by the
Paymaster General
and signed on his
behalf]



mp.

Chf

for margins of
Prayers, perhaps

PPS M.

MANAGEMENT AND COMMERCIAL IN CONFIDENCE

FROM: J J MONAGHAN

DATE: 5 May 1988

PS/PAYMASTER GENERAL

1 had like a copy would work at that. Mr.

Ch/What this minute doesn't tell you is that the contract has gone to Racal Scicon. BT were a v. close 2nd. Announcement not for a while, as you see.

mpw b/s

- c c PPS
- PS/CST
- PS/FST
- PS/EST
- Sir Peter Middleton
- Mr Anson
- Mr Phillips
- Dr Freeman
- Mr R I G Allen
- Mr Thomas
- Mr Beard
- Mr Rayner
- Mr Houldsworth
- Mr Bush
- Mr Butterworth
- Mr Miller
- Mr Flitton

GDN: MEDIA ARRANGEMENTS FOR ANNOUNCEMENT OF AWARD OF CONTRACT

We now need to draw up plans for announcing to the press and broadcasting media the Government's decision to go ahead with the GDN project and the name of the consortium to whom the contract has been awarded.

2. I understand that the date towards which the Steering Committee are working for this announcement is Thursday 19 May and that the announcement will be in the form of a written answer to an arranged PQ. If there are unavoidable delays, the announcement could be put back to Thursday 26 May. I understand that the Paymaster General could manage either of these dates.

3. We propose that, as soon as the written answer has been issued, the PMG should give an on-the-record press conference at 4.00 p m in the Treasury. We would invite to the press conference the computing and technology correspondents of the national and major provincial daily newspapers, the broadcasting media, Lobby correspondents, representatives of the weekly current affairs and science periodicals, and editors of the computing and telecommunications journals.

MANAGEMENT AND COMMERCIAL IN CONFIDENCE

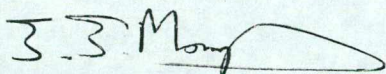
MANAGEMENT AND COMMERCIAL IN CONFIDENCE

4. CCTA Press Office would hope to have time, once a firm decision has been taken on the date of the announcement, to send out written invitations, in the form of an operational note, to the above journalists.
5. We would not expect a massive turnout for this press conference. Press briefings on IT matters are generally of limited interest to the press, usually attracting a small number of specialist correspondents with interests in computing and related fields. The GDN, however, is a major inter-departmental project which has already attracted parliamentary and press interest on a wider scale.
6. We can expect interest from the computing and technology correspondents of the "heavies" and the weekly journals. Coverage of government IT stories in the computing press tends to be of a rather inferior quality; I would hope that a Ministerial press conference would attract some of their more able staff or freelance correspondents, if not their editors. I would not expect the Lobby to be heavily represented, but a number of Lobby journalists have been following the GDN story, and I would expect a few to be sufficiently interested to attend the press conference. We can therefore expect up to about 30 journalists to attend. Room 29/2 has been provisionally booked.
7. Any photographers present would be allowed to take pictures only during the PMG's opening statement.
8. Those attending the press conference would be given copies of the following documents:-
 - (a) the text of the written answer;
 - (b) a CCTA press notice on the announcement, containing additional background information on the project (also to be released to the press through COI's news distribution service on the 3.30 p m run and in the press gallery);
 - (c) the text of a short opening statement to be delivered by the PMG at the press conference.
9. I understand that the GDN team are preparing question and answer briefing for the PMG. This will also be used by CCTA Press Office and departmental press offices in handling press calls.

MANAGEMENT AND COMMERCIAL IN CONFIDENCE

MANAGEMENT AND COMMERCIAL IN CONFIDENCE

10. The PMG would be supported at the press conference by Mr Phillips, Dr Freeman, Mr Thomas and myself (at the top table). Officials from the Treasury and participating departments would also be present and available to give support to the Paymaster as necessary.
11. Representatives of the successful consortium will also be invited to attend.
12. COI will be asked to take a recording and provide a transcript.
13. The PMG may wish to make himself available between 5.00 and 5.30 p m to meet any bids from BBC, ITN or IRN for interviews on the project, probably in the Norman Shaw studios.
14. We propose to use IDT's new system of electronic release on Reuter and Telerate screens to disseminate news of the announcement to the markets.
15. Any requests for briefings for specialist writers on the technicalities of GDN can be met by the GDN project team in the days following the announcement.
16. A timetable of the proposed media arrangements is attached.
17. The GDN Project Steering Committee chaired by the PMG has agreed that there are sensitivities involved in the timing of this announcement. It is therefore important that the security classification given to this draft media plan should be carefully observed.



