PREM 19/1205

PART 2

Confidential. Fil

Inland ~~revenue PAYE proposed~~ computer ~~project~~.

ICL

INLAND REVENUE PROPOSED PAYE COMPUTER PROJECT

CORRESPONDENCE WITH ICL

ECONOMIC POLICY

Part 1: December

Part 2: March 19

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~10.3.81~~		20.11.81					
~~11.3.81~~		~~23.11.81~~					
~~17.3.81~~		~~10.12.81~~					
18.3.81		~~18.12.81~~					
26.3.81		~~22.12.81~~					
~~2.4.81~~		17.2.82					
~~12.4.81~~		~~19.2.82~~					
22.4.81		~~28.11.83~~					
~~5.5.81~~		~~30.11.83~~					
4.6.81		14.12.83					
~~12.7.81~~		~~9.12.83~~					
~~13.11.81~~		~~16.2.84~~					
		6.4.84					
		~~PTO ENDS~~					

PREM 19/1205

Dd 533270 5M 2/78 8362633 JET

PART 2 ends:-

P Ewing to Mr J Bowden 16.2.84

PART 3 begins:-

D Pascall to AT 6.4.84

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC(81) 12th Meeting, item 1	19/03/1981

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed J. Gray Date 13/9/2013

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

House of Commons HANSARD, 19 March 1981, columns 435 to 440: International Computers Ltd

Signed S. Gray Date 13/9/2013

PREM Records Team

10

10 DOWNING STREET

Mr. J.C. Bowden

ICL

Thank you for your minute of 15 February. Mr. Turnbull has considered your request to revise the classification of his two letters to Mr. McCarthy of 30 November and 8 December 1983. He feels that even in the light of your problems it would be inappropriate to downgrade them to 'confidential' . For the meantime they must remain 'secret'.

P. Ewing

16 February, 1984.

Information Technology Division ,
Department of Trade and Industry,
Room 538,
29 Bressenden Place,
SW1.

Andrew

Re attached note from DTI.

Mr Bowden wants to downgrade your two secret letters at 'x' + 'y' to confidential.

I have spoken to him to find out why - boils down to that whilst ~~[illegible]~~ he recognises the sensitivity of the subject, to continue with the present classification will cause problems with their filing. I would have thought that this was not sufficient reason. Agree?

Peter 16/2 No change in classification yet.

SR/5

REQUEST FOR DECLASSIFYING OR DOWNGRADING OF CLASSIFIED DOCUMENTS

(1) To:	(2) From:
The Duty Officer 10 Downing Street London SW1.	213-6595 JC Bowden Information Technology Division Dept of Trade & Industry Room 538 29 Bressenden Place SW1.

May the undermentioned document(s) at present graded as shown be declassified or downgraded? ~~If so please state revised classification below.~~ to the classification in Col (e) ?

J C Bowden 15/2/84

(a) DESCRIPTION (i.e. LETTER, REPORT, APPENDIX)*	(b) DATED	(c) REFERENCE OR SUBJECT	(d) PRESENT CLASSIFICATION	(e) REVISED CLASSIFICATION
Letter - A Turnbull PS/PM to C McCarthy PS/SOS	30/11/83	ICL	SECRET	CONFIDENTIAL
Letter - A Turnbull to C. McCarthy	8/12/83	BT/ICL	SECRET	CONFIDENTIAL

* In the case of correspondence the originator's name should be quoted whenever possible

Revised classifications are shown above in Col. (e)

Date ..... Signature .....

PLEASE RETURN to above address (2) after completion

V12

(2)

PRIME MINISTER

Two very interesting notes from Dr. Nicholson. I asked him whether INMOS technology was of such strategic importance that it was worth keeping in the UK. He thinks it is. This is not an objection to selling INMOS but points to trying to secure a UK deal.

On ICL, I minuted DTI after your meeting with Norman Tebbit to say that you thought it was important to maintain a computer capability in the UK provided ICL can stay competitive. Dr. Nicholson reaches the same conclusion in paragraph 9.

AT

9 December 1983

Top Copy Econ Pol, ICL, Pt 2

620

W.0830

PRIME MINISTER

INMOS and BT/ICL

Decisions on the sale of INMOS and the placing of the major BT contract for computer systems both relate to the UK's technological capability and the threat of American technological protectionism.

2. In the case of INMOS, it is a key semi-conductor component which can determine the competitiveness of a wide range of products made by the UK's IT industry.

3. In the case of BT's computers, what is at stake is the heart of the country's modern business and communications network and hence the supply of equipment to the many future users of this network.

4. The attachments to this minute give an indication of the strength of the technological argument in each case which needs to be balanced against the financial and general policy considerations.

RBN.

ROBIN B NICHOLSON
Chief Scientific Adviser

Cabinet Office
9 December 1983

ICL/BT

1. The modern business and communications network for the next half century in the UK is about to be constructed. It is vital that this is done using technical standards available to many manufacturers so as to ensure competitive supply to the network.

2. The only standard which meets this criterion is the Open Systems Interconnection (OSI) Model defined by the International Standards Organisation for compatible communications, at all levels, between different computers.

3. IBM supply to their own standard, Systems Network Architecture (SNA), which is incompatible with the OSI model. In the past IBM have freely published the protocols and formats of SNA to allow rival manufacturers to make and sell so-called "IBM compatible" hardware and software. But this situation is now threatened by the increasingly predatory commercial activities of an IBM freed from its long-standing anti-trust action and by the spectre of US technological protectionism.

4. Thus a communications network based on SNA may increasingly shut out all suppliers of hardware and software except for IBM.

5. The BT contract will form the heart of the UK's communications network. If this contract is let to the SNA standard, users will be driven to the monopoly supplier to this standard, ie IBM. There are already signs of this happening with the major clearing banks favouring IBM in anticipation of the BT contract going to IBM.

6. On the other hand, if the BT contract is let to the OSI standard, which is freely published and not tied to a specific manufacturer, then users will be able to choose their equipment from many suppliers on a competitive basis.

7. ICL, as a major systems and software producer for large-scale projects, should be a strong contender to satisfy BT's requirements

using the OSI standard. In addition ICL's continued existence would guarantee an indigenous technological capability in a part of the country's infrastructure which will be as important in the future as the transport and telephone network have been in the past.

8. The alternative is to require IBM to supply BT to the OSI standard but I would not have great confidence in this initial requirement guaranteeing competitive supply of hardware and software well into the future.

9. Thus if ICL were to win the BT contract, it would provide long-term benefits for many UK manufacturers whose products would otherwise be threatened by an IBM monopoly. However ICL must show that they can meet BT's requirements at a competitive price.

British TELECOM

British Telecom

Telecommunications HQ
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Clive Priestley CB
Director of Special Projects

PERSONAL AND CONFIDENTIAL

Mr F E R Butler
Principal Private Secretary to
The Prime Minister and First Lord of
The Treasury
10 Downing Street
LONDON SW1

CP/516

1. Mr. Turnbull - to see
2. Pl. file

9 December 1983

Dear Robin,

Since writing to you on 1 December, I have been informed by my Chairman's office that they believe that on reflection the first sentence in brackets in para 5 of my letter would convey a more accurate impression if it read:

> "I understand, incidentally, that the alternative order we have in view would involve significant business for the company, although not for equipment of its own architecture."

Things have moved on since we met. After a meeting with the Secretary of State for Trade and Industry on Tuesday, we are indicating to the company that - out of a complete deal worth some £140m over 2 years or so - the scheme we have in view comprises:

(1) An immediate order, worth about £2.5m, for a single development machine.

(2) Over the next 2-3 years, some £140m of business, half of this in main-frame computers and half in terminal equipment - divided equitably between the company and other manufacturers of machines of compatible architecture. (Multi-sourcing of computer equipment is, of course, a policy BT has pursued for some years.)

Yours ever,

Clive

SUBJECT

cc Master
Subject Econ Pol
Pt 2

SECRET

file 8

cc: Nick Owen

10 DOWNING STREET

From the Private Secretary

8 December 1983

Dear Callum

BT/ICL

Your Secretary of State spoke to the Prime Minister today about the complex of issues relating to BT and ICL. He began by explaining the background to BT's reluctance to adopt ICL for its new main management computer system. This raised important issues as failure to secure this contract would have very serious implications for ICL.

He said that, in his view, BT had not given ICL adequate opportunities to demonstrate their capability to meet BT's requirements but BT had now agreed to talk directly to ICL.

