

u Mr Hodgson



PRIME MINISTER

MH

Prime Minister Civil Service 2

This is to warn colleagues that they will need to press ahead fast with a number of computer contracts if the Dec 31 deadline is to be met. The main problem seems to be with MOD: if Mr Pym says he can't find the money for his contracts, I cannot see how we can press him to find it from other parts of the defence programme.

COMPUTER PROCUREMENT: EFFECT OF EC/GATT

I thought you and colleagues should know where we stand on computer contracts as we come to the end of the year and the introduction of the new EC/GATT procurement arrangements come into force on 1 January.

We have already agreed that we should complete the PAYE contract with ICL before the end of the year to avoid infringing the new rules. There are 17 further cases in a broadly similar situation; they are listed at Annex A. Their total value is about £26m; in all but one we intend purchase by single tender from ICL. As the list shows, they fall into 4 broad categories:

- a. 5 Ministry of Defence projects on which subject to what I say below, contracts could be completed by 31 December 1980;
- b. 3 projects which I am confident meet the EC/GATT exemption criteria on either security or other grounds;
- c. 6 projects where in my view an adequate case can be made for exemption on grounds of compatibility (see part C of Annex A);
- d. 3 projects which I consider do not come within the exemptions.

I have consulted the Treasury Solicitor about the projects in b., c. and d. On the facts as presented to him, he sees no reason to dissent from this assessment.

The first two categories present no contractual problem. My officials are pushing on with the category a. projects as fast as possible in order to bring them to completion by the end of 1980. Category b. projects may safely be allowed to proceed at a normal pace, for completion after 1 January 1981. It will still be possible for these to go to single tender with ICL under the new regime.

The Secretary of State for Defence, however, cannot yet say whether the reduced Defence budget can accommodate the projects in category a.; the same applies to HMS Centurion in category d. I propose to press ahead with the negotiations in the meantime,

of
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and I hope the Defence Secretary will be able to confirm that the costs can be found from within the Defence budget. But it must be clearly understood that, while there is a reasonable case for exemption, the dockyards and RAOC Bicester projects if we have to contract for them after the end of the year, it is very doubtful whether we could make out a case for exempting CRISP or HMS Centurion. I need a quick answer from the Secretary of State for Defence on all these projects, since I must concentrate my limited contracts staff on the projects where we must complete negotiations by 31 December.

Category c. projects will not be sufficiently advanced to get contracts signed by the end of the year but I am satisfied that we would have a good enough case to proceed to single tender thereafter and that even if we are challenged we can reasonably defend ourselves with honour. In my view, the risks of the alternative approach of trying to rush these contracts through by 31 December 1980 far outweigh the risks of a challenge under the EC/GATT rules if we allow them to take their normal course. There is too much work still to be done which it would be dangerous to rush. So I propose they take their normal course and that we assert robustly that the cases are covered under the exemption rules.

However, category d. projects (including HMS Centurion) cannot be presented as meeting any of the EC exclusion criteria and, in these cases, the chances of being challenged by other manufacturers are high. The risks in completing contracts by the end of the year are greater since the machines in question - S3s - are as yet unproven. But if we want ICL to have the contracts we must do so by 31 December. If this is what colleagues want we will try but I do have doubts about putting so many S3 eggs in one basket.

The Minister of Transport has written to me about the replacement of the Driver and Vehicle Licensing Centre's computers in Swansea. The operational requirement will not be ready this year, and at this stage it is difficult to see how we could bring the proposed new system within the exemptions. I shall discuss this with the Minister of Transport next year when we can see the situation more clearly.

Subject to the views of colleagues, I intend to ask officials to:

1. press forward with those projects in categories a. and d. with a view to concluding satisfactory contracts by the end of 1980 (subject to Francis Pym finding the finance for his cases);

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and 2. take forward projects in categories b. and c. at a normal pace. If challenged at a later date, we shall assert that they fall within the criteria for exemption from the EC/GATT rules.

I am copying this to members of E Committee, the Secretary of State for Defence, the Minister of Transport, the Paymaster General, the Attorney General, the Secretary of State for Social Services and to Sir Robert Armstrong.

S

SOAMES

1 December 1980

A PROJECTS FOR WHICH CONTRACTS SHOULD BE COMPLETED BY
31 DECEMBER 1980

Devonport Dockyard Bureau
Rosyth Dockyard Bureau
Chatham Dockyard Bureau

Replacement computers required for miscellaneous bureau work including processing industrials' pay.

