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E(80) 31st Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 7 AUGUST 1980 at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Lord Hailsham
Lord Chancellor
(Item 2)

The Rt Hon Francis Pym MP
Secretary of State for Defence
(Item 2)

The Rt Hon George Younger MP
Secretary of State for Scotland
(Item 2)

The Rt Hon Patrick Jenkin MP
Secretary of State for
Social Services
(Item 2)

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2. UNIVERSITY TEACHERS' PAY
Previous Reference: E(80) 26th Meeting, Item 1

The Committee had before them a minute of 5 August from the Secretary of State for Education and Science to the Prime Minister about university teachers' pay and a letter of 5 August from the Attorney General to the Secretary of State for Education and Science.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that the Committee had invited him at their meeting on 22 July to negotiate a settlement of no more than 14.6 per cent for the balance of the pay increase for university teachers from 1 October 1979, rather than the 19.6 per cent which the university teachers were seeking. In subsequent negotiations the university teachers had refused to settle within this limit. They had proposed instead that they might be given the same combined increase over 1979 and 1980 as teachers in schools and further education. Since he intended to secure an exemplary settlement of not more than 10 per cent from October 1980, this proposal was too high by 3 to 4 percentage points. If it were rejected, the university interests would propose arbitration. In the light of the Attorney General's advice, in his letter of 5 August, it was clear that the Government would have to agree to arbitration and, under present legislation, to accept the outcome. It might nevertheless be possible to avoid arbitration by negotiating a settlement somewhere below 19.6 per cent in line with the corresponding award for further education teachers: there was some reason to think that it might be possible to reach a settlement at a figure of 18.2 per cent.

The following points were made in discussion -

- a. An alternative solution might be to pay 14.7 per cent from April 1980. This would cost the same in 1980-81 as the present claim for 19.6 per cent paid in two stages, half from April 1980 and the rest from October 1980. It might be unacceptable to the university teachers, since they would then start from a lower base when negotiating their 1980 settlements. From the point of view of the Government, however, it would have the advantage of avoiding staging, which had been widely criticised, and of a lower settlement in percentage terms.

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- b. There should be a general review of all the present arbitration arrangements throughout the public sector and of the scope for amending them.

At that stage the consensus of view in the Committee was that the Secretary of State for Education and Science should arrange for further negotiations in Committee B, without prejudice to arbitration proceedings, with a view to reaching a settlement of 14.7 per cent or less payable in full from April 1980.

When the discussion was resumed later in the morning at a restricted meeting (those present being the Prime Minister, the Lord Chancellor, the Chancellor of the Exchequer, the Lord President, the Secretary of State for Employment, the Secretary of State for Education and Science and the Chief Secretary, Treasury) THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that he was now advised that there was no possibility of the university teachers accepting 14.7 per cent or less from 1 April. They felt that they had fallen behind teachers in further education, and it was a matter of great importance to get an increase which restored their differential. This was not just a matter of status and pensions: they would fear that, if they went into the next round with a lower base, there would be no possibility in the climate then prevailing of an increase which restored their differential, and the adverse relationship with teachers in further education would persist. The choice therefore remained between going to arbitration and seeking the best possible settlement at a figure lower than 19.6 per cent.

In further discussion it was suggested that in presentational terms a high figure resulting from arbitration would be less embarrassing to the Government than a high figure resulting from a settlement to which the Government would have assented. On the other hand there could be no certainty that arbitration would award an increase lower than that which appeared likely to be available

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in further negotiation; and a negotiated settlement would at least have the advantage of getting the announcement out of the way a good deal earlier than an arbitrated award.

The Committee -

1. Agreed that the Secretary of State for Education and Science should reopen negotiations in Committee B on university teachers' pay with a view to reaching a settlement on the best possible terms available lower than 19.6 per cent, without prejudice to any arbitration proceedings which might follow if settlement could not be reached.
2. Invited the Secretary of State for Employment, in consultation with the Lord President and other Ministers concerned, to put in hand a review of present arbitration arrangements throughout the public sector and of the scope for amending them.

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MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LIMITED CIRCULATION ANNEX
E(80) 31st MEETING MINUTES, ITEM 1
THURSDAY 7 AUGUST 1980 at 9.30 am

1. COMPUTERISATION OF PAY AS YOU EARN
Previous Reference: E(80) 25th Meeting, Item 2

The Committee considered memoranda by the Lord President of the Council (E(80) 85) and by the Central Policy Review Staff (CPRS) (E(80) 90) on the procurement of computer equipment for the Inland Revenue's Pay as You Earn (PAYE) system.

THE LORD PRESIDENT OF THE COUNCIL said that the Central Computer and Telecommunications Agency (CCTA) had prepared a full and up to date technical assessment of ICL's proposals, and this was attached to his memorandum. In the light of this assessment his judgement was that ICL could probably just about do the job, although it would not be possible to be certain of this for another year. Even then the demonstration would not be conclusive, and it remained the case that the Inland Revenue would probably experience considerable teething problems and might have to accept a solution which did not meet their requirement fully. ICL were likely to take at least a year longer than would other manufacturers with more experience of this kind of system, who could base their proposals on proven products. ICL's latest estimate of their costs was £42.5 million, which was likely to be about £10 million, or 30 per cent, greater than if IBM won the contract. The Inland Revenue had little confidence in ICL, and this was a disadvantage since they would have to work in close co-operation with whichever manufacturer was chosen. He did not believe that a further independent assessment could usefully add to the advice already available in the CCTA's report. In his view the Committee now had to make a judgement between the apparent disadvantages to the Inland Revenue if they were required to take ICL computers and the considerable damage to ICL's commercial standing if the Government were to demonstrate a lack of confidence in the company by going to open tender for this contract.