He went on to express concern about IBM's aggressive strategy which was apparently aimed at eliminating a number of its smaller competitors. He was particularly concerned at the way IBM was restricting access to its software. This created fears about technological dependence upon the US. The fact that a significant part of IBM hardware would be made in Britain would not compensate for this. The Prime Minister shared his worries about being dependent upon the US for technology. Its behaviour over the USSR pipeline illustrated the potential difficulties. She was anxious to maintain an independent computer capability in the UK provided the performance of ICL computers was good enough so that UK users would not be put at a disadvantage. Your Secretary of State said that he was grateful for this steer. He had already spoken to Sir George Jefferson and had pointed out to him that situations could arise in which there was a conflict between BT's interest and the national interest. He would expect BT to behave in the national interest.

I am copying this letter to Richard Hatfield (Cabinet Office) and Dr. Nicholson (Cabinet Office).

Yours sincerely

Andrew Turnbull

Andrew Turnbull

Callum McCarthy, Esq.,
Department of Trade and Industry.

SECRET

Top Copy on Legal Procedure, November 1983. Conveyancing for Reward.

PRIME MINISTER

Mr. Tebbit will be staying behind after Cabinet tomorrow to discuss:

(i) The solicitors' conveyancing monopoly. He seeks your guidance as to how far to push the issue, which will come to Cabinet next Thursday, 15 December (see the Policy Unit note and the Minutes of H Committee - Flag A);

(ii) He wants to give you an oral report on the complex of issues relating to BT/ICL, listed in my letter to his Private Office - see Flag B;

(iii) He also wants to raise a question of senior management in his Department. I believe he discussed this about six weeks ago and will be enquiring about progress. Unfortunately Sir Robert Armstrong will not be available;

(iv) He has minuted you on INMOS - see Flag C. He is suggesting additional funding for INMOS either in the form of an additional loan or an increase in its temporary borrowing ceiling. Lord Cockfield is extremely sceptical and would require more by way of justification. He also recommends that if any more money is put in, there should be a revision of the terms. Policy Unit are deeply sceptical and also suggest more information is required. I have not yet had the Treasury's response. I suggest you do not raise this until the Treasury have replied, but if Mr. Tebbit raises it, you should take the same line as Lord Cockfield.

AT

7 December 1983

Pl. put on 1Ch file

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Director of Special Projects

PERSONAL AND CONFIDENTIAL

Mr F E R Butler
Principal Private Secretary to
The Prime Minister and First Lord of
the Treasury
10 Downing St
LONDON SW1

CP/468

1 December 1983

Dear Robin,

1 Thank you for seeing me this morning. This is just to confirm my understanding of the outcome. We agreed that the fact that I had been to see you should not be conveyed to DTI. (It may be that it would be helpful for it to be so later, of course.) Only my Chairman and I have copies of this letter.

2 I told you that my Chiarman has been put under pressure, so far by word of mouth only, to acquire a 100% interest in a certain company and that this pressure included strong hints to the effect that it originated from the apex of Government and that the Government's general favour towards BT might be abated if we did not play ball.

3 I went on to say that my Chairman wished to be as helpful to the Government as he reasonably could, although he was pretty fully occupied now and for the foreseeable future with substantial problems, mainly to do with gearing BT up to make a success when it goes private. He, for his part, was far from ruling out as a matter of principle acquiring the company in question, but he had powerful reservations about that organisation as it stood as well as qualifications about the financial conditions under which a takeover might be arranged.

4 I mentioned later that John Redwood is coming here tomorrow to see the Chairman, although the two things are not related.

5 You had not before heard of the suggestion noted in para 2 above. You had discussed the company in question with the Prime Minister last weekend, with regard to the current question of the contract to replace certain systems etc here. Mrs Thatcher naturally was keen that the company should get the contract but reluctant to put pressure on a business to make decisions which it did not believe were in its commercial interest. Naturally, too, she was anxious that the UK should have a firm base in the industry in question. (I understand, incidentally, that the alternative contract we have in view would be placed largely with the company, although not for equipment of its own design. I could let you have a note on that if it would be helpful.)

6 In summary, then, our position is as indicated in para 3. All else being equal - and I would guess that the prospect of this sort of takeover would have sizeable repercussions in business and industry and

at Westminster - my Chairman might be able to be helpful under the right kind of circumstances, but he is not actively looking for extra troubles right now.

7 It was a pleasure to see you again, as always. And please give my best duty and compliments to the Prime Minister.

Yours ever,

Clive

Prime Minister

Mr Tebbit will report to you, probably orally, on his views on BT/ICL, after he returns from Saudia Arabia.

AT 1/12

JU103

CONFIDENTIAL

PRIME MINISTER

ICL

I have now heard from Sir Christophor Laidlaw that yesterday's Board meeting of ICL passed off smoothly. I had on Monday spoken to Sir Michael Edwardes, and impressed upon him the need to respect the objections that had been raised. This, and the new realism being shown by other members of the ICL Board, mean that the way now appears clear for an orderly transition from Laidlaw's chairmanship to that of Edwardes, who will become Deputy Chairman on 1 January 1984, and full Chairman on 1 April.

2 This leaves unresolved the wider questions referred to in my minute of 24 November, which you have picked up, and are recorded in your Private Secretary's letter of 30 November. In particular, there is the question of establishing what is the proper and productive relationship we should seek between ICL and BT. I am pursuing this, with a view to seeing how ICL's future can best be secured. I shall want to discuss this with you once things have become slightly clearer, and certainly before any irrevocable decisions.

3 I am copying this to Nigel Lawson and to Sir Robert Armstrong.

NT

N T

1 December 1983

Department of Trade & Industry

SECRET

cc Master

SUBJECT

File No 7

bc NO

10 DOWNING STREET

From the Private Secretary

30 November 1983

ICL

The Prime Minister saw your Secretary of State's two minutes of 24 and 25 November. She was very grateful for his efforts in patching up the Board Room quarrel at ICL.

She has expressed concern, however, that a number of important questions remain to be resolved. For example, is it the case that the BT contract is a life or death matter for ICL? If it is, is the loss to the nation of the demise of ICL greater than the cost to BT of not having its first choice of computer system? Is there any substance in the argument that ICL have not been given a fair opportunity to make their case? How far can, or should, Ministers go in putting pressure on BT? How secure is ICL's future, even if it succeeded in getting the BT contract?

She understands that your Secretary of State is pursuing these issues but in view of their importance she looks forward to receiving his advice before any irrevocable decisions are made by BT.

I am copying this letter to John Kerr (H.M. Treasury) and to Richard Hatfield (Cabinet Office).

ANDREW TURNBULL

Callum McCarthy, Esq.,
Department of Trade and Industry.

SECRET

1

Agree that a letter goes to Mr Tebbit in accordance with last para. of this note MT

PRIME MINISTER

ICL

You will have seen from the two minutes from the Secretary of State for Trade and Industry that he has managed to patch up the boardroom quarrel, though with two Chief Executive types in Edwardes and Wilmot it would not be at all surprising if trouble broke out again. More important however is to assess the significance of the BT contract for the future of ICL, which is discussed more fully in the Policy Unit advice.

ICL put forward two arguments:-

i) BT is ICL's best customer and if it defects to IBM, customer confidence in ICL will evaporate and the efforts to revive it over the last two years will have been wasted.

ii) ICL also claim that they have not been given a proper chance to make their case to BT and that if they do they would be able to demonstrate that their system is cheaper. The only reason for BT to go for IBM is that it feels that the world is going for IBM standards and technology and BT do not want to be left out in the cold. (The problem with this is that if it is the case that this contract is crucial to ICL's future, BT's action will prove self-fulfilling.)

BT, of course, argues that it has conducted a full appraisal and should be allowed to make its own decision. It is difficult for the Government to over-rule BT, especially in the run-up to privatisation since it implies that there are decisions on which BT cannot be allowed to exercise its commercial judgment and in consequence that it should remain in the public sector under Ministerial control.

/What

The key issues appear to be:

(i) Is it the case that the BT contract is a life or death matter for ICL?

(ii) If it is, is the loss to the nation of the demise of ICL, in terms of information technology, greater than the cost to BT of not having its first choice?

Have we the necessary information to make a judgement

(iii) Is there substance in the argument that ICL have not been given a fair opportunity to make their case?

(iv) How far can, or should Ministers go in putting pressure on BT?

(v) How secure is ICL's future even with the BT procurement?

