

PO-CH/NL/0276

PART A

Part A

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(Circulate under cover and notify REGISTRY of movement)

Begins: 27/1/88.  
Ends: 18/2/88.

MANAGEMENT - IN - CONFIDENCE

  
PO -CH /NL/0276  
  
PART A

PO -CH /NL/0276  
PART A

Chancellor's (Lawson) Papers:

THE CUSTOMS HANDLING OF  
IMPORT AND EXPORT  
FREIGHT (CHIEF) PROJECT  
*Handling of Imports and Exports*

Disposal Directions: 25 Years



11/10/95.

4550 -

Copy 1 of 8

BF



J B Unwin CB  
Chairman

*Ch/FP warned us that Mr Unwin would minute in these terms: they have reservations, and will provide advice*

Board Room  
H M Customs and Excise  
King's Beam House  
Mark Lane London EC3R 7HE  
Telephone: 01-382 5001

MANAGEMENT IN CONFIDENCE/  
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*mpw 28/1*

*BF 5/2*

*8/2*

*9/2*

*10/2*

*1. Advice, but Law Dept. This is for the proposal. Choose the proposal. push forward to Unwin. of this account.*

FROM: THE CHAIRMAN  
DATE: 27 JANUARY 1988

CHANCELLOR OF THE EXCHEQUER

THE CHIEF PROJECT

The Department has today submitted to Treasury officials a case for financial approval of Phase I of the CHIEF (Customs handling of import and export freight) project. We recommend that it should be undertaken by British Telecom in replacement of the outdated DEPS system they currently run on behalf of the Department.

2. I bring this directly to your attention because a decision in favour of a continued BT service rather than the originally preferred option of bringing the project in-house will undoubtedly be controversial and sensitive for industrial relations, and could lead to some form of industrial action. This is discussed further below.

3. The technical imperatives for a replacement system are not in doubt: the requirements have been established following exhaustive studies including CCTA and external consultants as well as our own staff. Moreover, the replacement project will facilitate subsequent phases of development which will extend computerisation to exports, licences and other aspects of our controls at ports and airports. These will have significant benefits both for trade and for us, particularly in making large staff savings. The issue, therefore, is how best to implement the project.

UNWIN  
→  
CHIEF  
27/1

4. There are only two realistic options. One is to bring the project in-house, handled by our own computer division. The other is for British Telecom to replace their existing system and continue to provide an entry processing service for us. We are satisfied that no other external organisation has the business knowledge or experience to develop and run what is generally reckoned to be one of the most complex civil projects in government.

5. The full costings of the two options come out closely - the discounted cost of the BT option is likely over an eleven year period to be some £4 million more than the corresponding cost of the in-house option, but the former has a more attractive profile: whereas we can fund the BT option within our existing provision in the current PES plan with some adjustments to capital in the first year we would need to seek significant additional funds for the in-house option. I believe, therefore, the options are fairly evenly balanced on financial grounds. The in-house option probably has some advantage in providing us with more direct control. But the consideration which in my view decisively tips the scales in favour of the BT option is the reduced vulnerability of that option to industrial action.

6. You will recall that following the spell of industrial action by our computer staff in the middle of last year we indicated that we should be studying ways to reduce the vulnerability of our IT systems in the future. We will be minuting separately about the position of our VAT and other IT systems, but the question of vulnerability to industrial action is obviously very relevant to the selection of the proposed method of implementing CHIEF.

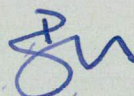
7. Because the existing entry processing system is run by BT it was unaffected by last year's Civil Service strike. Had it been in-house, there is little doubt that it would have been disrupted by industrial action; and it would have

been particularly vulnerable because 80% of entries (rising to 90% soon) are directly input by traders to our system. In the light of our experience in 1987 we are, therefore, in no doubt that if the CHIEF project were to be brought in-house there would be a serious risk of periods of disruption. We have attempted to quantify the revenue consequences in the financial case, but apart from that even a short period of disruption to CHIEF would create chaotic conditions at ports and airports. Continuing with BT is, of course, not itself entirely risk free: there was industrial action there last year. But significantly our entry processing system was not affected because middle levels of management in BT are much less under union influence than their counterparts in the Civil Service and we have assurances from BT that they plan to strengthen the capacity of management to maintain key systems during periods of industrial action.

8. My judgment, therefore, on grounds of avoidance of vulnerability in the longer term, is firmly in favour of the BT option. There are, however, two immediate risks which we must overcome. First, we must try to avoid a damaging hiatus in the development of the project by ensuring a smooth transfer of key personnel, possibly including the Grade 5 Project Manager, from the Department to BT. We shall want to settle transitional arrangements with BT quickly so that they can be made public as part of the announcement of the decision. The Cabinet Office, whom we have consulted, do not believe that the transfer of the Project Manager or other senior personnel to BT raises any questions of propriety or conflict with business appointment rules but there could be some public criticism (inspired by the TUS) nevertheless. We have taken the precaution that none of these who might transfer to BT is involved in any financial or contractual discussion with BT.