RAOC Bicester System 2 Communications Enhancements

Extension of online facilities for RAOC supply managers.

CRISP

Telecommunications network for project providing standard method of inventory control for whole of Navy supplies and transport service; supersedes a number of separate computer systems.

B PROJECTS CERTAIN TO MEET EC/GATT EXEMPTION CRITERIA

JARIC

Classified project, certain to meet exemption criteria on security grounds.

RAF Strike Command

Partial replacement of 1 of 3 HQ Strike Command computers, used for development of command control facilities for RAF and to provide general computing service for the Command. Security, operational and compatability grounds for exclusion from EC/GATT rules.

RAOC Bicester System 3

Inventory control and accounting system for general stores; replacement system. Exemption from EC/GATT rules on security, operational and compatibility grounds: machines are likely to be 2 of 4 which have to be compatible for standby purposes.

C PROJECTS FOR WHICH EXEMPTION CASE RESTS ON HARDWARE/SOFTWARE COMPATIBILITY ARGUMENT

The EC rules exempt additional deliveries by the original supplier which are intended either as part replacement or as extension where a change of supplier would compel the contracting authority to purchase equipment having different technical characteristics which would result in incompatibility or disproportionate technical difficulties. We take this rule to cover cases in which replacement machines are required to run on existing software.

IR Liverpool

Replacement of ICL 1900 series computer; major task running of sub-contractors' scheme (the LUMP). Single tender to ICL on grounds of need to use existing software with new machine.

DE Runcorn

Replacement of existing ICL 1900 series computer; mainly statistical, with some general administrative work. Case for single tender to ICL rests on need to use existing software with new machine.

DHSS North Fylde

Replacement of ICL 1900 series computers that process NHS Superannuation and Statistics systems, and payment of certain benefits. Case for single tender to ICL rests on need to use existing software with replacement machines.

CSD Chessington

Replacement of ICL 1900 series computers used for processing payroll and staff records, and development of Standard Payroll system. Argument for exemption from EC/Gatt rules on grounds of compatibility with other departmental computers.

CSO

Replacement of Univac machine by more powerful Univac machine, to cope with increased workload, primarily on Treasury Economic Modelling and Financial Information System. Single tender to Univac justified on hardware/software compatibility grounds.

CAMELOT

Project for assisting DHSS local office staff in administration of short-term social security benefits. Pilot study based on ICL computers scheduled to begin operation in July 1981. Case for single tender to ICL for main project rests on hardware/software compatibility grounds.

D PROJECTS WHERE THERE ARE NO CONVINCING ARGUMENTS FOR EXEMPTION

HMS Centurion

Replacement of ICL 1900 system processing naval pay and records.

C&E VAT

C&E Bureau

Replacement of ICL machines for VAT and other Customs and Excise operations.



Prime Minister

PRIME MINISTER

MA 9/1

Hardyson mb

COMPUTER PROCUREMENT

In my minute to you of 1 December I undertook to place before the end of the year eight contracts (in addition to PAYE) to avoid EC/GATT complications. In my subsequent letter of 12 December to Geoffrey Howe, copied to you, I reported further on the position.

I can now confirm that the PAYE contract and all the other eight contracts were placed with ICL before the end of last year. I hope and believe we have done everything possible to protect ourselves against risks, given that the negotiations had to be completed so quickly, but some there inevitably are.

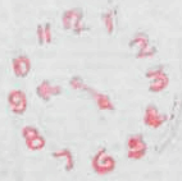
I am copying this minute to other members of E Committee, the Secretary of State for Defence, the Secretary of State for Transport, the Attorney General, the Secretary of State for Social Services and to Sir Robert Armstrong.

S.

SOAMES

9 January 1981

9 JAN 1981



CW SBK.
Mend 80.

Civil Service

12 January 1981

The Prime Minister has seen the Lord President's minute of 9 January about computer procurement. She is pleased to learn that the contracts were placed with ICL within the necessary timescale. She is grateful for the efforts of the Lord President.

I am sending a copy of this letter to David Wright (Cabinet Office).

M.A. PATTISON

Jim Buckley, Esq.,
Lord President's Office.

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*Civil
Service*

17 December 1980

Public Purchasing and Computers

This is to confirm that the Prime Minister is content with Sir Robert Armstrong's proposals (his minute of 12 December - ref. A03799) for the new Ministerial and official committees on public purchasing and computer procurement.