I understand that Mr. Tebbit is pursuing these issues but in view of their potential implications, do you agree I write expressing your concern about these questions and looking forward to receiving his conclusions before any irrevocable decisions are made?

Andrew Clark

pp Andrew Turnbull

28 November 1983

CONFIDENTIAL

Policy Unit
28 November 1983

PRIME MINISTER

ICL

On closer inspection, the recent events look like a mixture of an abortive boardroom coup and an opportunistic piece of arm-twisting by ICL to force the BT procurement issue. However, Norman Tebbit has now managed to separate the boardroom conflicts from the question of BT procurement.

The problems in the boardroom which seem to be largely a result of Michael Edwardes' personality are of no particular concern of Government. Further changes are likely but are not likely to involve Sir Michael or Robb Wilmot who is a key figure in ICL's future.

The question of BT procurement is potentially more serious. The major issues which need to be resolved are:

1) Is it the case that a BT decision to buy IBM compatible equipment for its area computing systems would have the serious consequences for ICL which the company claims?

Although ICL has made considerable progress since the Government rescue, customer confidence is extremely important. ICL claims that this would be shattered by the decision of the biggest customer who is perceived as "Government" to purchase IBM compatible equipment. This would in turn bring about an ICL collapse.

The direct implications for Government would be the loan guarantee which we think is now about £100 million (tapering down from £150 million and ending by 1986). There would be wider implications for the Government's ICL systems.

On the other hand it is by no means clear that the company will collapse if it loses the BT order. ICL is about the declare pre-tax profits of £45 million on sales of £846 million and capital employed of about £340 million. The balance sheet is

/ strong

strong and the company is forecasting increased profits over the next three years. The relationship with Fujitsu is going well and the 20,000 ICL employees would appear to have good prospects.

2) Would the loss to the nation of the demise of ICL, in terms of information technology, be greater than the cost to BT of not having its first choice?

This raises an important strategic question about the growing dominance of IBM in all markets. There is concern that IBM's new aggressive stance amounts to market exploitation.

It appears that the main reason why Sir George is insisting on an IBM compatible system is that he feels that the world is going for IBM and he does not want to be left in the cold.

ICL feel that they can offer both the best commercial solutions and a viable alternative in international terms to IBM. In these circumstances a BT decision against them could be self-fulfilling in bringing about a collapse of ICL. Against this, IBM(UK) employs 15,000 people and generates higher turnover, exports and profits than ICL.

3) Have ICL been given a fair opportunity to make their case?

ICL claim that their proposals would provide the best commercial solutions for BT and that BT has not acknowledged this. ICL point to a recent case when BT planned to introduce an IBM-compatible system for billing in preference to a more attractive ICL offer. In the event, the IBM system was aborted at some cost, as ICL had predicted, when it was found to be too difficult to convert the system to BT practice.

Norman Tebbit is considering the possibilities for an independent assessment to assessthis argument.

4) How far can, or should, Ministers go in putting pressure on BT?

ICL do get a modest degree of preference for public sector

/ purchases.

purchases. The CCTA - the Government's advisory body on computer-purchases - gives ICL informal advance warning of its future requirements. However nationalised industries make their own purchasing decisions.

BT argue that it has conducted a full appraisal and should be allowed to make its own decisions. It would be difficult for us to overrule BT, especially in the run-up to privatisation.

However, Norman Tebbit will be pressing BT hard to reconsider. If he is not successful and the implications really are of an unacceptable ICL collapse, it may be necessary for you to become involved.

5) How secure is ICL's future even with the BT procurement?

It is likely that ICL will need to enter into further collaborations or even partnership arrangements to secure its future. These could be with another computing company or more attractively with a telecommunications company. ICL have proposed a joint venture with BT on value-added network services. BT's attitude is apparently very luke-warm. BT appear, however, to have shelved the idea of an IBM joint venture.

Norman Tebbit is working hard to clarify these complicated and important issues. We understand that Sir George is reluctant to wait more than a few days before making his final decision. Our view is that there is no need for you to become closely involved at this stage. We do consider that it would strengthen Norman Tebbit's hand and make it easier for him to delay the decision, if you registered your concern that the facts should be fully established before irrevocable decisions are taken.

DLP.

DAVID PASCALL

SIR ROBERT ARMSTRONG

ICL. I had a conversation with the Prime Minister about ICL and told her that efforts were being made by Mr Tebbit first to keep the company together so that the BT problem could be pursued ~~xxxx~~ over a longer time-scale. The Prime Minister was concerned about the situation but agreed that this was the most that could be done in the short term.

I have subsequently heard from Turnbull that Mr. Tebbit made progress yesterday and the directors now seem to be lining up behind Edwardes. Those concerned seem to have been persuaded not to apply a deadline to the BT issue, but it still remains to be solved.

Turnbull will probably send a longer report tomorrow.

ROBIN BUTLER
26 NOVEMBER 1983

Dictated to Ian Mackenzie (BHC) 9.05 hrs 26/11
for onward transmission to RTA.

26/11

CONFIDENTIAL

JF4955

Dictated to FERB in Goa 26.11.85.

DP

PRIME MINISTER

ICL

I minuted you last night about developments reported to me then by Sir Christophor Laidlaw of ICL. Today I have seen Wilmot, Gardiner, Horton (one of the ICL non-Executive Directors) and have spoken to John Hoskyns. I have also seen Laidlaw again. I believe I now have an understanding of the true position of the main players in this game, except that of Sir Michael Edwardes, to whom I have spoken only briefly and necessarily guardedly over the telephone. I have arranged to see Edwardes immediately on his return from South Africa on Monday.

2 Subject to what Edwardes tells me on Monday, and to further consultation which Laidlaw is to have with his colleagues on the ICL Board over the weekend, it appears that no satisfactory conditions exist for the appointment of any credible alternative to Edwardes, but there is now a good chance of agreement on terms under which Edwardes would serve as Chairman.

3 This leaves unresolved the outstanding purchasing decision of BT, but what has now, I hope, been achieved is to decouple this from the immediate crisis.

4 I am copying this to Nigel Lawson and to Sir Robert Armstrong.

M McCarthy
(seen and approved by the Secretary of State and signed in his absence)

N T

25 November 1983

Department of Trade and Industry

Treasury advice will arrive at about 5.30 p.m. We are asked to await it.

Prime Minister.

A.J.C. 24/11

MINUTE TO THE PRIME MINISTER FROM THE SECRETARY OF STATE FOR TRADE AND INDUSTRY

6A

ICL

Sir Christopher Laidlaw of ICL came to see me this evening to report on serious developments which have occurred in the course of the day. He reported that relations between ICL and Sir Michael Edwardes had deteriorated severely, to the point that if the company goes ahead with his appointment as Chairman, the non-executive directors, who are in a majority on the Board, will resign. Edwardes, who is in South Africa, has refused to return before next Monday. John Gardiner, who has been sounded out as a successor, is prepared to take it on only if the three executive directors, headed by Rob Wilmot, agree to extend their service contracts. They, in turn, are only prepared to do this if there is an explicit undertaking that BT will purchase ICL rather than IBM equipment for it major billing operation.

This purchase decision is a well-trod dispute with BT, which, despite many discussions, has refused to move from its strongly expressed view that it must have IBM compatible equipment, which will mainly exclude ICL. Kenneth Baker and I have been discussing this with Sir George Jefferson and his colleagues, who have so far proved obdurate (although they have kept the door open for further talks). What has given it

/immediate

SECRET

immediate urgency is the connection now established with the identification of continuing direction for ICL. The ICL Board meeting is next Tuesday, 29 November, the ICL results are dut to be announced on the morning of Wednesday, 30 November, and the Annual Report - which must contain the name of the new Chairman - is due within 8 days thereafter. We must therefore act very quickly indeed if we are not to be faced with a disastrous blow to public confidence in ICL caused by either the appointment of Edwardes accompanied by the resignation of Board members and the likelihood that the departure next year of Wilmot and others would become clear; or by a public failure to find a new Chairman, also accompanied by the news of their imminent departure. Laidlaw made clear to me that he will not continue beyond May; he told me he had found out through his non-executive directors that none was prepared to succeed him, except Gardiner.

I shall be seeing Gardiner tomorrow to see whether I can persuade him to accept; and I shall be pressing Jefferson very hard on his purchasing decision. But we may be forced to take very rapid action indeed if we are to avoid a crisis which could set ICL back very severely indeed.

