



CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

cc Mr Duguid
Mr Wolfson.

PRIME MINISTER

FUTURE OF ICL

Since Kenneth Baker reported to you on 6 February, the banks (led by the Bank of England) have finished investigating ICL's financial position and prospects. ICL's senior management have discussed possible partnership with four overseas companies.

RECENT DEVELOPMENTS

2 None of the companies approached have expressed interest in an outright bid. Two US multinationals (Univac and CDC) seem genuinely interested in the prospect of a major stake in ICL and have followed up initial contacts quickly. The initial reaction of the Japanese (Fujitsu) has been disappointing, but exploratory discussions continue. There has also been preliminary contact with St Gobain. NCR, which has not been approached by ICL, has also expressed interest. ICL management seem to have entered into the discussions whole-heartedly and to have overcome their earlier reluctance to contemplate the loss of their independence.

3 It is clear that all prospective partners are approaching a possible deal cautiously; they will need time to assess both the cost of investing in ICL and the practical and financial implications of subsequent rationalisation. Negotiations on



partnership seem likely to take three to six months (but Heads of Agreement might be achieved on a shorter timescale).

4 ICL's financial situation has continued to deteriorate. Although the banks' investigations have not revealed any new factors which would call in question the earlier forecasts of loss and overdraft, the level of new orders which will produce revenue in the current company year has been falling below forecast. The main reason for this is uncertainty about the company's future, which causes prospective customers to hold off from commitments. As a result, the loss for the year to end September could now be £50 million rather than £35 million, reducing net worth in the new balance sheet to as little as £80 million (currently £141 million) and with total borrowings of £240 million.

5 The Bank of England considers that the clearing banks are on the point of deciding that in this situation they cannot prudently stay with the company. Their current exposure is about £20 million and they believe they could recover this in a liquidation. If they stay with ICL, their exposure is expected to grow rapidly as ICL moves towards the forecast peak overdraft levels in May and August (around £175 million). In addition, if any of ICL's other borrowing facilities (£120 million divided between UK and overseas' sources) are withdrawn, ICL would need to seek to increase its drawings from the clearers in order to offset this reduction.



6 The ICL Board are monitoring very carefully their position
... under Section 332 of the Companies Act. As the attached letter
from the Chairman (Annex A) makes clear, the Directors will
consider at the Board meeting on 10 March whether to cease
trading, if there is no indication that support is available to
tide them over until the partnership discussions are completed.

THE OPTIONS BEFORE US

7 The Government needs to decide its attitude to ICL's future.
There are only two options: do nothing thereby letting ICL go
into receivership, or to participate in temporary support measures
to get the company through its immediate difficulties until a
partnership is established.

8 My first inclination is to favour receivership; that is the
appropriate market response and it could be expected that others
would be willing to acquire the profitable parts of ICL's business.
I am satisfied, however, that receivership would be destructive and
expensive to the taxpayer. The Bank of England have concluded
that the special nature of ICL's trading would make it most unlikely
that much of value could be saved from the rump of the business.
Receivership would involve the break-up of the company despite
the fact that it has a credible product range (there is evidence
that, even in the current recession, ICL would be making significant
sales if its stability as a company was assured). Receivership



would also dissipate the customer base, which is ICL's main attraction to any potential partner. The expense arises because users, especially Government users, would incur the heavy conversion and transfer costs mentioned in the Lord President's minute of 9 February and there is a risk of them being unable to secure even basic maintenance. Also there would be no way of recovering more than a fraction of ECGD's current exposure on ICL's business (about £120 million).

9 Receivership would in addition affect a number of overseas customers (notably the EEC, the European Space Agency and the Abu Dhabi National Oil Corporation) and many public and private sector organisations in the UK which either supply ICL or which rely on ICL equipment to provide services to others. Damage would be done to the United Kingdom's international reputation in the supply of major equipment. (A note of the main Government operations relying on ICL computers is at Annex B.)

10 Three considerations appear to justify Government participating in temporary support measures. As users, we have an interest in the company's future; until the end of last year we gave preference to ICL in major public sector computer contracts and central Government remains the single biggest user of ICL computers. The survival of ICL will help protect the significant investment we have made. Our policy on information technology seeks to persuade manufacturers, users and backers to make significant investments in new and untried technologies; many of those



concerned will judge the seriousness of our intentions by our treatment of ICL in the current crisis. As previous shareholders in the company, we have something of a moral commitment; the NEB disposed of its shares in December 1979 at a profit of £25 million on its investment and, if a merchant bank had done the same, current developments might well make it feel obliged to repurchase the shares. We could not in any circumstances escape criticism for selling our shares so soon before a collapse (even though the collapse is entirely unexpected).