TPL

D.J. Wright Esq
Cabinet Office.

570

cc Trade, Pt 2
Govt Purchasing Policy
"Buy British"



Prime Minister

Contact ?

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Ref. A03799

PRIME MINISTER

Why do we
need 2 from industry? T.
19/12

Public Purchasing and Computers

At the meeting of E on 27th November, the Committee took note that you would direct the setting up of a sub-committee, under the chairmanship of the Secretary of State for Industry, with the duty of monitoring and co-ordinating progress in the implementation of the Government's public purchasing policy, and that you would also direct the setting up of an official committee with the duty of advising on computer procurement policy and reporting to the new Ministerial sub-committee on procurement policy (E(80) 42nd Meeting, Items 1 and 2). Trade Pt 2

2. I have consulted the Secretary of State for Industry and the Lord President of the Council on these committees. The proposed Composition and Terms of Reference, attached to this minute, take account of their views.

3. At their suggestion the terms of reference take in the public sector as a whole and not just Government departments.

4. I have included in the list of members of the Ministerial committee those Departments with a strong general interest in purchasing policy and export promotion and those with a large procurement function. I have not named the Minister of State from the Department of Industry who would attend: the Secretary of State for Industry wishes to decide in the light of particular agenda whether it would be more appropriate for Lord Trenchard or Mr. Butler to attend. The Secretary of State for Industry might wish to ask Lord Trenchard to chair the Committee on appropriate occasions - for example, if the Committee were looking at the procurement programme of one of the smaller Departments, or at more detailed issues. On such occasions other members of the Committee would no doubt wish to be represented at Minister of State or Parliamentary Secretary level.



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5. The Secretary of State and the Lord President agree that the official committee on computer purchasing policy should be under Cabinet Office chairmanship; I recommend accordingly. Members will be drawn from Departments with a general interest and from the main users. Again other Departments would be invited to meetings where necessary. The first task of the Committee will be to prepare guidelines for Departments taking account of the points made in the Secretary of State for Industry's paper, E(80) 134, and the points made on it by E at their discussion on 27th November.

6. I am sending copies of this minute to the Lord President of the Council and to the Secretary of State for Industry.

(Robert Armstrong)

12th December, 1980

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E(PP)

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY
SUB-COMMITTEE ON GOVERNMENT PROCUREMENT POLICY

COMPOSITION

Secretary of State for Industry (Chairman)
Secretary of State for Defence
Lord President of the Council
Secretary of State for Employment
Lord Privy Seal
Secretary of State for the Environment
Secretary of State for Social Services
Secretary of State for Trade
Chief Secretary, Treasury
Minister of State, Department of Industry

TERMS OF REFERENCE

"To monitor and advise as required upon the opportunities inherent in public sector purchasing and procurement for strengthening the international competitiveness of British industry, and to report to the Ministerial Committee on Economic Strategy (E)."

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CPP

OFFICIAL COMMITTEE ON COMPUTER PURCHASING POLICY

COMPOSITION

Mr Le Cheminant (Cabinet Office) (Chairman)
and representatives of:-

Civil Service Department
Treasury
Foreign and Commonwealth Office
Department of Industry
Ministry of Defence
Scottish Office
Department of Health and Social Security
Department of Trade
Law Officers' Department
Central Policy Review Staff

TERMS OF REFERENCE

"To advise upon and co-ordinate the procurement of computers in the public sector, having regard to the principles laid down by the Ministerial Committee on Economic Strategy (E(80)42nd Meeting, Minute 2), reporting as appropriate to the Ministerial Sub-Committee on Government Procurement Policy (E(PP)) and the Ministerial Committee on Economic Strategy."

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DEC 2 1980





Civil
Service

Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

The Rt Hon Sir Keith Joseph, Bt, MP
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON SW1E 6RB

15 January 1981

Dear Keith,

B. 1471

COMPUTER PROCUREMENT: EFFECT OF EC/GATT

will request
required

Thank you for your letter of 9 December about the outstanding computer procurements and for your kind letter of 31 December about the PAYE project. I was grateful for your support for the suggested general approach in my minute of 1 December to the Prime Minister.

You also enclosed a letter from ICL's Managing Director, Dr Wilson, seeking assurances about a number of procurements. I imagine that the discussion which I had with Mr Chappell, the ICL Chairman, on 22 December will in fact already have relieved the Company of a number of their worries. But I deal with Dr Wilson's points in the order in which he makes them.