Although this crisis has been precipitated by the personality clash between Edwardes and the ICL Board, it seems that it could only be resolved by some agreement between ICL and BT on purchasing. Unhappily, both time and circumstances are against us in finding such an agreement.

/ I am

I am copying this to Nigel Lawson and Robert Armstrong.

SIGNED

S/S for Trade and Industry

24 November, 1983

TOTAL COPIES 8

COPY No. 1

SECRET

cc DP

6

JH 232

PRIME MINISTER

ICL

Sir Christophor Laidlaw of ICL came to see me this evening to report on serious developments which had occurred in the course of today. He reported that relations between ICL and Sir Michael Edwardes had deteriorated severely, to the point that if the company goes ahead with his appointment as Chairman the non-executive directors, who are in a majority on the board, will resign. Edwardes, who is in South Africa, has refused to return before next Monday. John Gardiner, who has been sounded out as a successor, is prepared to take it on only if the three executive directors, headed by Rob Wilmot, agree to extend their service contracts. They, in turn, are only prepared to do this if there is an explicit undertaking that BT will purchase ICL rather than IBM equipment for its major billing operation.

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3 I shall be seeing Gardiner tomorrow to see whether I can persuade him to accept; and I shall be pressing Jefferson very hard on his purchasing decision. But we may be forced to take very rapid action indeed if we are [redacted] to avoid a crisis which could set ICL back very severely indeed.

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us in finding such an agreement.

5 I am copying this to Nigel Lawson and Robert Armstrong.

Approved by the Secretary of State
and signed in his absence
M M McCall

N T

24 November 1983

Department of Trade and Industry

CC D01
IG Econ Pol

MFT

10 DOWNING STREET

THE PRIME MINISTER

19 February 1982

Dear Mr. Kaufman

You wrote to me on 3 February about the ICL factory at Plymouth Grove.

ICL have vigorously pursued negotiations with several companies with a view to finding a purchaser who would continue to use the factory for printed circuit board production. The Government and the NEB have assisted in this. I am very sorry to have to let you know that the negotiations have all been unsuccessful, and that the factory is therefore due to close this month as planned.

Yours sincerely

Margaret Thatcher

The Right Honourable Gerald Kaufman, M.P.

Cf PPS.

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

TELEPHONE DIRECT LINE 01-212
SWITCHBOARD 01-212 7676

6401

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY
KENNETH BAKER'S OFFICE

M Pattison Esq
PS to the Prime Minister
10 Downing Street
LONDON SW1

17 February 1982

Type for PM to sign

Dear Mike,

ICL PLYMOUTH GROVE

Thank you for your letter of 4 February about the closure of ICL Plymouth Grove. I attach a draft letter for the Prime Minister to send to Mr Kaufman on this.

Since the Prime Minister last wrote to Mr Kaufman on 22 December ICL have discussed the sale of the factory with possible UK purchasers, namely GEC, Unitech and Manchester Circuits Limited, but these discussions have all fallen through. It is most unlikely that anything can now be done to prevent the closure later this month.

Yours,

Neil McMillan

NEIL MCMILLAN
PRIVATE SECRETARY

M29/M29ACE

DRAFT LETTER FOR THE PRIME MINISTER'S SIGNATURE

Rt Hon Gerald Kaufman MP
House of Commons
LONDON SW1A OAA

You wrote to me on 3 February about the ICL factory at Plymouth Grove.

ICL have vigorously pursued negotiations with several companies with a view to finding a purchaser who would continue to use the factory for printed circuit board production. The Government and the NEB have assisted in this. ~~Unfortunately~~ I am very sorry to have to let you know that the negotiations have all been unsuccessful, and that ~~Regrettably, therefore,~~ the factory is therefore due to close this month as planned.

M29/M29ACG

MFJ

Econ Pol

BF FOR THURSDAY 18 FEBRUARY

G. KAUFMAN MP

4 February 1982

Chase M MAP

I enclose a further letter from Gerald Kaufman, M.P., about the ICL PlymouthGrove closure. What more can we now say to Mr. Kaufman?

MAP

Jonathan Hudson Esq
Department of Industry

MFJ

4 February 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 3 February.

I will place your letter before the Prime Minister and a reply will be sent to you as soon as possible.

MAP

The Right Honourable Gerald Kaufman, M.P.

From: The Rt. Hon. Gerald Kaufman, MP

R 4/2

HOUSE OF COMMONS
LONDON SWIA OAA

3rd February 1982

Dear Mrs. Thatcher,

You will recall that I recently came to see you about the prospective closure of the I.C.L. factory in Plymouth Grove in my constituency.

The time for the expiry of the redundancy notices is now growing very close and I should, therefore, be most grateful if you would let me know of any progress in finding a purchaser for the factory.

Yours sincerely,

Gerald Kaufman

The Rt. Hon. Margaret Thatcher MP.
The Prime Minister,
10 Downing St.,
London SW1A.

FILE

VLB

cc D/Industry

10 DOWNING STREET

THE PRIME MINISTER

22 December 1981

Dear Mr. Kaufman.

When we discussed the closure of ICL's Plymouth Grove Factory on 23 November I asked Kenneth Baker to look into the points which you had made.

As agreed at our meeting, Kenneth Baker asked the NEB to consider your suggestion that they might take over Plymouth Grove as a separate concern doing contract work on printed circuit boards. I understand that the NEB had in fact looked into this possibility a couple of months earlier but concluded that there was no commercially viable business in prospect. However, the NEB agreed to pay a further visit to the factory in order to make a full assessment of your proposal and you then had a full discussion on 7 December with the Board's Regional Director and the Head of their Information Technology Division.

I understand that the NEB confirmed that it remained their view that an investment along the lines you suggested would not be commercially viable and in the circumstances you agreed that the only alternative seemed to be to try to identify a manufacturer or group of manufacturers who might be interested in continuing the production of printed circuit boards at Plymouth Grove. Kenneth Baker is writing to you separately about your suggestion that the Department of Industry's Invest in Britain Bureau might have a role to play in this.

Yours sincerely

Margaret Thatcher

The Rt. Hon. Gerald Kaufman, M.P.

ds

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212
SWITCHBOARD 01-212 7676

6401

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY
KENNETH BAKER'S OFFICE

cc PPS?

Mike Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

18 December 1981

Type draft for PM
cc I.G.
MAP 21/XII

Dear Mike,

ICL PLYMOUTH GROVE

Thank you for your letter of 10 December. I attach a draft letter for the Prime Minister to send to Mr Kaufman.

Since his meeting with the NEB on 7 December, Mr Kaufman has also written to Mr Baker with the new suggestion mentioned in the draft that the Department's Invest in Britain Bureau could help to identify foreign manufacturers interested in continuing the production of printed circuit boards at Plymouth Grove.
Mr Baker is writing to tell Mr Kaufman that the IBB have already conducted a full assessment of the possibilities without identifying any potential overseas buyers, but that a UK company, Unitech has expressed an interest and which it will be discussing with ICL.

Yours sincerely,

Jonathan Hudson

JONATHAN HUDSON
PRIVATE SECRETARY

M22/M22ABR

DRAFT LETTER FOR THE PRIME MINISTER

The Rt Hon Gerald Kaufman MP
House of Commons
LONDON SW1A OAA

When we discussed the closure of ICL's Plymouth Grove Factory on 23 November I asked Kenneth Baker to look into the points which you had made.

As agreed at our meeting, Kenneth Baker asked the NEB to consider your suggestion that they might take over Plymouth Grove as a separate concern doing contract work on printed circuit boards. I understand that the NEB had in fact looked into this possibility a couple of months earlier but concluded that there was no commercially viable business in prospect. However, the NEB agreed to pay a further visit to the factory in order to make a full assessment of your proposal and you then had a full discussion on 7 December with the Board's Regional Director and the Head of their Information Technology Division.

I understand that the NEB confirmed that it remained their view that an investment along the lines you suggested would not be commmercially viable and in the circumstances you agreed that the only alternative seemed to be to try to identify a manufacturer or group of manufacturers who might be interested in continuing the production of printed circuit boards at Plymouth Grove. Kenneth Baker is writing to you separately about your suggestion that the Department of Industry's Invest in Britain Bureau might have a role to play in this.