9. Second, there will undoubtedly be opposition to a decision to contract with BT for the provision of CHIEF from the staff concerned and from the TUS. I have to say that there must be some risk that this could lead to some form of industrial action, especially if the TUS were to succeed in linking the CHIEF decision with wider discontents of privatisation or pay. I believe that our best chance of minimising opposition will be to make the announcement during February, before the main pay negotiations get properly under way and, as suggested above, to include in the announcement clear cut arrangements agreed with BT for the future of the staff directly affected. I recognise that this timetable places heavy demands upon Treasury officials in considering the details of the case, but we are very clear that if an early and decisive announcement about the project is not made next month the dangers of leaks and uncertainties leading to resignations of key staff and industrial trouble will greatly increase.

10. I am sending a copy of this minute to the Chief Secretary, to the Paymaster General, because of his responsibilities for the CCTA, to the Economic Secretary, and to Peter Middleton, Anne Mueller and John Anson. For obvious reasons, I should be grateful if the papers could be handled with the utmost discretion and circulated only on a very strict 'need to know' basis.



J.B. UNWIN

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FROM: M J HOARE

DATE: 16 February 1988

1. MR CULPIN
2. ECONOMIC SECRETARY
3. CHANCELLOR

*Mr or end*  
*Re 16/2*  
*Economic Secretary*  
*contact, but see*  
*attached note.*  
*Sun Westhead 17/2*

cc Chief Secretary  
 Financial Secretary  
 Paymaster General  
 Sir Peter Middleton  
 Mr Anson  
 Dame Anne Mueller  
 Mr Kemp  
 Mr Scholar  
 Mr Kelly  
 Mr M Luce  
 Miss Peirson  
 Mr Beard CCTA  
 Mr F K Jones  
 Mr Hansford  
 Mr Truman  
 Mr Cowell CCTA  
 Mr Nicol PSE  
 Mr Pettifer  
 Mr Harris  
 Mr Call

HOARE  
 →  
 CH/EX  
 16/2

### THE CHIEF PROJECT

Mr Unwin's minute of 27 January to you supports the formal case (submitted to Treasury Officials by the Custom PFO) seeking financial approval for Phase 1 of the Chief (Customs Handling of Import and Export Freight) Project. Customs proposed an out-house solution. They wish, without going out to competitive tender, to commence contractual negotiations with British Telecom Applied Technology (BTAT) for a replacement to the Direct Entry Processing System (DEPS) they currently run on behalf of the Department.

2. The Treasury agrees that the CHIEF project should go ahead and this submission recommends that you respond favourably on the main questions of principle set out below subject to a number of caveats that will be picked up in more detail in the official response. In view of those caveats we are also recommending that the negotiations towards contract with BTAT should be limited to a total project cost of £72.5m exclusive of VAT (£59.4m discounted)

3. The proposal is considered in more detail in Annex A to this submission.

The Main Issues

4. There are four main issues which have to be considered prior to the authority being given:-

- a. should the system be developed out-house when that is a more costly option to developing it in-house;
- b. if so, is single company negotiation with BTAT justified;
- c. how real is the risk of industrial action;
- d. the associated proposal to transfer up to 70 key staff involved with the project to BTAT.

5. The issues (a)-(d) are considered in full at paragraphs 4 to 11 of Annex A.

The Out-house Solution

6. Under the BTAT proposal the out-house solution will cost £4m more than developing the project in-house (£59.4m compared with with £55.4m). But Customs' argue that developing the project in-house would not make management sense because of the greater risk to revenue from industrial action. They estimate that strike action would cost £41m a month mainly from losses of interest on deferred receipts.

Single Tender

7. Customs justify a single tender negotiation on the grounds that BTAT have provided a keenly priced proposal for CHIEF against the in-house option. They could be expected to increase the cost of their proposal if the exercise has to go to competition. A competitive exercise would delay the project and require an extension of the present DEPS contract which would also add to overall costs. Although Customs do not seek to argue that BTAT are the only possible supplier, they do believe that their knowledge in this field and proven track record puts the project at least risk in terms of both commercial confidence and slippage. They would probably seek to argue that the BTAT proposal makes sound management sense, even if another competitor were able to offer a lower price.



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8. Moreover, the present system is already situated out-house and arguably continuing the contract with BTAT could be presented as a redevelopment of the present system. This is the argument Customs propose to deploy in public against any criticism of the fact that they did not go out to multiple tender.

### Risk of Industrial Action

9. There is some risk, particularly to the VAT computer, from industrial action if the Unions and staff take exception to the proposal for CHIEF to be developed out-house. There are other major IT proposals where contracting out is at issue (GDN and DHSS Operation Strategy) and the Unions may decide that the trend towards privatising computer operations has gone far enough and that a stand must now be taken to arrest that trend. We believe that it is unlikely that the stand would be made on CHIEF issue, not least because DEPS has never been an in-house service. Mr Unwin believes that the risks will be minimised by making the announcement after the monthly run on deferred VAT payments (19 February) and before the pay negotiations get too far underway; that points to an announcement in late February.