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THE CHANCELLOR OF THE EXCHEQUER said that in his view there was an overwhelming case for open tender, on grounds of timing, price and performance. In addition to the extra costs and the delay if ICL were to be awarded the contract, the CCTA had advised that, unless the risks they had identified could be overcome, the Inland Revenue might be confronted with a series of problems, including frequent breakdown of the system, particularly in the early years, and that they would not have a system which met their requirements. The system had to meet the needs of 27 million taxpayers and the Government would be open to severe criticism both from the public and from Parliament if, notwithstanding the risks identified in the CCTA report (which would have to be made public), they were to give the contract to ICL and the system then proved inadequate and inefficient.

THE SECRETARY OF STATE FOR INDUSTRY said that he remained firmly of the view that the contract should be given to ICL by single tender. They would work with Logica, who had a world-wide reputation for software. The CCTA had advised that ICL should be able to mount a successful demonstration of the feasibility of their proposed system by June or July of 1981. In his judgement the shortcomings which had been identified could be overcome. Unless ICL were given this contract, and the opportunity to establish themselves in major systems of this kind, their commercial standing and their market would suffer.

In discussion the following points were made -

- a. It was wrong to assume that there would be no problems if the contract were awarded to a multi-national. Some United Kingdom companies had experienced considerable difficulties and unforeseen costs with their IBM computers.
- b. A decision to go to open tender, which would in effect exclude ICL, would be severely criticised by the Opposition and by many Conservative Members of Parliament. If there were to be a Motion of Censure the Government could well lose. It would not be possible to defend the decision adequately without damaging the commercial reputation of ICL to an unacceptable degree.

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c. If ICL were to be given the contract by single tender, it should be on condition that they could satisfactorily demonstrate by the middle of 1981 the feasibility of their proposals. Since failure at that stage, or when the system was in use, would be disastrous to them, they would have every incentive to do well.

d. On the other hand the demonstration in 1981 would not clinch the argument. It would be not until 1983-84 that ICL could show that they could operate in live conditions and that their computers could be satisfactorily integrated with the software. Moreover, it would be very difficult in practice for the Government to give them a conditional contract now but then to go to open tender in 1981 on the grounds that the demonstration was unsatisfactory.

e. The Inland Revenue had designed the system on the assumption that they would have access to the best proven technology. There was, however, a case for looking again at the design. A simpler and less centralised system would be less vulnerable to disruption and breakdown than an over-centralised and highly complex system of the kind at present under consideration.

THE PRIME MINISTER, summing up the discussion, said that four conclusions seemed to emerge from it -

- i. if the Government were to decide now to put the Inland Revenue computer project out to open tender, rather than to ICL on single tender, they would come under strong political attack for taking a decision which would imply lack of confidence in ICL, without having sufficient grounds for believing that ICL could not adequately carry the contract out; and in the process of defending themselves against such an attack the Government would be bound to use arguments which would exacerbate the damage to the reputation of ICL, to its grave and lasting disadvantage in world markets;
- ii. on the information available to the Committee, it would be premature to conclude now that ICL could not carry the contract out adequately;

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iii. a contract had to be awarded by the end of the year: if it were to be awarded to ICL by single tender, the contract should be conditional upon ICL demonstrating by the middle of 1981 to the user's satisfaction that their system would work adequately;

iv. the system at present proposed was highly centralised and as a result very complicated and, whatever its merits in terms of technical elegance and saving of staff, the Committee was not convinced that such a system was to be preferred to one which, while meeting the essential operational requirement, would be less vulnerable to the disadvantages and risks of a high degree of centralisation and technical complexity.

There should now be an urgent examination of the possibility of meeting the Inland Revenue's operational requirement with a more decentralised and simpler system. That examination should be completed in time for a decision on tendering to be taken by the end of the year. If it was then decided to award the contract to ICL by single tender - and it might well be that ICL would be able to tender more convincingly for a less complex system - the contract should be conditional upon ICL demonstrating by the middle of 1981 to the user's satisfaction that their system would work adequately. The Chancellor of the Exchequer should announce, in answer to Parliamentary Questions already down, that the Government were reviewing the case for a simpler and less centralised system; this announcement should be drafted in terms which made it clear that nothing in the decision was intended to preclude the possibility of letting the contract by single tender to ICL, in association with Logica for software and other United Kingdom companies.

The Committee -

Invited the Chancellor of the Exchequer -

i. to arrange for the Inland Revenue, in consultation with the Central Computer and Telecommunications Agency and the Department of Industry, to reconsider the design of the proposed new Pay As You Earn computer system, with a view to establishing whether it was feasible and desirable to meet the operational requirements with a less centralised and complex system than that now proposed;

ii. to report the results of this review in time for decisions on tendering to be taken by the end of the year;

iii. to announce the Government's decision on the lines indicated in the Prime Minister's summing up.

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