M22/M22ABQ

Prime Minister

MCS 15/12

(2)

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

TELEPHONE DIRECT LINE 01-212
SWITCHBOARD 01-212 7676

6401

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

KENNETH BAKER'S OFFICE

Mike Pattison Esq
PS/Prime Minister
10 Downing Street
LONDON SW1

15 December 1981

Dear Mike,

The Prime Minister may like to know that ICL is announcing this afternoon the sale to Fujitsu of its West Gorton microsystems facility in Manchester. West Gorton is a microelectronics design and prototyping plant which had not proved economic as an in-house operation and would otherwise have had to close. ICL have sought buyers in the UK but Fujitsu was the only company to make a firm offer. Fujitsu intend building up a design and assembly operation to serve Europe, perhaps diverting some of its planned growth from Ireland.

Some of the West Gorton products will replace chips which would otherwise be bought by ICL from Japan as part of an ICL/Fujitsu collaborative development of main-frame computers. This is expected to lead to an increase in the UK content of ICL's new main-frames.

Department of Industry consent is needed to disposal of assets where there has been Departmental support, and in the circumstances Mr Baker has agreed, so long as this does not prejudice any rights to refund of our contribution.

Mr Wilmot has already informed Mr Gerald Kaufman in confidence.

Yours sincerely,

Jonathan Hudson

JONATHAN HUDSON
PRIVATE SECRETARY

M21/M21ADD

Econ. pol
SAW
FILE

10 December, 1981

B/F

Thank youffor your letter of 4 December, following the meeting here with Mr. Gerald Kaufman, M.P. about ICL Plymouth Grove.

The Prime Minister would like to send a brief letter to Mr. Kaufman, essentially recording the points made in your letter. Perhaps you could let me have a suitable draft.

M. A. PATTISON

Jonathan Hudson, Esq.,
Department of Industry

cc AD

1.

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

TELEPHONE DIRECT LINE 01-212
SWITCHBOARD 01-212 7676

6401

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY
KENNETH BAKER'S OFFICE

Prime Minister

Agree that you need not write to Mr Kaufman?

MAP 8/XII

Mike Pattison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

4 December 1981

I think we should record all these things in a letter not

Dear Mike,

ICL PLYMOUTH GROVE

Thank you for your letter of 23 November recording the outcome of the Prime Minister's meeting with Mr Kaufman, which Mr Baker attended.

As agreed at the meeting, Mr Baker invited the NEB to consider Mr Kaufman's suggestion that it might take over Plymouth Grove as a separate concern, doing contract work on printed circuit boards. Following discussions which the Department had had with Mr Wilmot, the NEB had looked into this possibility a couple of months ago but concluded then that there was not a commercially viable business in prospect. The NEB have now taken the opportunity of paying a further visit to the factory in order to be able to respond specifically to Mr Kaufman's proposal. They have invited him to a meeting to discuss the matter on Monday, 7 December with the NEB's Regional Director and the Head of their Information Technology Division.

Mr Kaufman will be fully aware therefore that his suggestion has been acted upon. He will have an opportunity to discuss the NEB's reaction to his proposal at first hand. Mr Baker is due to meet Sir Freddie Wood, Chairman of the NEB, for lunch on Friday, 11 December and can take up with him any further action that would seem appropriate. In these circumstances Mr Baker does not think the Prime Minister need write to Mr Kaufman.

Yours sincerely,

Jonathan Hudson

JONATHAN HUDSON
PRIVATE SECRETARY

M20/M20AAT

CONFIDENTIAL: COMMERCIAL IN CONFIDENCE

Econ Pol

10 DOWNING STREET

From the Private Secretary

27 November 1981

ICL: Collaboration with Fujitsu

The Prime Minister was grateful for your Secretary of State's minute of 25 November.

As I told Richard Riley on the telphone this morning, she has no objection to the proposal that Kenneth Baker should announce the tapered extension of the guarantee during the debate on Robert Atkins' Private Member's Motion today.

I am sending a copy of this letter to John Kerr (HM Treasury), Terry Mathews (Chief Secretary's Office) and Adrian Carter (Mr. Hayhoe's Office).

M. C. SCHOLAR

CS

Ian Ellison, Esq.,
Department of Industry.

'PV35'

(1)

Prime Minister

This is the minute you were promised about the extension of the ICL guarantee.

Agree that Mr Baker announces on Friday 27th Nov? MCS 25/11

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

PRIME MINISTER

ICL: COLLABORATION WITH FUJITSU

I copied to you my letter of 13 November to Leon Brittan, with a background note on the financial implications of ICL's proposed collaboration with Fujitsu. Since then Kenneth Baker has discussed the venture with Fujitsu's chief negotiator and I held a meeting with Mr Laidlaw, ICL's Chairman, last Thursday, 19 November. I subsequently discussed the position with Geoffrey Howe and Leon Brittan. The purpose of this minute is to bring you up to date with these developments.

2 You may recall that Mr Laidlaw, at the presentation that he and Mr Wilmot made to Ministers on 10 November, requested that the Government's current guarantee be extended, at the reduced level of £150 million, for five years beyond 31 March 1983. I considered that, worthwhile as the collaborative venture with Fujitsu undoubtedly was, we should offer instead to extend the guarantee for three years, on a reducing basis, and also make it clear that we regarded our agreement as part of a total financial package in which we expect ICL's bankers to play a full part beyond March 1983.

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

3 Kenneth Baker met Mr Yoshikawa of Fujitsu on 17 November after which he and I decided that my alternative proposal should meet the Japanese requirements. ICL also accepted that it would meet their needs so long as their bankers were prepared to maintain an adequate level of committed, but unguaranteed, facilities in place beyond March 1983. On 19 November, Geoffrey Howe agreed that I could make my proposed alternative offer to ICL and the same day I wrote to Mr Yoshikawa, just before he left London, to inform him of our offer and of our confidence in ICL's future under its new management team. I sent Mr Laidlaw the enclosed letter on 23 November after consulting Leon Brittan. You will see that I have spelt out firmly that once the tapered extension of the guarantee has been put in place, no further Government support of this kind will be forthcoming.

4 Subsequently Sir Peter Carey invited representatives of ICL's four main UK banks to a meeting on 23 November. He asked the banks:

a to agree to extend their £70 million committed, but unguaranteed, overdraft facilities by a year, to 31 March 1984; and

b to provide continuing, committed, but unguaranteed, support to ICL thereafter, at levels to be established in the light of the continued progress of ICL's financial recovery.

The banks responded positively to this request and Sir Peter Carey hopes to obtain their formal agreement by this evening, 25 November. From what the banks said at his meeting, there also seems to be a reasonable chance that they will agree to continue holding preference shares under the guarantee beyond April 1983, if we and ICL conclude that it would be prudent to phase the redemption of the £50 million preference shares over a somewhat longer period as part of the total package. This is a point which will require more detailed discussions between all the parties concerned.

5 Subject to your agreement, I propose that Kenneth Baker should announce the tapered extension of the guarantee during the debate on Robert Atkins' Private Member's Motion on Information Technology on Friday 27 November. This would spell out precisely the continued borrowing facilities which ICL's bankers are prepared to provide, though it would not go into the question of preference shares.

6 I am copying this minute to Geoffrey Howe, Leon Brittan and Barney Hayhoe.

PJ

P J

25 November 1981

Department of Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 Victoria Street
London SW1E 6RB

Telephone Direct Line:01-212 3301
Switchboard:01-212 7676

C.F. please

25. 11. 1981

MCS

Could you please attach this enclosure to the SOSI's minute to the PM on JCh: Collaboration with Fujitsu dated 25.11.1981.

With the Compliments of the

Private Secretary to the
Secretary of State for
Industry

M Benson

With

MCS

CS 248

JH 959

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

24 November 1981

C F Laidlaw Esq
Chairman
ICL PLC
ICL House
4 Carlton Gardens
London SW1

Dear Chris,

My colleagues and I were most grateful to you and Robb Wilmot for the clear and thorough exposition of ICL's financial position and the implications of the Fujitsu deal which you gave us on 10 November. At the end of the presentation you requested on behalf of your Board an early indication of the Government's reaction to your proposal that the current Loan Guarantee under Section 8 of the Industry Act should be extended. In particular you sought a view from us which could be taken into account in your final negotiations with Fujitsu.

Your presentation showed that you have already made commendable progress in getting a grip on the Company and that you are beginning to pull it back to profitability. However, there is clearly some way to go before all your plans reach fruition and we did not expect to have to address the question of tapering the Guarantee after March 1983 with you at this stage, when the Guarantee has itself been in place only since April. Nevertheless, we noted your firm conviction that the issue had to be faced now because of the need to facilitate your major collaborative venture with Fujitsu.