As you will have seen from my minute to the Prime Minister of 9 January after a good deal of pushing and cutting corners, all the MOD contracts and the others in Dr Wilson's category 2 (PAYE, Customs and Excise and DHSS unemployment benefit extension) were safely signed with ICL by the end of last year.

We shall, short of unforeseen circumstances, procure the systems in his category 3 (virtually the same as my categories B and C) by single tender action from ICL, subject to satisfactory conditions of contract and confirmation of available accommodation. We shall, therefore, expect to receive the full discount which he mentions. In fact, the Operational Requirements for all these systems have been issued and ICL have already received a separate assurance about our procurement intention for each case.

On Dr Wilson's category 4, I am afraid we cannot be so helpful. On CAMELOT we shall not be in a position to take a firm decision on procurement until the pilot project has been evaluated but, subject to that, we would expect to go single tender to ICL; but at this stage it would, in my view, be dangerous to give any firm undertaking to ICL and I hope you will be circumspect in your remarks. Of the remainder it is too early to take a view. It looks as if defensible arguments, based on security and/or compatibility grounds may be possible for some of them. At this stage, however, I suggest that, on all these cases, you say no more than that the Company's views have been noted and that we will take them into account in our further consideration.

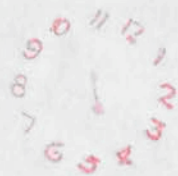
I am copying this letter to the Prime Minister and other recipients of my minute of 1 December.

Yours ever

Christoph

SOAMES

16 JAN 1981





10 DOWNING STREET

Prime Minister

If Sir Keith is in
the chair, it is not
easy for him to
speech, for his Dept.

In addition, it is proposed

that Ld. Trychard should

take the chair on smaller

procedural issues.

12

18/12



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

9 December 1980

The Rt Hon Lord Soames, GCMG,
GCVO, CH, CBE
Lord President of the Council
Civil Service Department
Whitehall
London SW1A 2AZ

Dear Christopher,

COMPUTER PROCUREMENT: EFFECT OF EC/GATT

Thank you for sending me a copy of your minute of 1 December to the Prime Minister.

2 I entirely agree with your suggested general approach to these procurements. I recognise that CSD contracts staff are heavily pressed at the moment, and the projects you envisage taking into next year seem to qualify well under the exemption clauses of the new EC/GATT rules. This is exactly the positive and robust approach to the new rules we agreed should be employed when we discussed computer procurement policy in E Committee the other week.

3 Your approach is also welcome because I am concerned at the effect on ICL's own position if these contracts slip from the company's reach at such a late stage. ICL's Managing Director has written to me about the impact they would have on his forward order and cash flow position in 1981, and I thought colleagues might like to see his letter. The company is apparently offering discount terms on most of the projects provided that a firm commitment to proceed by single tender is given by 31 December. I hope you can agree that we should relieve the company's anxiety about the category b and c procurements, as well as secure the full discount ICL have in mind, by assuring them that short of exceptional change of circumstance single tender negotiations will be opened next year on the b and c projects. I should be grateful for your advice on the wording I can use on this point in replying to the company.

4 ICL's letter attaches an annex on the status of each project, which mirrors your own except in minor respects. The DHSS Unemployment Benefit (Extension) contract is, I understand, likely to go safely to ICL as they suggest. ICL's category 4 lists

/a ...



a number of additional procurements to yours where the company envisage a sound case for winning the business by single tender next year under one of the exemption clauses. Perhaps you would be good enough to give me your views on those too, so that I can cover them in my reply to Dr Wilson.

5 I note what you say about the risks of completing the category d contracts this year, but colleagues may recall that the S3 machine to which you refer (now re-named ICL 2966) is the one we have already accepted as the basis of the PAYE project. It may also reassure you to know that ICL inform us that 20 customers outside Government have committed to buy the 2966 in the 3 weeks since its formal launch.

6 Finally, I must emphasise that the uncertainty over the Defence projects is most worrying. I know that Francis Pym has said he will pay particular attention to industrial considerations in deciding which contracts to allow forward during the current period of restraint, and I would think there are strong grounds for letting these computer procurements through on that basis. We should certainly take the dockyards and RAOC Bicester projects through as EC/GATT Code exemptions if the money is not available this year.