J J MONAGHAN

MANAGEMENT AND COMMERCIAL IN CONFIDENCE

MANAGEMENT AND COMMERCIAL IN CONFIDENCE

GDN: ANNOUNCEMENT OF AWARD OF CONTRACT

Media arrangements

Wednesday 11 May	Circulation of first drafts of written answer, press notice, press statement, and Q & A briefing.
Friday 13 May	CCTA Press Office informs No 10 Press Office and departmental press offices of proposed arrangements.
Friday 13 May	CCTA Press Office arranges with COI for transcript of press conference.
Friday 13 May	Submission of final versions of written answer, press notice, press statement and Q & A brief for PMG's approval.
Monday 16 May	CCTA Press Office agrees with IDT arrangements for electronic release of information about the announcement to the markets.
Tuesday 17 May	CCTA Press Office telephones interested journalists to give early warning of announcement and sends out invitations to press conference.
Tuesday 17 May	Final texts of documents (written answer, press notice, press statement, Q & A brief) with CCTA Press Office.
Wednesday 18 May	CCTA despatches sets of documents to departmental press offices (No 10, HMT, DHSS, IR, C & E and HO).
Thursday 19 May	Announcement of award of contract 3.30 p m Written answer 4.00 p m PMG's Press Conference (HMT). 5.00 p m PMG available for radio or TV interviews (Norman Shaw studios)

MANAGEMENT AND COMMERCIAL IN CONFIDENCE

- cc: 1. Lord Young
 2. Mr Macdonald (DTI)
 3. Chancellor
 4. Sir P Middleton
 5. Mr Anson
 6. Mr Phillips
 7. Dr Freeman - CCTA
 8. Mr Rayner - CCTA
 9. Mr Thomas - CCTA
 10. PS/Paymaster General



PERSONAL COPY 3 OF 10

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Lord Young of Graffham PC
 Secretary of State
 Department of Trade and Industry
 1-19 Victoria Street
 LONDON SW1H 0ET

9 May 1988

Dear David,

GOVERNMENT DATA NETWORK (GDN)

I am writing to you, in advance of other colleagues, about the decision we need to make soon about the GDN. I enclose a background paper along the lines I intend to circulate to colleagues later this week.

2. The GDN Steering Committee, which I chair, has unanimously agreed that the contract should be awarded to **Racal-Scicon Ltd.** You will be well aware that this information is most sensitive, and, until the final decision is announced, I know you will keep this fact on a very restricted basis. Ideally, subject to colleagues' agreement, I should like to announce Project Approval and choice of contractor (and hold a Press briefing) on 19 May - but in any event no later than 26 May.

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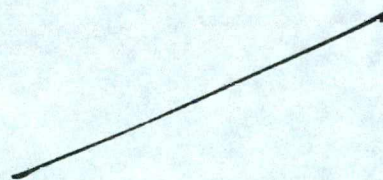
CONFIDENTIAL: COMMERCIAL IN CONFIDENCE

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*L
Luns*

*P
Pm*

PETER BROOKE



THE GOVERNMENT DATA NETWORK (GDN)

What GDN is

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3. A number of departments already have major data communications needs to support their information systems, and this number will grow significantly over the next few years. The GDN project started because four departments with urgent needs (Customs and Excise, DHSS, Home Office and Inland Revenue) decided to explore with CCTA the financial and performance advantages of a single government network to meet their needs, rather than adopting a variety of different and separate approaches. A project team was set up to carry the task forward, and the Steering Committee has been chaired by the Paymaster General.
4. The financial justification for GDN looked solely at the costs of GDN compared with other ways of meeting the data communication needs of the four initial departments. The project will however offer wider benefits. It would provide a data communications infrastructure for government, which can easily be expanded to meet the needs of other departments. This

would remove much of the risk, and thus potential for cost escalation, inherent in introducing new IT systems. No department would be forced to use GDN unless it offered the best option in terms of both service and cost.