10. Against the risk of industrial action if the project is developed out-house, is the risk, already mentioned, of industrial action threatening revenue collection if the system is run by Customs staff. This latter risk is real as recent experience has shown.

### Transfer of Staff to BT

11. Staff associated with the project have developed considerable related knowledge and skills. Customs see it as in their interest for continuity of staffing to be maintained and have persuaded BTAT to offer the staff involved jobs on the project. This is expected to help reduce any industrial relations difficulties when the announcement is made.

### Treasury Views

12. FP have considered carefully, in close consultation with CCTA, TOA, RC1 and IRD, the arguments Customs have deployed. The cost difference between the two options is not decisive, especially when balanced against the potential loss of revenue from industrial action which would affect an in-house system. Moreover, staff savings

could?

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from the proposed transfers of staff to BTAT may result in some additional saving which could narrow the gap. We believe there is also force to the argument that since the present system is (and always has been) provided out-house it would look positively odd to bring the activity in-house (and contrary to the Government's policy on contracting out), especially against the background of industrial action in Customs last year. On balance, we think the proposal to leave the system out-house is defensible on this basis, eg to the PAC, and the implication for the other parts of the Civil Service such as DHSS are containable.

13. The proposal to go to single tender is more difficult. We agree that any proposal to tender widely puts BTAT's informal proposal at some risk. It would certainly result in delay to the project and the tendering exercise itself would add to cost (including the need to extend the existing DEPS contract). BTAT have experience of the culture and procedures in this complex handling area and are best placed to develop and manage the system. We believe, therefore, that it makes business sense to enter a single company negotiation with BTAT subject to an overall financial ceiling and safeguards and caveats which will be developed for the parallel official level response.

14. The risk of industrial trouble from a decision to develop the project out-house looks less, over the longer term, than the risk associated with the in-house option (the current system operated by BTAT was not affected by the strike in Customs last year). BTAT is not, of course, immune to industrial action, but experience has shown that BT management will, if necessary, run their systems. And although we feel uneasy at the proposal for transferring key skilled staff to BTAT, this does look the best way of forestalling unrest (and many of the staff could have been expected to have gone anyway).

### Conclusion

15. We recommend that you respond to Mr Unwin's minute by agreeing in principle to an early announcement of a single company negotiation with BTAT within a total project ceiling of £72.5m (exclusive of VAT) equivalent to a net present cost of £59.4m. This agreement will be subject to the caveats and points of detail which will be covered in the official level response to the PFO's submission. If you agree a draft is attached.



M J HOARE

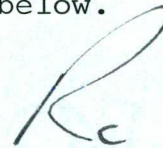
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CHANCELLOR

There are two separate questions.

(a) Substance: do you approve the Customs' proposal, subject to detailed safeguards which we are finalising with Customs?

(b) Procedure: do you want to write personally to Mr Unwin to say so, leaving me to follow up on the detailed safeguards? It is not essential for you to write - I can report your agreement when I wrap up the details - but there is a draft below.



ROBERT CULPIN

16 February 1988

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per type

final

dsap

MAN

~~DRAFT LETTER FROM THE CHANCELLOR TO:~~

MR UNWIN C+E

~~The Chairman  
HM Customs and Excise~~

- cc ~~The Chief Secretary~~
- ~~The Financial Secretary~~
- ~~The Economic Secretary~~
- ~~The Paymaster General~~
- Sir Peter Middleton
- Dame Anne Mueller
- Mr Anson
- Mr Scholar
- Mr Culpin
- Mr Luce
- Miss Sinclair
- Mr Hoare



The Chancellor was grateful for your minute of

Thank you for your letter of 27 January in support of the official level submission proposing single company negotiation with BTAT for a replacement system to the DEPS system which the Company is currently running on behalf of the Department.

It understands that <sup>Treasury</sup> my officials are currently studying the details of the Business Case and the Full Study Report. <sup>He hopes</sup> I hope that they will be able to respond to the formal submission within the next few days. <sup>He</sup> I generally agree with the assessment of the situation you set out ~~in your minute~~ and agree that the reduced vulnerability to industrial action together with the competitive level of the informal offer make the BTAT option attractive. However <sup>He</sup> I understand that the offer has been made against a less than full knowledge of the Customs' requirement. Authority to proceed will, therefore, have to be made subject to a number of caveats and points of detail which have already been discussed with your officials.

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Subject to those details, which will be set out in the response to the official level submission, <sup>these</sup> I am content for negotiations to begin on a single Company basis with BTAT for the development and operation of Phase 1 of CHIEF within a total project cost of £72.5 million (exclusive of VAT).

I also agree with your assessment that late February probably provides the most suitable time to make the announcement of this development.