7 I am copying this letter to the Prime Minister and other recipients of your minute.

Curran

Keir



International Computers Limited

ICL House Putney London SW15 1SW England 3 DEC 1980
Telephone 01-788 7272

RECEIVED IN

SECRETARY OF STATE
FOR INDUSTRY'S OFFICE

Christopher M. Wilson
Managing Director

The Rt. Hon. Sir Keith Joseph, Bt, MP,
Secretary of State for Industry,
Department of Industry,
Ashdown House,
123 Victoria Street,
London SW1E 6RB.

3rd December, 1980

CMW/DS

Dear Secretary of State,

I feel some concern about the ending of the present Procurement Policy for large computers as it affects those procurements now in progress.

Until last week we had been working with the Civil Service Department on the assumption that they would, in each case, award contracts by the end of this year. I understand that this was because their legal advisers led them to believe that this was necessary to avoid the possibility of protest under the EEC Supplies Directive.

Last Wednesday, Sir John Herbecq informed me that they had decided to concentrate their efforts on a subset of these procurements. He also said that because of expenditure difficulties in the Ministry of Defence it might not be possible to make awards by the end of this year in a number of important cases.

He told me that he was considering how best to deal with the remaining contracts, but that it might be possible to award some of them during 1981. I assume that he had it in mind that they might be covered by the 'exclusion clauses' of Article 6 of the EEC Supplies Directive, namely:

Compatibility (Paragraph 1e)
Security and Operational Need (Paragraph 1g)

The attached table shows our understanding of the procurements affected and the categories into which they fall. You will see that the value of those for which no contract is now planned to be placed by the end of 1980 and for which the future course of action has yet to be determined amounts to £38 million (Sections 3 and 4).

You should also be aware that we have agreed a scheme with the Civil Service Department whereby procurements will be eligible for discounts provided that a firm commitment has been given to ICL by 31st December 1980 to proceed on the basis of single tender. These discounts offer Government significant additional savings.

I am concerned about the uncertain future of these procurements because of their impact on ICL's order and cash flow position in 1981. I would be grateful if you could discuss this with your colleagues with the objective of ICL receiving a firm assurance that these systems will be procured by single tender.

Yours sincerely
C.M. Wilson

C.M. Wilson,
Managing Director

GOVERNMENT COMPUTER PROJECTS

PROCUREMENT STATUS

CONTRACT AWARD BY 31.12.80

<u>Project</u>	<u>Equipment</u>	<u>Value</u> (x£1000)	
1. ROYAL NAVAL DOCKYARDS (DEVONPORT/ROSYTH/CHATHAM)	3 x 2956	1800	
CRISP	Network	1000	*
RAOC	Network	1000	*

2. "ACCELERATED" CONTRACT AWARD BY 31.12.80

IR PAYE	47 x 2966	34000	*
HMS CENTURION	2 x 2966	1500	
HMCE (BUREAU/VAT)	3 x 2966	3400	
DHSS UNEMPLOYMENT BENEFIT (EXTENSION)	1 x 2956, 2 x 2966	3800	

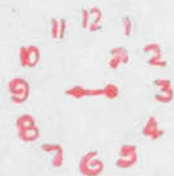
3. DESIGNATED "EXCLUSIONS" UNDER EEC SUPPLIES DIRECTIVE

Security

RAF JARIC	2 x 2956 + CAFS	1000	
RAOC SYSTEM 3	Dual 2972	3000	
RAF STRIKE	2956	900	

Continued

10 DEC 1980



Continued

- 2 -

Compatibility

<u>Project</u>	<u>Equipment</u>	<u>Value</u> (x£1000)
IR LIVERPOOL	3 x 2956	800
CSD CHESSINGTON	2 x 2966	1900
D OF E RUNCORN	2 x 2966	1600
DHSS FYLDE	2 x 2966	2400

4. OTHER PROJECTS WHICH ICL BELIEVES SHOULD BE TREATED AS EXCLUSIONS

DHSS UNEMPLOYMENT BENEFIT (REPLACEMENT)	4 x 2966	6000	
OPCS	DUAL 2966	1500	
DGDA BATH	2956	800	
DGDA CHEADLE	2966	800	
DHSS CAMELOT NATIONAL SYSTEM	22 x 2950/56	18000	*
IR WORTHING	2 x DUAL 2966	3400	
MCE	2966	800	
HRS	2960/DAP	1380	

* SUBJECT TO SEPARATE DISCOUNT ARRANGEMENTS