Providing the network and service

5. The approach adopted for GDN is that it should be designed, built and operated by a private contractor. Thus it is very much in line with contracting out and privatisation policies. The costs of GDN, including the capital cost of building the network, would be paid by user departments through service charges. The main arguments for this approach are:

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6. Initially five Consortia were involved in bidding. EDS/Northern Telecom dropped out at the beginning of 1987 and Plessey-CAP were not shortlisted. The remaining consortia, Computer Sciences Company/BT, Racal-Scicon Ltd and ICONS (Cable and Wireless/ICL) have been involved in an extremely competitive procurement which has resulted in an excellent package for Government. Treasury approval for the GDN has now been given on the basis that GDN will be significantly cheaper and functionally more beneficial than comparable public services eg British Telecom PSS. GDN was also estimated to be cheaper than four separate Departmental networks procured on a similar basis.

Tender Evaluation

7. Tenders from the Consortia have been thoroughly evaluated by Departmental and CCTA staff together with consultants from PA Computers and Telecommunications Ltd. All three suppliers submitted tenders which complied with our requirements, and these have been comprehensively evaluated. The ICONS tender was significantly more expensive than the other two and was rejected.

The Racal-Scicon and CSC/BT tenders proved to be extremely close (within 5 per cent) in almost all the key sensitivity variants we considered. But the tariffing structures proposed were completely different. The CSC/BT consortia tendered a tariff structure that has a low fixed price element (providing comparatively low entry cost) but with a high traffic related element. The Racal-Scicon tariff, on the other hand, has a relatively high fixed price element, but with a low variable component. The CSC/BT tariff therefore penalises higher than anticipated traffic.

8. All Departments were convinced that traffic growth - both in total across the network and in terms of each network access point - will be a key factor. The hard evidence from recent experiences with the Inland Revenue Network, with the DHSS network planning studies, with the Customs networks and from the US Treasury Network supports this view. All the evidence suggests that growth is the most difficult area to predict accurately, and in the past has been underestimated - often significantly - by departments.

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9. Racal will be using American switch equipment as would both the unsuccessful consortia. This is likely to represent less than 20% of the contract value. The majority of expenditure will be for circuits, and Racal is expected to go for dual servicing by British Telecom and Mercury (Cable and Wireless), rather than the lion's share going to one or other circuit provider, as would have happened with both unsuccessful consortia.

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Announcement

11. The current aim is to announce the approval of the Project successful contractor and hold a Press briefing on 19 May - but in any event not later than 26 May. An important issue is the

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ppp



FROM: S P JUDGE
DATE: 9 May 1988

APS/CHANCELLOR

GOVERNMENT DATA NETWORK (GDN)

The Chancellor had a word with the Paymaster General this morning about this.

2. I attach the Paymaster's draft letter to Lord Young. The attached note is being revised, and I will let you have the new version as soon as CCTA send it over this afternoon. *x*

3. I am not entirely clear if the Chancellor wanted to see ^{*this*} before the Paymaster wrote.

4. The Paymaster hoped to mention this issue to the Prime Minister over lunch. In the light of this, he may decide **not** to *copy to* the Prime Minister at this stage.

SPJ

~~classify also
personal
+ numbered
copies.~~
** Now attached*

S P JUDGE
Private Secretary

NO COPIES
TO BE TAKEN
mpw.



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Lord Young of Graffham PC
Secretary of State
Department of Trade and Industry
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May 1988

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CONFIDENTIAL: COMMERCIAL IN CONFIDENCE

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6. I am copying this letter to the Prime Minister, for information. As I say I will be writing formally to her later this week.

PETER BROOKE

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support to this view ~~does not~~

I know what this means but I'm not sure how the grammar gets us there. See words underlined. Can someone parse it?