In responding to your request, the Chief Secretary and I have very much in mind that, if your prospects in the mid 1980s are as your presentation suggested, we would expect your bankers to accept a greatly increased level of commitment as profitability improves, and certainly well before 1988. Nevertheless, we certainly share your appreciation of the importance of the Fujitsu deal and having considered your representations I can now say that the Government are prepared to agree to an extension, by three years, of the period of the Guarantee to the banks. The Guarantee will reduce to £150m on 31 March 1983; to £100m on 31 March 1984; to £50m on 31 March 1985; and will end on 31 March 1986.

I should also make it clear that we regard our agreement to an

extension of the Guarantee as part of a total financial package in which we expect your bankers to maintain an adequate level of committed facilities in place beyond March 1983. The other component of the package would be the raising of further equity capital. I should be grateful if you could give me an early indication of the progress that you make in your discussion with your bankers arising from these points.

This arrangement is, of course, made at a time when, as you made clear, there is still a good deal of uncertainty as to the real level of your likely future borrowing needs. You explained that the equation is a complicated one with a number of variables as between equity, borrowing, leasing arrangements and EXIM finance. It is clearly too early for us to ask you for a full corporate plan for the period in question, but I must leave you in no doubt that, with this tapered extension of the Guarantee in place, together with the parallel bank facilities, you will have to draw up your detailed plans on the basis that no further Government support of this kind will be forthcoming. I took it from the replies which you and Robb Wilmot gave to Robin Ibbs on this point at our meeting that you are indeed planning to operate on that basis, but I thought I should spell out the Government's position clearly.

You will, of course, bear this clear statement of the limitation of the Government's commitment firmly in mind in any further discussions that you may have with Fujitsu or any other company with which you may contemplate dealing.

Yours ever

Patrick

ECON POL TMP/HL

BF

cc DOI

SUBJECT

cc MASTER

10 DOWNING STREET

From the Private Secretary

23 November 1981

Dear Jonathan

ICL, Plymouth Grove

The Prime Minister was grateful for the briefing provided for her meeting with Mr. Gerald Kaufman, which took place this evening. As you know, Mr. Baker was present.

Mr. Kaufman spoke first about the current position of ICL as a whole. He feared that there was no clear sense of direction about the company's present activities. ICL appear to be rushing headlong into international agreements, with no forethought about the consequences. He recognised the role of co-operative agreements but he was most concerned that ICL might soon become nothing more than a shell for factoring foreign technologies. This would negate the purpose for which successive governments had supported the company, and its attraction for what was left of the mainframe market would go. The Government still had a major role in relation to the company, in terms of both outstanding borrowing and the guarantee, and he hoped that the Government would make use of this. He also hoped the Government would take a more positive attitude on public procurement.

Mr. Kaufman then turned to ICL's role in Manchester. The company had a long history as an important employer in the city. When Mr. Kaufman was in government, the decision to build a new factory at Plymouth Grove had been important for the area. The site had previously been derelict, and the population of the area were generally on low incomes with very limited job prospects. The ICL project had therefore been a boost to the whole area. He feared that it could revert to a derelict site if ICL withdrew. Before ICL announced its redundancy package last June, the three Manchester factories had employed 2,600 people. 700 jobs had gone in June. The latest measures involved the closure of Plymouth Grove, and the 120 further redundancies in the other factories. He had since been told in confidence by a senior source in the company that the Ashton-under-Lyne factory would be closed in the next three years. That would bring the total ICL force in Manchester down to 1,000.

Mr. Kaufman then offered a proposal for the future. When Plymouth Grove had gone on to a three-day week in June, the company had said it intended to look for outside contract work which might enable it to return to a five-day week. In fact, little appeared to have been done. The small amount of work found in this way had been directed to the Kidsgrove factory. Both the workers' representatives and the management at Plymouth Grove appeared to think that there were possibilities for further contract work. The present Government

/ had retained

had retained the NEB, with two primary functions; one of these was regional - so an inner city area in the North/West with high unemployment seemed appropriate; the second was high technology, which made the Plymouth Grove factory relevant once again. Mr. Kaufman therefore asked that the Government should consider inviting the NEB to take over Plymouth Grove as a separate concern, doing contract work on printed circuit boards. In this way, a facility obtained at great public expense, and equipped to high modern standards, would not be closed, thus ensuring employment in a difficult area. He did not seek an immediate reaction but asked the Prime Minister to give the proposal serious consideration.

Replying to Mr. Kaufman, the Prime Minister undertook to have his suggestion examined carefully. She nevertheless stressed that the major problem seemed to be over-capacity on printed circuit boards. She then discussed the efforts the Government had made in the recent past in the public procurement field and ensured Mr. Kaufman that Ministers would continue to do what they could. She invited Mr. Baker to take up the points raised by Mr. Kaufman, but she endorsed Mr. Baker's proviso that the ideas suggested by Mr. Kaufman were only relevant if such arrangements could be based on real product viability.

I should be grateful if you could keep us in touch with any developments. It may be appropriate for the Prime Minister to write briefly to Mr. Kaufman after Mr. Baker has completed the enquiries he undertook to make.

I am sending a copy of this letter to Ian Ellison in your Secretary of State's office.

M. A. PATTISON

J.C. Hudson, Esq.,
Department of Industry.

Econ Pol

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 6401
SWITCHBOARD 01-212 7676

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY
KENNETH BAKER'S OFFICE

Miss Caroline Stephens
10 Downing Street
London SW1

20 November 1981

Dear Caroline,

ICL ARDWICK: MEETING WITH GERALD KAUFMAN MP, 23 NOVEMBER

I enclose a brief for this meeting. I am sorry that part is rather difficult to read - 'Fax' machines are not the most advanced area of information technology. I will send you the top copy of that part of the brief when we receive it from Manchester on Monday.

Yours sincerely,

Jonathan Hudson

J C HUDSON
PRIVATE SECRETARY

Econ Pol

BRIEF FOR MR BAKER'S MEETING ON MONDAY 23 NOVEMBER WITH THE PRIME MINISTER AND THE RT HON GERALD KAUFMAN MP

ICL' REDUNDANCY PROPOSALS

The company announced by means of a press notice on 19 November - a copy is at Annex A - that as part of a continuing drive to reduce costs it had identified a number of additional measures which needed to be addressed urgently. These included the shedding of surplus manpower in UK and overseas, and the better use of factory and other facilities (space rationalisation). The surplus labour in UK amounts to 1500 people, made up as follows :

Manufacturing and Supply	750
Marketing operations	430
Develeopment Divisions	200
Applications Systems and Services	70
Corporate Divisions	50

2 The company's announcement is not unexpected. ICL's Managing Director, Mr Wilmot, warned officials early in September, and Ministers in the presentation he gave on 10 November, that although the previous round of redundancies declared in May was going smoothly, a more detailed review of prospects and resources made it clear that a further 2500 people world-wide were surplus to requirements. The present announcement, covering UK employees only, makes this warning a hard reality.

3 A major part of the manpower reduction in Manufacturing and Supply division derives from the proposal to close production of printed circuit boards (PCB's) at the Plymouth Grove, Manchester, factory which is in Mr Kaufman's constituency. This is an almost new factory, opened only in September 1979 to provide ICL with a world-class source of multi-layer PCB's. It is probably the most advanced plant of its type in Europe but ICL has never been able to use its full capacity and it has recently been only one-third utilised, with a run-down complement of 300 working a three-day week. All the forecasts of PCB demand for future ICL products suggest a further significant reduction in the number of boards per machine, so that there is no prospect of a heavier load for Plymouth Grove. ICL therefore propose to re-locate all PCB production at the similar but older facility at their Kidsgrove factory near Stoke-on-Trent, which will have the capacity for external PCB sales under the ICL trade name 'Logiclayer'.

4 Plymouth Grove was built 1978/79 with HMG's assistance under Section 7 of the Industry Act. The locality then qualified for assistance as an Intermediate Assisted Area, and ICL were offered investment relief grants of £584,000 on total project costs of £5.5 million. This amount was paid to ICL in three tranches over a two-year period, the final payment being made in May 1981.

5 No other factory closure is foreseen by ICL's present announcement, despite Mr Wilmot's comment in September that, if suitable buyers could be found, other plants would be available for disposal. Both ICL and the Department

have been actively looking for both UK and overseas companies with plans for expansion which might wish to take over either the Plymouth Grove plant or ICL's large systems assembly factory at Ashton-under-Lyne. Various companies have been identified but none of those so far approached has plans which co-incide with the short time-scales to which ICL are working. It is possible that, because sales of the 2966 computer which is made at Ashton are going so well at present, Mr Wilmot has decided to defer a final decision. We do know that following a recent trip to USA, Mr Wilmot has decided ICL should retain the Utica, New Jersey, factory in the light of potentially large sales to both the State Authorities and to the giant Sears-Roebuck retail sales organisation.