~~NIGEL LAWSON~~

M

**CONFIDENTIAL****FINANCIAL APPROVAL FOR THE CUSTOMS HANDLING OF IMPORT AND EXPORT FREIGHT PROJECT (CHIEF)****BACKGROUND**

The current freight processing system (DEPS) was introduced in 1981 but based on the technology of its predecessor developed in the late-1960's. DEPS is provided by British Telecom Applied Technology (BTAT); the contract expires in September 1991. As a result of the EC's plans to harmonise Customs' arrangement major changes in Customs' system have been introduced from 1 January 1988. Studies in 1983-84 came to the conclusion that DEPS was not a suitable basis for future development, and the original intention was for a replacement system to take over from DEPS by 1.1.88. The analysis and specification for the replacement (CHIEF) proved more complicated than originally envisaged and in 1986 it was agreed that a new system would be required and that it would be necessary to bring about the changes in two phases:

- a. amend DEPS to incorporate the 1.1.88 changes; and
- b. introduce CHIEF.

Agreement to this course of action was given by the Minister of State on 8 January 1987.

2. The aim is to replace DEPS by the end of the contract in 1991. The original strategy was to bring CHIEF in-house but insulate against vulnerability to industrial action by developing a distributed system. However, this option proved to be technically very difficult and also very costly and has not been pursued in the Full Study Report. However, that conclusion and the industrial action undertaken by computing staff during 1987 caused Customs to reconsider the in-house strategy.

## OPTIONS CONSIDERED

3. The following options were considered by Customs:
  - i. Manual Processing of Customs entries - not considered feasible for either Customs or the trading community.
  - ii. Continuing with DEPS obsolescent technical base could only be of short-term duration - unacceptable option for moving into the 1990s.
  - iii. Distributed system v central mainframe - distributed system costly and still provides no guarantee against industrial action.

The recommended technical solution is therefore the replacement of DEPS by a centralised mainframe system.

## IN-HOUSE v OUT-HOUSE

4. The Full Study Report was based on a centralised mainframe system in-house. However, BTAT have put forward a programme essentially similar to the in-house proposal. They point out that if Customs entry processing remains with BTAT the timing of the new system's introduction would be less critical as they would undertake to extend the existing arrangements if the main project should overrun.

5. The BTAT informal costings based on an imprecise knowledge of the Customs' requirement are some £4m above the in-house option. Customs argue that the proven track record of BTAT provides valuable confidence for a project of high technical risk and will produce a system less vulnerable to industrial action. Developing the in-house option requires skills which are unlikely to be available in-house and which would have to be brought in from outside. Any resultant slippage in the programme due to skill shortage would add to the in-house costs and could result in Customs having to purchase a short-term extension of the DEPS from a possibly unsympathetic BTAT. Customs argue that this justifies the small extra premium for the out-house option.

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6. Customs officials have also argued that it is misleading in this case to talk about contracting out (and they will be avoiding any such terminology in any announcement). The recommended proposal is the redevelopment of the present system which has always been provided from an out-house source. Increasing the risk of industrial action against this essential revenue system by bringing an activity in-house which had been effectively carried out outside the Civil Service, does not make management sense and would not ensure best value for money for the taxpayer in accordance with the Government's policy on contracting out. Customs have also made the point that when the later phases of CHIEF are taken into account, the BTAT option is expected to show further costs and timing advantage when set against the CHIEF in-house option. We agree that the additional costs of the out-house option are a reasonable premium to pay to reduce the risk to revenue from industrial action. In the circumstances we believe that negotiation of the out-house option is justified.

### SINGLE TENDER

7. Our normal stance is to insist on competitive tendering for a contract of this nature. Customs have argued that BTAT are prepared to offer very competitive terms to retain this contract. BTAT have the competence to develop and provide a technical solution to meet the Department's needs, whereas other suppliers would have to gain experience of the complex procedures involved and, during that period, there is a risk of a flawed system and damage to trade. We believe there is some force in these arguments but not enough in themselves to justify accepting single tender.

8. However, it has to be recognised that a competitive tendering exercise would cause costly procedure delays to the Project, requiring Customs to negotiate an extension to the DEPS contract and probably causing BTAT to revise upwards their present costings. Even if BTAT did not submit the cheapest bid, Customs would probably argue a premium was justified on the basis of BTAT's more certain ability to deliver an unbroken service during the changeover. Customs are not seeking to argue that BTAT are the only possible supplier but, in terms of the decision making business sense, they are the best because having worked on DEPS they are already ahead in terms of the knowledge of the computer procedures in this area, and their consideration of a suitable replacement system. BTAT's contract would limit any profit-taking to development and facilities management; the computers will be



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supplied by ICL and the terminals by Ferranti at price no higher than those negotiated by Customs on the open market for other Customs' operations. In the exceptional circumstances of what is believed to be a highly competitive offer from the Company already providing the service and involved in the development of the replacement system, we believe that a single tender negotiation is justified. This would not contravene any EC or GATT regulations.