The
8. ~~Based~~ on hard evidence from recent ~~experiences~~ with the Inland Revenue Network, with the DHSS network planning studies, ~~with~~ the Customs networks and ~~from~~ the US Treasury Network, All departments were convinced that traffic growth - both in total across the network and in terms of each network access point - will be a key factor. Again all the evidence suggests that these are the most difficult parameters to predict accurately, and have in the past been underestimated - often significantly - by departments. *Invent*

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Q,

(Police point)

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pps pr

FROM: H PHILLIPS

DATE: 9 May 1988

CHIEF SECRETARY

cc Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Beastall
Dr Freeman
Mr Luce
Miss Peirson
Mr Turnbull
Mr Gieve
Mr P Rayner
Mr Richardson
Mr D E Thomas
Mr White
Mr Hoare
Mr Baker
Mr P H Brook
Mr S Willis
Mrs Wiseman o/r

THE GOVERNMENT DATA NETWORK (GDN): PES

This submission recommends how we should handle the late complications that have arisen over relevant expenditure provision for GDN for Customs and Excise and the Inland Revenue. No problems have emerged with DHSS and the Home Office. The financial case for going ahead with GDN is unaffected by these issues but they should be settled before the Paymaster General asks for the Prime Minister's endorsement of the project.

2. At issue are the figures set out in your letters of 28 April to the two Chairmen. On the worst case basis, if we accepted the Customs and Revenue figures in full, and there were no offsets, PES provision in the 3 survey years' would increase by some £3m, £5½m and £5½m respectively, compared with the original position in my minute of 14 April (shown in the table at Annex A). This is a less satisfactory PES profile but even on that worst case basis the case for going ahead with GDN remains firm.

3. My advice is that you should be prepared to make some concessions to Customs and Excise and the Inland Revenue. The precise results will be settled in the forthcoming Survey and we doubt whether in practice you will need to concede the full amounts.

4. This submission deals, in turn with each of the departments involved.

Customs and Excise

5. Customs contend that the sums which we proposed to remove from their baseline for 1988-89 (which would result in a cash limit reduction) and for the following two years, do not represent the correct relevant data communications provision following the outcome of PES 1987. The figures revised were their PES plans for last year but after the Survey they used the flexibility you gave them in general to reduce their data communications provision in particular in the expectation the GDN would go ahead. This flexibility was unfettered only for 1988-89; for later years it was subject to agreement with the Treasury.

6. The pressing problem for Customs, and it is a real one, is how we handle this year's provision. A satisfactory result for us and for them, will be if no charges for the GDN service are levied before 1 April 1989. This is a likely result of the choice of successful supplier. This means that the existing provision and expenditure plans for 1988-89 need not be changed and the arrangement reached with you in last year's PES discussions can stand.

7. This leaves the later years. The main problem here is that if we allow the argument of anticipated GDN benefits to win through, it would put the Customs figures on a different basis from those of the other three participating departments. They would see this as special treatment for Customs, who, unlike the other three departments, failed to adjust their figures in the light of the outcome of PES and in the knowledge that we would fully apply our presumption of non-additionality where private

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financing is involved. Only at the very last minute when the financial case for GDN had been completed, and after my submission of 14 April, did they press for a change.

8. Customs wish us to deal with the problem by ignoring the PES figures in the Financial Case and substituting their own figures. For the reasons indicated in paragraphs 6 and 7, we do not think we can agree to this, and it may not be possible to resolve the substance of the issue quickly. We need to probe Customs' arguments and figures thoroughly before we could advise you, and we have started this. If settling the substance were made a pre-requisite of the GDN announcement, there would be a delay, and the increasing commercial sensitivity of the award of contract presses us to find a different way through the present difficulty.

9. I believe we should in the circumstances agree a procedure and settle the substance as quickly as we can. Customs accept that there should be a PES adjustment to take account of our non-additionality presumption in respect of private financing. They recognise that we will start from the position that the adjustment should be to strip out the figures shown in the Financial Case, though they will seek to convince us that those figures are much too high. They will argue that the add-back for agreed costs associated with GDN - to enable them to continue running their applications, initially on existing data communications and subsequently on GDN, and cover any transitional costs - is considerably greater than indicated. In other words, they and we will be looking for a satisfactory package deal on the basis of agreed figures which have been thoroughly worked over. I recommend that you agree to proceed on this basis.