MR KAUFMAN'S CONSTITUENCY INTEREST

6 Mr Kaufman has always taken a close interest in ICL's affairs because numbers of their employees both live and work in his constituency, either at Plymouth Grove or at the nearby West Gorton site - now solely an R & D centre but until two years ago a manufacturing unit. (West Gorton is actually just outside Mr Kaufman's constituency). Mr Kaufman helped ICL in its local representations when the company embarked on the Plymouth Grove project, and he has pursued actively the company's cause when both Manchester City and County Councils decided to buy non-ICL computers. He can be expected to protest the closure of Plymouth Grove by ICL, and the more general reduction in the workforce, on the grounds that :-

a) it represents a bitter blow to both present and future employment prospects in the area if ICL withdraw;

b) it brings to nothing the Regional assistance which ICL received for the Plymouth Grove project;

c) it follows closely on the earlier redundancies effected by the company, and constitutes an unacceptable reduction in the scale of ICL's manufacturing activity;

d) it lends credence to the views expressed by trades unions and others that the support given to ICL by the Government was inadequate and of the wrong type;

e) it is an indication of what might follow from close involvement and collaboration with overseas, and in particular, Japanese interests.

LINE TO TAKE

7 The response to Mr Kaufman's points might be :-

a) that ICL has already received substantial Government help in the form of the loan guarantee ; that there can be no commitment to further assistance - indeed ICL's new management has been told that it must work within the ceiling of the guarantee;

b) that we recognise the hardship which the closure of this ICL plant will cause. Clearly such events are to be regretted and this is particularly the case in a high-technology industry which is vital to UK's future. ICL themselves will clearly be reluctant to abandon a very modern show-place plant offering excellent working conditions, but neither the company nor the Department have been able to identify another manufacturer ready to take over the factory and its workforce within the time-scale required ;

c) Mr Kaufman will recognise that to safeguard the jobs of the rest of its employees it is important that ICL should be competitive in a fiercely competitive industry where many other companies, including even IBM, have been reporting poor results in recent months ;

d) that in the Department's view the prompt measures of rationalisation and reorganisation which ICL's management has taken in the few months they have been in office augur well for the future. It is for the management to decide what additional steps are necessary to return the company to profitability, and afterwards to growth. They have already announced new products which are designed to be competitive across the board, and have negotiated collaboration agreements which will give them access to highly advanced technology. Such collaboration has not resulted in the present situation. There has not been time for them to take effect. They should help ICL to become stronger, and its products more cost effective ;

e) that we shall be watching the company's progress closely in the coming months.

IT3
20 November 1981

ICL Public Limited Company

ICL House, Putney, London SW15 1SW

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PRESS RELEASE

19th November 1981

ICL MANPOWER 1981/82

Commenting on ICL's latest manpower proposal, as attached, ICL's Chairman, Mr. Christophor Laidlaw, said:-

"We deeply regret the need for this further manpower reduction programme. We hope that part of it can be achieved voluntarily and that it will be the last major reduction on a Company-wide basis. Our overriding concern must be that ICL returns to a necessary level of profitability as soon as possible. When the programme is completed, the reduction in operating costs which it will bring will result in a significant improvement in ICL's profitability. We anticipate that the costs arising from this and other related actions will require a further extraordinary provision of the order of £20 million in our Annual Accounts for the year ended 30th September 1981."

Further enquiries to:

Stan Frith,
ICL Director of Corporate Communication,
ICL House,
Putney,
London SW15 1SW

Tel: 01-788 7272 Ext. 2024

or

Joy Boyce,
Press Office,
ICL House,
Putney,
London SW15 1SW

Tel: 01-788 7272 Ext. 2286

ICL Public Limited Company

ICL House, Putney, London SW15 1SW

PRESS RELEASE

19th November 1981

ICL MANPOWER 1981/82

ICL has today released internally the following Company Announcement signed by the Group Managing Director, Mr R.W. Wilmot:-

"The Chairman and I, with other members of Senior Management, have been reviewing the activities of our Company during the past six months.

A number of actions have already been taken to help ensure that ICL is on the road to recovery.

Measures already taken to reduce costs, including the Manpower Reduction Programme implemented as a result of the Announcement last June were vital if there was to be any reasonable prospect of recovery. The changes to Company organisation already announced are part of the on-going process that will ensure that our structure matches the needs of our dynamic business. The developments in product and marketing strategies, including the collaborative ventures with the Three Rivers Corporation, the Fujitsu Corporation and the MITEL Corporation, highlight the market opportunities available to us in the years ahead.

However, in order to capitalise fully on the benefits flowing from the actions already taken, the Company needs to return to profit in the short term. We have identified several key issues which must be addressed urgently:

* overhead costs are still too high;
* the mix of skills in the Company is not in balance with our needs;
* the need to re-allocate technological resources to those areas of systems design in which ICL excels;
* excess of capacity for the manufacture of printed circuit boards.

In addition, the impact of technology continues to affect the work content of our products and services.

A number of actions are already in hand to help deal with these issues:

* redeployment and retraining of staff from support activities to sales and design;
* space rationalisation referred to in earlier Company Announcements;
* the application of more of our development skills to the growth market in distributed systems;
* on-going review of all work in overhead areas to identify non-essential and unnecessary activities;
* the creation of new support units for 380 mainframes, PABX telephone exchanges and a PERQ production unit.

/2

But these actions are not enough to deal adequately with all the issues outlined. We still have a surplus of manpower. Our estimate of this surplus in the UK is a maximum of 1500 employees. Overseas, we anticipate making appropriate reductions in Marketing Operations to reflect the level of business in the countries concerned. The position will be discussed with the employees in each country.

The surplus of 1500 in the UK includes a proposal to close down manufacturing at Plymouth Grove, Manchester, and locate all PCB production at Kidsgrove. Logiclayer will continue to sell PCB's to the external market. The UK surplus is made up approximately as follows:-

Manufacturing and Supply	750
Marketing Operations	430
Development Divisions	200
Applications Systems & Services	70
Corporate Divisions	50

Employees are being briefed by Managers on the details of the proposals contained in this Announcement. The immediate consultations now proposed will take place with employees and the recognised Trade Unions. Local consultation will open immediately in order to clarify, amongst other things, the numbers and categories of employees affected.

Some of the proposed manpower reductions may be achieved by natural wastage. The Company believes, however, that redundancies will be unavoidable. Assistance will be provided through Job Guidance Centres to help identify any redeployment opportunities within ICL and other job opportunities outside ICL.

In the current economic climate, expressions of regret over redundancy proposals are commonplace. This does not diminish, however, the very deep regret my colleagues and I feel regarding the need for these proposals.

I sincerely believe that this should be the last major manpower reduction on a Company-wide basis. There will of course be a continuing need for changes in our skills mix as we adapt to new technology, and no general guarantee of job security can be given. We will be placing special emphasis on retraining programmes in the future so that we can better cope with the continually changing demands and the flexibility that the computer market requires of us. I ask for the support and co-operation of all staff in this last main phase of adapting our organisation and costs to the commercial realities of ICL's position and size."

Further enquiries to:

Stan Frith
ICL Director of
Corporate Communication
ICL House
London SW15 1SW

Tel: 01-788 7272 Ext 2024

or

Joy Boyce
Press Office
ICL House
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Tel: 01-788 7272 Ext 2286

ICL REDUNDANCIES - NW REGION

Presence in Region

1 ICL has four main operational sites in the Manchester area:-

Manchester TTWA	- Arndale Centre, Sales & Service Office, employment circa 200.
	- Plymouth Grove, printed circuit board/ logic layer manufacture, employment circa 300.
	- West Gorton, computer manufacture, employment circa 1200.
Ashton-under-Lyne TTWA	- Audenshaw, computer assembly, employment circa 800.

Employment approximated because sites in process of labour shedding - see para 4.

2 Plymouth Grove is in Mr Kaufman's constituency.

Past ICL Closures in NW Region

3 A computer assembly plant at Dukinfield (Ashton TTWA) ceased manufacture in 1979 with a loss of 865 jobs.

A computer equipment manufacture plant at Winsford (Northwich TTWA) closed in 1980 with loss of 1581 jobs.