### RISK OF PROVOKING INDUSTRIAL ACTION

9. The risk is difficult to assess but it is generally agreed that the Customs' assessment that the best chance of minimising opposition would be to make the announcement of single tender negotiations soon after 20 February is correct. The system most at risk is probably the VAT computer. However, the monthly deferred payment run will have been completed by 19 February and detailed negotiations on pay will not yet have got underway. The staff involved with the CHIEF Project will have been told of job offers from BTAT and are unlikely, therefore, to take any action. The Next Steps announcement on 18 February adds a complication which it is difficult to assess but as no Customs activities are involved in the first stage, this is not thought to be significant. The CHIEF announcement when it is made will have the effect of confirming that an out-house system is staying out-house. Although some staff may be disappointed from the point of view of career expectations within Customs it is not regarded as an issue likely to motivate a good deal of unrest. To some extent the Unions are in a 'no win' situation as any industrial action which did materialise could be seen as merely justifying the management taking its decision. We believe that there is some risk of the announcement provoking industrial action but that Mr Unwin's assessment of the advantages of an early announcement are correct.

### STAFFING IMPLICATIONS

10. Included in the Customs' proposal is the intention to transfer up to 70 skilled computer staff involved in the Project to BTAT. We have confirmed that Customs are pushing this as they see continuity of staffing on the project as in their interests. However, BTAT do not exactly seem to be fighting off the proposal. Customs' arguments run as follows:

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- a. the business case makes it clear that the productivity and timetable involved in the out-house option depend a continuity of skills on the project;
- b. it would, therefore, be better (and in the Customs' interest) for the staff currently employed on the Project to remain involved rather than for BT to recruit and train new staff;
- c. secondment terms would involve Customs staff working alongside highly paid but less-skilled BT staff and that is considered to have a demotivating affect (indeed soundings indicate that most staff involved would not accept secondment terms);
- d. BTAT would resent secondment proposals as they would see this as detracting from their right to manage;
- e. it is proposed therefore that BTAT offer staff jobs but that those staff would have a route back to Customs which would be protected for one year;
- f. if the decision is taken to out-house the proposal, the staff transfer proposal would help dispel unrest among the group of staff most involved with the Project and, therefore, reduce the risk of immediate industrial action;
- g. seconded staff returning to Customs at the end of the project's development would have to be retrained and redeployed before they could be used on other projects in Customs.

11. FP are uneasy about this loss of skilled staff but are, nevertheless, persuaded by the logic of the arguments. It could be expected, that many of the staff would in any case be poached by BT and, also, that those inclined to a public service vocation will resist BT's blandishments. In the circumstances, we are not inclined to object subject to proper safeguards and assurances about the absorption of all secondary costs, including superannuation costs where BTAT offer Customs staff jobs.

### PES POSITION

12. The in-house and out-house spend profiles are very different for the current PES period. This is mainly due to a more rapid take up of capital spend on the

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in-house option (BTAT presumably have the system development capacity, Customs would have to acquire it). The in-house profile suggests additional provision of £3.1m in the current year with a saving of £1.3m against provision in 1990/91. The out-house option on the other hand would mean an overall surplus of £2.7m in the current year but a deficit of more than £6 million in 1990/91 (£7.9m capital offset by - £1.8m current). However, Customs expect to be able to reduce the 1990/91 bid to £3m by switching within their overall capital provision. The out-house option has a slightly more attractive profile from the Treasury's vantage point.

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BF to m 18/2 .



FROM: G R WESTHEAD

DATE: 17 February 1988

PS/CHANCELLOR

cc PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Paymaster General  
 PS/Sir P Middleton  
 Mr Anson  
 Dame Anne Mueller  
 Mr Kemp  
 Mr Scholar  
 Mr Kelly  
 Mr M Luce  
 Miss Peirson  
 Mr F K Jones  
 Mr Hansford  
 Mr Truman  
 Mr Nicol  
 Mr Pettifer  
 Mr Harris  
 Mr Call  
 Mr Beard - CCTA  
 Mr Cowell - CCTA

APS/EST

PS/ct

17/2

### THE CHIEF PROJECT

The Economic Secretary agrees with the recommendation in Mr Hoare's minute of 16 February below - ie that Chief proceeds on an out-house basis. In his view, the only issue giving pause for thought is that of single company negotiation - ie with British Telecom Applied Technology (BTAT).

2. The Economic Secretary does not himself think that the statement that BTAT could be expected to put up their price if the exercise goes to competitive tender is a credible one (see paragraph 5 of Mr Hoare's minute). Nevertheless he concludes that single company negotiation is quite acceptable and sensible in this case, if the threat of calling in competition is used implicitly or explicitly if BTAT do not offer acceptable terms.