10. We shall need to probe very carefully what they really need. On the basis that at worst Customs will seek no net worsening of their present PES position, the maximum figures at risk (the balance line from the table at Annex A) are:

		£ million	
	1989-90	1990-91	1991-92
	2.388	2.203	1.231

Inland Revenue

11. Inland revenue have confirmed they are willing to proceed with GDN on the basis set out in your letter. But they have queried the figures. The Financial Case figures assumed the worst case (from the point of view of the 10-year dcf) ie that their existing networks would not be taken over within the 1988 assumption that the GDN subsumed their networks from 1 April 1989 (which is roughly what the successful supplier plans, although the full transfer will not be completed until 1990). This does not affect the overall cost of GDN, but it does affect the assumptions about how much of their existing provision would be available to finance GDN costs. The new figures compared with those in Annex A are:

	£ million		
	1989-90	1990-91	1991-92
New balance	4.949	5.760	6.369
CST letter	4.239	2.390	2.915
Net increase	0.710	3.370	3.454

12. Revenue accept that these figures will need to be revised in the light of the successful tender, including the precise timing of the switch to GDN. The net PES position will be reduced by the service credits payable to IR in respect of the takeover of their existing network (which IR have agreed to surrender) but these cannot yet be precisely calculated.

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13. We are content that Revenue's figures are reasonable on the assumptions made, and that the costs of their existing networks should be removed from their baseline, on the understanding that all agreed costs associated with GDN (including any transitional costs) will be added back later.

Home Office

14. The Home Office have accepted the figures in your letter of 28 April to the Home Secretary. The Home Secretary's letter agreeing to GDN is somewhat elliptically worded. Our understanding is that the Home Office agree to the Network Agreement (the umbrella GDN contract) being signed, but leave open the question of when they would wish to sign an Access Agreement (under which they would order their own services) and what services that agreement would cover. This is what we expected and is satisfactory.

Department of Health and Social Security

15. DHSS replied in the terms of Mr Moore's letter of 9 May. This is also sufficient for us to proceed.

Conclusion

16. If you accept our recommendations, there would now be no change in the existing PES provision of the four departments in 1988-89. For the 3 Survey years, the worst case position would be as follows:

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	£000s		
	1989-90	1990-91	1991-92
<u>Existing provision</u>			
IR	4,690	5,600	5,740
C&E	3,531	3,421	3,507
DHSS	1,183	12,811	13,131
HO	80	80	80
Total	9,484	21,912	22,458
<u>GDN costs</u>			
IR	9,639	11,360	12,109
C&E	3,531	3,421	3,507
DHSS	1,282	6,963	15,709
HO	71	163	191
Total	14,523	21,907	31,516
<u>Balance</u>			
IR	4,949	5,760	6,369
C&E	-	-	-
DHSS	99	-5,848	2,578
HO	-9	83	109
Total	5,039	-5	9,056

17. Compared with the position in the table at Annex A, this shows a net worsening of £3m, £5½m and £5½m respectively in the 3 Survey years. Nonetheless the financial case for GDN remains sound. In public expenditure terms there is a spend to save element in the provision for the Inland Revenue over the Survey period. For the others GDN is still likely to be cheaper than the spending that would otherwise have taken place, allowance being made for bids which would have been forthcoming.

Handling

18. If you agree then

(a) the relevant expenditure divisions can write to the departments telling them how we intend to proceed in the

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light of their replies to your letters, and that the precise sums to be added back for the GDN will be settled during the Survey; and

(b) the Paymaster General can write to the Prime Minister and other interested colleagues to secure their agreement to the choice of contractor, and the terms and timing of an announcement.

HP.

HAYDEN PHILLIPS

[Handwritten signature]

COPY NO. 3

COVERING CONFIDENTIAL : COMMERCIAL IN CONFIDENCE

Ch/ The plan is to issue this when CST has opined on Phillips note behind.

FROM: D E THOMAS
DATE: 11 MAY 1988

1. Mr Phillips (Copy No.1) *behind.*

2. Paymaster General (Copy No.2) *mpw 11/5*

CC: Chancellor (Copy No.3)
Chief Secretary (" " 4)
Sir P Middleton (" " 5)
Mr Anson (" " 6)
Dr Freeman (" " 7)
Mr Rayner (" " 8)
Mr Thomas (" " 9)

Mr R I G Allen) Minute
Mr A White) & draft
Parliamentary Clerk) Answer
) only

[Red checkmarks]

GDN INFORMING PRIME MINISTER

1. As previously discussed I attach a draft minute from Paymaster to Prime Minister together with the draft of an Answer to an arranged PQ announcing the decision to go ahead with GDN and the choice of contractor.