11 We cannot ignore public sentiment. I do not recommend that we should support ICL for reasons of national prestige; Concorde and Rolls Royce provide sufficient warnings. But we must remember that ICL is seen at home and abroad as a significant national asset in which all can take pride; receivership would be a blow to public morale. On the other hand assistance to ICL, following on the heels of our assistance to BL, British Steel and the NCB, would be seen as evidence of a weakening of our resolve not to rescue lame ducks. A decision to aid ICL might be widely misunderstood.

12 Against this background I consider that on balance we should join the banks in providing ICL with sufficient support to prevent its collapse and to see the company through to partnership with a major company. I do not make this recommendation lightly and I would intend our support to be the minimum consistent with ICL's survival, for the shortest practicable period, in a form



which imposed the least burden on public expenditure and to be given in a way which appeared to minimise the Government's role while maximising that of the banks.

13 The Bank of England have advised that we might best assist by providing the clearing banks with a guarantee to cover any potential additional exposure that might result from a loss of confidence in the company by uncommitted lenders before a partnership deal was concluded. I am advised that an "identified term loan facility" of £100 million might meet this requirement and I have powers to offer such a guarantee under Section 8 of the Industry Act. I am normally advised on the use of these powers by the Department of Industry's Industrial Development Advisory Board (IDAB) and the offer, which could only be made after an Affirmative Resolution, would have to be approved by the European Commission.

14 The merit of a guarantee is that the expenditure would fall on the banks and there would be no cost to the Exchequer except in the event of the guarantee being called (which would not occur for some time). Presentationally a guarantee is clearly preferable to direct financial assistance since the Government would not be in the lead. In order to further minimise the Government's apparent role, I intend to approach a few major users of ICL equipment, and some of ICL's suppliers, all of whom stand to lose from a receivership, to see if they would join in offering



7

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

support; if they agree our role would be reduced to being one in a "club" of supporters.

15 A decision to assist ICL would also have to be presented carefully to avoid any implication that the aim was simply to buy time for negotiating a partnership. Any such hint would cause ICL's prospective customers to cease ordering until a partnership was in place, which could precipitate the financial collapse we seek to avoid. On the other hand, properly presented, the announcement of support would engender confidence and reduce the risk that a guarantee would be called in practice.

16 The Department and the Bank of England agree that our support would have to be accompanied by immediate changes at ICL, certainly involving the Chairman and possibly also the Managing Director.

17 If we extend a guarantee I believe we would be well placed to ensure that ICL's negotiations for a partnership reach an outcome which meets our interests. Under the terms of the support given to ICL in 1972/76 for the 2900 series of computers, I have responsibility for judging whether a foreign partnership would assure "the maintenance and further development of a capability in the computer systems industry" in this country. I have the right to reclaim £40 million paid earlier to ICL, with interest, (now some £70 million in total) if I am not satisfied. This would give the chance to influence the future level and direction of



R & D work undertaken by the partnership so as to ensure that current Government users of ICL computers obtain either continuity of development or an orderly and economic transition to another manufacturer's machines. I would also expect to continue support for worthwhile ICL projects under existing legislative arrangements and within existing financial provisions. I would hope that any partnership package would include an agreement for continued R & D support for major new projects identified by ICL.

18 I therefore recommend that we should agree in principle to extend a guarantee to ICL's bankers on the lines I have described. Precise details will need to be settled with the Treasury and the Lord President will need to be kept in close touch with developments. Immediate steps will need to be taken to inform the Bank of England so that it in turn can take the necessary steps to prevent the Board of ICL taking any irrevocable action at its meeting on 10 March. I shall also need to obtain formal advice from IDAB which is also meeting on 10 March. Early steps will need to be taken to make a public announcement and to consider how we should approach the House to obtain approval for the guarantee, but the precise steps will need careful preparation in view of the twin risks of damage to ICL's prospects of survival and of criticism from our supporters.

19 I am copying this minute to the Chancellor of the Exchequer, the Lord President, the Chancellor of the Duchy, the Chief Secretary,



9

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

the Minister of State in the Civil Service Department,
Sir Robert Armstrong.

KJ

K J
6 March 1981