*Guy Westhead.*

GUY WESTHEAD  
 Assistant Private Secretary

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FROM: W A BEARD  
DATE: 18 FEBRUARY 1988

BEARD  
→  
CHIEF  
18/2

APS/CHANCELLOR

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Economic Secretary
- PS/Paymaster General
- Mr Anson
- Dame Anne Meuller
- Mr Kemp
- Mr Scholar
- Mr Kelly
- Mr Luce
- Mr Culpin
- Miss Peirson
- Mr F K Jones
- Mr Hansford
- Mr Truman
- Mr Hoare
- Mr Nicol
- Mr Pettifer
- Mr Harris
- Mr Cowell - CCTA
- Mr Call

*Ch/ I don't think you  
need read this. Summed up  
in final para. - contract  
award possible in Oct 88*

*mpw*

**THE CHIEF PROJECT**

Following up Mr Judge's minute of earlier today. I enclose a minute from Mr Cowell to Mr Hoare of today's date, suggesting a number of caveats to be applied to the Treasury approval.

2. Items 1 and 2 of the Annex to my minute of 2 February have to be completed by Customs for inclusion in the Request for Proposals (para 3 of Mr Cowell's minute refers). Items 3 and 4 are down to BTAT in their response to the RFP (para 4 of Mr Cowell's minute).

3. On timescales, we seek further information from Customs before any announcement of the CHIEF decision. Our rough estimate is June 1988 for the RFP, October 1989 for the Contract.

4. On costs, we will be seeking to place ceilings on the DTAT contract (£30M for development, £4.6M pa for operations).

*A Batchelor*

pp W A BEARD

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FROM: B COWELL

DATE: 18.2.88

cc Mr Beard  
Mr McDaniel  
Mr Hansford  
Mr Pettifer  
Mr Nichol

MR HOARE

**CHIEF PROJECT FSR**

1. At our meeting on Monday 15 February you requested a CCTA view on the caveats which should be included in the official response to the CHIEF FSR and Business Case. Mr Beard will be reporting separately on yesterday's CHIEF Project Board meeting, but I have taken into account his assessment in the following list of caveats. These caveats are designed to ensure that the project progresses in a proper manner, particularly since the FSR is based on an in-house solution. Furthermore, it appears to us that the caveats should reflect what has to be done before the announcement, what is needed before we issue the RFP (Request For Proposals) on behalf of HMC&E to BTAT, what we should expect from BTAT in their proposal, how we move to a best and final offer (ie tender) and then to contract.

2. Before the announcement is made we will expect to see:

- clear confirmation that the terms and conditions of the job offers to CHIEF Project staff by BTAT are acceptable in terms of baseline parameters, and that there are adequate reinstatement provisions for those staff wishing to return to HMC&E;

- broad determination of what has to be done, by who and at what cost up to award of contract.

3. In order to produce the RFP we will expect:

- the statement of user required system (including SSADM aspects) to be complete, comprehensive, consistent and unambiguous;

- the logical system design (ie SSADM stages 4 and 5) to be

complete (including specification of trader interfaces and network);

- the Project Plan to be updated to include the procurement activity and the CHIEF Project Control Guidelines modified to reflect the "out-house" environment;

- the project standards to be fully defined and in accordance with the evolving Departmental IT Strategy; and

- the contractual breakpoints to be stated - one such breakpoint must be at the end of development. (It must be clearly accepted by HMC&E that at the conclusion of the development part of the contract the system must be tested and accepted to assure conformance with the agreed system design before cut-over.)

4. In response to the RFP we will expect BTAT's proposal to cover, inter alia, the following points:

- confirmation that the logical system design is an adequate basis for the contract;

- first cut physical design to confirm the technical architecture and design objectives;

- project plans (both Technical and Resource), organisation and controls, with reference to staff resources in terms of skills and experience; and

- cost of development and operational contract, including the cost of disaster standby and, if appropriate, the cost of extending DEPS(M) beyond 31.9.91;

Note: Treasury will want to impose separate ceilings on the development and operational parts of the contract. It is suggested that these will be £30m total for development up to 31.9.91 (based on current plans) and £4.6m per annum for operations following completion of development. The presumption is that these costs are undiscounted and the ICL supplied products are included (the Ferranti terminal systems are to be procured by HMC&E). Also, the total project cost approval of £72.5m (undiscounted) should include any equipment already procured under delegation (ie ICL 39/40 procured for Heineken project).

5. Contractual negotiations will follow on from BTAT's proposal and lead to a Best and Final Offer (ie tender) and to award of contract. CCTA will be the contracting authority and we will need to be satisfied that the contract is sound and based on a firm foundation. It is recognised that FP Division will want to be kept informed of any concerns CCTA may have regarding the BTAT contract and that HMC&E will need to come back to Treasury if any of the cost ceilings are breached.

6. Unfortunately I cannot be clear at this stage on the exact form of contract and therefore the timescales required, but I hope you will appreciate that the caveats detailed above are designed to derive this information (see second indent of paragraph 2 above). Nevertheless, our rough estimate of timescales are June 1988 for the RFP and award of contract in October 1988.



