



*Mr. Walker*  
*Mr. David*

*Prime Minister.*  
                      
*A situation report.*

PRIME MINISTER

*MF.*

*file*  
*6ii*

FUTURE OF ICL

In my minute of 2 February I outlined to you the recent deterioration of ICL's financial position, the discussions I had held with the management of the company and the position of Government and other users should the situation deteriorate to the point of ICL's collapse. I reported further, at the meeting of E Committee on 3 February, on the outcome of ICL's Annual General Meeting earlier that day, at which the company's borrowing limit had been raised.

2 I held a further meeting with ICL on the morning of 4 February, at which the Chairman, the Managing Director and the Finance Director explained their view of the immediate financial prospects in the light of the AGM. There were one or two encouraging signs; in particular, the AGM itself had gone well. However, the roots of the financial problem had still to be tackled and confidence in the company remained low. The share price had fallen sharply and there were signs that large customers were holding off from firm commitment to new orders on ICL. I was left in no doubt that the Board and the management team understood they had to end the current uncertainty and speculation with all speed.

3 In particular, the Finance Director emphasised that, although the newly increased borrowing powers gave plenty of theoretical head room for the rest of the company year (ending 30 September),

/there ...



there were still doubts about the readiness of their bankers to extend facilities in order to cover their foreseen borrowing needs. Like the company, the banks could see that the combination of expected losses and closure costs would so reduce the net worth again in the next year's balance sheet that the level of likely borrowing would seem totally disproportionate, in spite of the increased powers. The banks were therefore likely to be reluctant to embark on such a course without a clear view of the longer term future of ICL, but it was very hard for the company to give such a view now that the Board had concluded that a partnership or joint venture was essential. Indeed, the question for the company would become not so much whether the banks would go on lending but how far the company should be willing to go on borrowing. However, he did not expect the Board to have to face that question before the end of the month.

4 We agreed that in these circumstances the first priority must be for the company to establish firmly with their bankers what borrowing facilities would be available to cover the needs of the coming months, keeping Lord Benson fully informed of progress and reporting back to me when the position was clearer. In the light of our discussion the Chairman decided against submitting the proposal, of which we had had prior warning, for Government R and D assistance of £70 million. Both he and the Finance Director stressed, however, that they were still concerned about

/the ...



the likely absence of any element of direct inflow to the profit and loss account in what the banks could provide, without which an erosion of the company's net worth could not be prevented.

5 In parallel, ICL would be opening confidential negotiations with prospective partners. They are to have further discussions with Univac in London on Monday. The Chairman wanted us to be in no doubt, however, that the ICL Board would see a direct link between the length of time available for negotiations, which would depend on the availability of financial cover, and the extent to which UK interests - including those of Government users - could be secured in the negotiations. If it proved impossible to obtain a satisfactory financial package soon enough to keep the business running in accordance with accounting prudence, ICL would have to seek an immediate takeover in which those interests could not be guaranteed. I acknowledged the force of the point but said that in any case I was sure ICL would have to move fast to avoid rumours and leaks. They should aim to secure Heads of Agreement with a suitable partner within months. I agreed that advice would be provided on the way we would wish to see user and other national interests treated within a partnership or joint venture.

6 Later the same day Sir Peter Carey discussed the financial position of ICL with Lord Benson, who confirmed that there was an urgent need to act in order to prevent loss of confidence and a further rapid deterioration. As a result, the Bank of England



have now agreed to take the lead in calling together ICL's bankers for an urgent assessment of the company's immediate needs and the ways they might be met, in the context of the clear intention to seek a partnership to secure the longer term future. ICL have been briefed on what is happening and will of course be directly involved. Officials here will keep in close touch with the progress of the assessment and will work together with the Central Computer and Telecommunications Agency in providing technical support and ensuring that the interests of the Government users are given full weight. I will report further to E Committee when the picture is clearer.

7 I am sending copies of this minute to other members of E Committee, to Patrick Jenkin, Mark Carlisle, Sir Robert Armstrong and to Mr Ibbs.

KB

6 February 1981

KENNETH BAKER