2. We have not yet received a formal reply from Secretary of State Trade and Industry. However there are no indications from Officials that they are not content with the outcome or the intention to go ahead with the announcement on 19 May. This date is still not known to the Consortia.

3. A further minute will be with you by the end of this week covering Press Conference material (Opening statement, Q & A briefing, Press Release).

[Handwritten signature]

D E THOMAS
GDN PROJECT DIRECTOR

DET436

CONFIDENTIAL: COMMERCIAL IN CONFIDENCE

DRAFT

PRIME MINISTER

GOVERNMENT DATA NETWORK (GDN)

1. I propose to announce by Written Answer at 3.30 on Thursday 19 May that the Government is going ahead with the Government Data Network, and intends to award the Contract to Racal Scicon Ltd. The attached note sets out the background to the Project and the award recommendation, I also enclose the text of the draft Answer. I propose to hold a press conference at 4.00 after the announcement.
2. The Chief Secretary has approved the Financial Case for the Project. The choice of contractor has produced a further saving of nearly 18% against the costs used in the Financial Case. In broad terms the GDN is some 45% cheaper than a comparable public service and some at least 30% cheaper than the four Departments undertaking separate networks on a similar basis. Ministers in charge of the four Departments concerned have confirmed that they are content to proceed with GDN and with the choice of contractor.
3. I have already written to Secretary of State for Trade and Industry, both because of his policy interest in the outcome and in view of the recent City rumours concerning Racal and Cable & Wireless. These rumours may well be unfounded, but nonetheless make an early announcement important to avoid speculation and the risk of leaks. Officials from CCTA will be debriefing the unsuccessful contractors at the beginning of June.
4. The GDN has wrongly been seen in some quarters as a threat to the privacy of personal data. I explained the issues fully in my response to the Adjournment Debate of 25 February this year. The National Council for Civil Liberties raised queries earlier this year. My response and the subsequent

briefing by Officials addressed their concerns. The Data Protection Registrar has been kept informed since 1986 and I met him in September 1987 to discuss GDN. He has also met senior officials from the four Departments.

5. Much of the Parliamentary and Media interest in GDN has been focused on the possible use for the Police National Computer. GDN is being considered as a replacement network, but no decision has yet been made by the Home Secretary.

6. The GDN Project is an important example of a major public sector initiative being realised through private enterprise. From the first meeting of CCTA and Departmental officials to the placing of the contract has taken just two years. This is an unusually short time for such a large and novel undertaking, and reflects well on all concerned in Government and Industry.

7. I am sending a copy of this minute to the Chancellor, the Home Secretary, the Secretaries of State for Trade and Industry and Social Services, the Lord President, the Chief Secretary and to Sir Robin Butler.

DET441

DRAFT ANSWER TO WRITTEN PQ

"The Government has examined the feasible options for meeting the foreseen data communications needs of four major departments (Department of Health and Social Security, Inland Revenue, HM Customs & Excise and Home Office). The costs of these have been compared with GDN costs based on tenders received in March from the three consortia ~~Computer Services Company/British Telecom, Racal-Scicon and Cable & Wireless/International Computers Ltd~~ (known as ICONS). The comparison showed that, over ten years, GDN was significantly cheaper than the alternatives even before taking account of the superior service and greater security offered by GDN.

The Government has therefore decided to proceed with GDN.

The three competing tenders for GDN have been comprehensively evaluated and the Government intends to award the contract for the GDN Service to X subject to final agreement of terms.

As I told hon. Members in the Adjournment Debate on 25 February, we have drawn on the most appropriate technical expertise available in both Government and the private sector in designing the arrangements for security and privacy for the GDN service. We have ensured that the Data Protection Registrar has been kept in touch with plans and is content with them. We have also kept OFTEL informed during the procurement.

Acceptance testing of the service, using the HM Customs & Excise VALID (VAT Access and Local Input of Data) application system is expected to begin by the end of the year. An operational GDN service will be available early next year.