B Cowell  
CT1 Division  
217-3060



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FROM: S P JUDGE

DATE: 18 February 1988

APS/CHANCELLOR

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Sir Peter Middleton  
Mr Anson  
Dame Anne Mueller  
Mr Kemp  
Mr Scholar  
Mr Kelly  
Mr Luce  
Mr Culpin  
Miss Peirson  
Mr F K Jones  
Mr Hansford  
Mr Truman  
Mr Hoare  
Mr Nicol  
Mr Pettifer  
Mr Harris  
Mr Beard - CCTA  
Mr Cowell - CCTA  
Mr Call

PS/PNG  
→  
APJ/CKC  
18/2

*W/PJ -*

**THE CHIEF PROJECT**

The Paymaster General has seen Mr Hoare's submission of 16 February to the Chancellor, and the Economic Secretary's comments, reported in Mr Westhead's minute of yesterday (\*).

2. The Paymaster has also read the minute of 2 February to Mr Hoare from Mr Beard of CCTA (copy attached). Born of experience elsewhere, he would like to know what is the expected time factor in dealing with the considerations in paragraphs 1-4 of the Annex thereto (sidelined), which are swept up in the final two sentences of paragraph 2 of the draft letter from the Chancellor.

3. The Paymaster would want to be kept closely informed on developments, as he surmises both trouble and cost.

4. We spoke, and I agreed to ask Mr Beard to let you have advice direct.

S P JUDGE  
Private Secretary

(\* The Paymaster assumes that line 3 of paragraph 2 of Mr Westhead's note should refer to paragraph 7.)

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FROM: W A BEARD  
DATE: 2 February 1988

MR HOARE (FP)

cc Mr Scholar  
Dr Freeman  
Miss Sinclair  
Mr Truman  
Mr McDaniel  
Mr Cowell

**CUSTOMS AND EXCISE: CHIEF PROJECT**

1. We spoke last Wednesday; your minute of 27 January to Miss Sinclair refers. We have now seen Mrs Strachan's submission to Mr Scholar, the Business Case for CHIEF, but not Mr Unwin's minute to the Chancellor.

2. Firstly let me confirm CCTA's support for CHIEF in concept. As the Business Case says reversion to manual methods is untenable, and the current DEPS system is overdue for redevelopment. We have been working with Customs for some time on CHIEF and fully endorse the approach now being adopted to get away from their dependence on obsolescent and difficult to maintain software. In concept CHIEF looks a good approach for Customs to take for development of the new import and export freight documentation handling system, and should provide a sound basis on which to build added functionality and flexibility in future.

**THE FULL STUDY**

3. The Business Case for CHIEF is supported by Full Study - we have copies of the Full Study Report (FSR). We are not entirely satisfied with the FSR, and were it not for Customs drive for an early Ministerial decision on the CHIEF in-house and out-house options, we would argue that the Full Study needs further work to give greater confidence in the detail of the solution proposed. However Customs are pressing Treasury and Ministers to support an out-house solution for CHIEF, and we consider the case as presented is good enough for the purpose of deciding on options; Recognising that further work is needed, but that this is perhaps best directed towards an out-house solution if this is what Ministers decide.

4. Nonetheless you should be aware of our reservations on the CHIEF FSR, all of which are known to Customs, and these are set down in the Annex to this minute. Customs have accepted that more work needs to be done (some of which should be directed towards an out-house approach to CHIEF), and that matters will need to be firmed up and agreed before proceeding to contract.

wab40

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THE OUT-HOUSE OPTION

5. We cannot offer detailed comment on BT's informal proposals because we have not seen them. All we have are the figures in the Business Case, and the text of Mrs Strachan's submission to go on. We are assured by Customs that they are comparing like with like, and we have no reason to doubt them, but we have not seen the evidence. This must cause some unease over the out-house option costings at £59M (discounted).

6. The submission talks of seeking approval subject to certain caveats. Clearly those concerning adequate provisions for existing staff, a fully agreed definition of what is required, and satisfactory contract are crucial. Customs have privately suggested an overall price envelope is declared, although the ceiling price will need discussion, involving other Treasury advisers no doubt. Anticipating the remarks that follow about possible contract pricing structures, Treasury might need to consider whether the boundaries need to be drawn more tightly, both to protect the public purse and to give Customs added leverage in their difficult negotiation with BT.

7. There is considerable uncertainty at this stage as to how the contract with BT would be framed, noting the contract would cover development (a Turnkey approach) and computer operations (a Facilities Management approach). A fixed price for the Turnkey element of CHIEF is a possibility, but perhaps unlikely. Time and materials on an agreed basis up to a price ceiling for development seems favoured. There would be more sense in pressing for a fixed price for the Facilities Management part of the project (ie computer operations once CHIEF is developed); an alternative would be a fixed price per transaction handled - much as the current DEPS arrangement. Clearly these aspects need internal discussion and are crucial to get settled with BT as soon as possible.

8. That said the price of the out-house option has clearly come down considerably in recent discussions. A week or two ago there was talk of the differential exceeding £10M (which to our mind militated against the out-house option); to get the difference down to just under £4M (£59.40M as against £55.42M discounted) has clearly been achieved after some hard behind the scenes bargaining; there is talk of BT discounts of 20% on some aspects. Nonetheless it falls to Ministers to decide if the price premium is worth it.

9. Customs Directorate argue that the out-house option has a significantly better chance of achieving the system they need by September 1991 (when the DEPS contracts expires) and they cite BT's considerable achievement in meeting their 1.1.88 requirements as evidence of what can be done. The out-house option also fits within C & E's existing PES profile, albeit the

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short-term gains are overtaken by long-term costs. These are valid points but not worth a £4M premium in our view.

10. Great play is made of the industrial relations aspects. BT themselves have suffered industrial action in the past, but their management and senior technical staff should be able to sustain the CHIEF service in such circumstances. C & E were unable to keep going during last Summer's industrial action affecting the VAT system. One has also to consider if the announcement of the decision that CHIEF will be handled out-house will of itself provoke industrial action. Customs believe that the sensible and attractive terms on offer to CHIEF staff will do a great deal to allay concerns and damp down unrest on the project itself. Nonetheless there is a risk of other Customs' staff at Southend taking action against the VAT system or duty deferment. Because of this risk Customs are pressing for an urgent decision so that the move to out-house could be announced after 20 February (when 1.1.88 processing is complete), and before the next pay round - this is their window of opportunity as they see it.

Note the contracting-out of CHIEF should be seen in light of other moves -my minute of 27 January to Mr Willis refers.

**SINGLE TENDER TO BT**


11. In our view there is nothing special about BT in technical terms and in the normal course of events we would advocate competitive tender for a contract of this size and nature. However Customs argue forcibly for single tender to BT on business grounds; familiarisation with the work and the trader communities over many years, and commonality of interest with BT in terms of import/export services longer term. Customs contend that BT's recent track record on DEPS has been good, and point out that BT currently run the DEPS System for the Department, implying continuity of operation, if not compatibility in the strict sense of EC/GATT rules. (However CHIEF would be a service contract and outside the rules as currently framed.) Customs do not want to risk bringing in a new contractor to a complex and ever changing area of work, and cite TRAVICOM as an exemplar of what could go wrong. BT were called in to replace TRAVICOM by the way.

12. Given the caveats contained in the submission, we would not oppose Customs arguments for single tender to BT in this case. But we would wish to make it abundantly clear in any letter of approval that agreement to single tender for CHIEF was particular to the circumstances prevailing, and not a precedent for others.

OPINION

13. We believe that Treasury can give approval to the CHIEF project going ahead on the basis proposed, subject to the caveats and reservations aforementioned. The fine print will need discussion, but the CHIEF concept is a good one.

14. If Ministers favour the out-house option, albeit at extra cost, then we believe single tender to BT is defensible. After all they are the current contractor for DEPS.

  
W A BEARD

## CHIEF PROJECT FSR

1. The user requirement needs further work before it can be finally signed off, although what has been done is reasonably well stated. It will need to be complete before reaching agreement with the contractor, as this is the basis for system specification and design and ultimately the contract. In our experience ambiguity and uncertainty over the user requirement in such cases tends to lead to argumentative debate and costly (to Government) change proposals later.
2. The logical design for the CHIEF system is progressing, but might need adjustment if the user requirement varies. As before, this will need to be tied down and agreed prior to contract.
3. As a consequence of the above there is not yet an outline physical design for CHIEF, and we would normally fault the FSR on this ground. But if CHIEF goes out-house then physical design considerations will be the responsibility of the contractor to be agreed with Customs prior to contract.
4. In the absence of an outline physical design the technical and sizing issues relating to equipment configuration and network design are somewhat speculative - we would normally expect more substantiation to be given before accepting the FSR. However the equipment configuration proposed does not look unreasonable, and is the same for both costed options. As before this will have to be sorted out and agreed before contract.
5. The in-house plans look very tight, although technically feasible the resourcing aspects are little more than numbers by grade at this stage. Work is in hand to better identify requirements for people with skills and experience and when needed. You will have noted that Customs have made a large and prudent provision for employment of outside consultants in lieu of adequate staff with the requisite experience and skills. This is covered in the in-house costings, reflects losses of experienced staff, and is justified if Customs are to achieve the timescales required. We would normally press for this resource planning exercise to be carried further before endorsing the FSR, but if an out-house solution is adopted such work will be of value only in establishing the in-house baseline against which to judge the contractors proposals.
6. The project management arrangements for CHIEF are much improved of late (consultants reported adversely on this previously), and reasonable draft project control guidelines have now been produced. We were much involved in the appointment of an independent Technical Assurance Co-ordinator (TAC) to the project, and have kept in close touch with him on the technical and planning aspects. Our points to him on Project Board

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involvement in stage assessments are being actioned. (Mr Beard represents CCTA interests on the CHIEF Project Board.)

7. Note that there is no financial provision for disaster standby in the costings. Customs recently gained Treasury approval to purchase an ICL 3980 configuration, with disaster standby in mind. BT have yet to make detailed proposals.