4 All Manchester sites were affected by the redundancy programme announced by ICL on 5.6.81, as follows:-

Plymouth Grove	- 128 jobs to be shed (September 1981) from a base of 371.
West Gorton	- 174 jobs to be shed (September 1981) from a base of 1221.
Audenshaw	- 396 jobs to be shed (September 1981 - March (1982) from a base of 814.

Latest Announcement

5 ICL's announcement on 19.11.81 calling for 1500 redundancies in UK, specifies closure of Plymouth Grove. All pcb manufacture will be handled from Kidsgrove, Staffs.

6 Other losses have not been identified, but NW sites are likely to be affected:-

Arndale Centre	- within 430 redundancies for the national marketing operation.

West Gorton - by the 750 redundancies in manufacture and supply (which includes Plymouth Grove closure) and by the 200 called for in development activities.

Audenshaw - by the manufacture and supply redundancy.

Plymouth Grove

7 The factory was established some 3 years ago as a result of a concerted approach by:-

Manchester City Council	- site provision
Greater Manchester County	) - services and
Dept of Transport	) a road closure
Dept of Industry	- selective assistance to ICL and RDG to the lessor of the factory building.

The establishment of this operation to produce the newly introduced "Logic Layer" was hailed as a major local success story. Mr Kaufman was, of course, the responsible Industry Minister at that time, making closure doubly poignant to him. The package operation was regarded at the time as a notable regional achievement.

Implications of Closure

8 Plynouth Grove (also West Gorton and Arndale Centre) is within the Manchester Inner City Partnership area. It can be argued that it has provided at least some jobs for inner city residents although, given the nature of the work, it draws on a wide catchment area. Unemployment rates are not available on a sub TTWA basis - this would be unrealistic in terms of overall travel-to-work patterns - but it is acknowledged that there are pockets within the inner area around Plymouth Grove showing high residential concentrations of unemployment.

9 It is not possible in isolation to assess the effects of the Plymouth Grove closure. All ICL's sites are within a small geographical area and three of them within the very large Manchester TTWA (transitional Intermediate Area):-

Insured Population	715,000
Unemployed (October)	92,200 (12.9%)

For comparison, NW Region rate 14.9%, GB rate 12.2%.

Electrical Engineering as a whole accounts for 4.5% of employment in the TTWA - around 30,000 people.

10 In TTWA terms the closure is not a significant event. However, as the third major ICL closure in the region in 3 years, it is a particularly unwelcome reduction in the high technology base to which the region looks for its future prosperity and will increase local uncertainty as to the future of ICL in the Region.

11 Annex A - Recent Good News in the immediate area.

Annex B - Recent major redundancy in the immediate area.

Line to take (Regional Implications Only)

12 The Minister may wish to

- Regret the closure, but its impact in lost jobs is spread over a larger area than the constituency. Refer to the prospect of new electronics jobs at Ferranti GTE in Moston, 4 miles away (Annex A).

- State that its impact on the Manchester TTWA will overall be small, that there is no intention to reverse the decision to downgrade the TTWA, but that the Department will keep a watch on the situation.

If pressed:-

- Stress that it is not possible to look at Assisted Area status on a sub-TTWA basis, but that DI supports the Partnership approach under the Inner Urban Areas Act.

C C J Martin
NWRO/Briefing
20 November 1981

GOOD NEWS IN OR LOCAL TO MANCHESTER-ARDWICK CONSTITUENCY

a) Ferranti announced 18.11.81 a joint venture with General Telephone & Electronics Corpn (USA) in the field of private automatic branch telephone exchanges. The new company Ferranti GTE Ltd expects to create around 300 jobs at Moston, Manchester, for electronics assembly workers, R & D staff and general factory services, primarily by local recruitment, as part of the £8M development.

   Moston is the Instruments Div HQ and recommissioned factory space has been made ready.

b) Hawkesbury Investments, backed by Manchester City Council will establish a Furniture Manufacturing Co-operative in Moss Side District Centre, expected to employ about 40 people.

GENERAL

Although there is little immediately local good news, Ardwick is well placed for travel throughout the Manchester TTWA and surrounding TTWAs and residents could benefit from developments over a wide geographical area, including the Salford/Trafford Enterprise Zone.

ANNEX B

MAJOR REDUNDANCY IN OR LOCAL TO MANCHESTER - ARDWICK CONSTITUENCY

Company	Location	No Redundant	
1980			
Tootal Ltd	Levenshulme	250	Closure (Textile)
Ape Crossley	Openshaw	112	(Engineering)
Francis Shaw	Beswick	218	(Engineering)
Fairey Engineering	Levenshulme	223	(Engineering)
Bowater Containers	Longsight	134	(Packaging)
C Nicholls	Openshaw	245	Closure (Printing)
Security Rockbits	Openshaw	142	Closure (Mining)
1981			
Lawrence Scott & Electromotors	Openshaw	654	Closure (Electrical)
B S Massey	Beswick	154	Closure
Easicut Tools	Beswick	252	Closure (Tools)
Clayton Aniline	Beswick	210	(Chemicals)
James Robertson & Son	Beswick	99	(Food)

Employment Protection Act notification has been issued for:-

Snugcoat	Ancoats	162

NOTES:

1) In virtually all cases the reason given for redundancy was loss of demand.

2) Typically the area houses smaller companies and there have been numerous minor redundancies.

3) It is not possible in the time available to identify locations to the constituency.

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(2)

PRIME MINISTER

I C L

Patrick Jenkin's Private Secretary telephoned to tell me that Mr Jenkin will be minuting you early next week to tell you the outcome of discussions he has had with ICL/Fujitsu on the one hand and with Treasury Ministers on the other.

Apparently, in order to pull off the link-up with Fujitsu which ICL has been negotiating it has been necessary to consider extending the guarantee agreed with ICL at the beginning of the year (for £200 million for two years). I understand that Treasury and Industry Ministers agreed between them to extend the guarantee for a further three years on a tapering basis, with stepped reductions of £50 million. The company have been told that this has been agreed, and the hope is that this will be sufficient to bring them to the desired agreement.

MCS

mb

20 November, 1981

CONFIDENTIAL

Prime Minister

(2)

JJ722

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

MCS 13/11

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

Econ Pol

13 November 1981

The Rt Hon Leon Brittan QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
London SW1P 3HE

Dear Chief Secretary

ICL: COLLABORATION WITH FUJITSU

I was glad that you were able to attend the presentation on ICL's progress and prospects which the Chairman and Managing Director of ICL gave on 10 November. I enclose a background note on ICL's proposed collaboration with Fujitsu and its financial implications for those who have not received earlier correspondence.

2 I thought the presentation brought out clearly the considerable progress that Messrs Laidlaw and Wilmot have made since their appointment last May. It is heartening to know that there are good prospects for a return to profitability next year and that Mr Wilmot has been able to put in place the foundations of his new product strategy so rapidly.

3 At the Prime Minister's meeting on 8 May it was agreed that, if Messrs Laidlaw and Wilmot pressed for a tapering of the guarantee, we would consider the possibility. I share the regret you expressed in your letter of 6 November that it has proved necessary for the new management to approach us about this earlier than expected. What is clear, however, is that they have done so solely because of the financial implications of the proposed collaboration with Fujitsu. The deal that Mr Wilmot has negotiated will undoubtedly prove to be highly advantageous to ICL and is central to his new strategy for mainframe computers; as he said at the presentation, 90% of ICL's 1984 sales prospects for mainframe computers are dependent on the collaborative agreement. Moreover, the deal is important to the Government as a user of ICL computers. There also seems to be a prospect that Fujitsu may ultimately take a shareholding in the company which I know is something you would like to see. Conversely, if the much-publicised deal failed to go ahead for any reason, there would be a disastrous impact on customer and City confidence from which the company might not recover.

4 It is because the Fujitsu deal will prove to be so much to ICL's commercial advantage that I agree with the point you made at the presentation that ICL's bankers could be expected to increase their support as the company's financial position improves over the next few years. I was, however, persuaded by Mr Laidlaw's conviction that ICL's bankers would not yet be prepared to agree to provide guarantees of the repayment of any EXIM finance for the collaborative venture. Experience during the original guarantee negotiations and during the subsequent negotiations over ICL's issue of preference shares has convinced my officials and merchant bank advisers that the banks will not increase their support to ICL without some form of Government backing. Although ICL's financial prospects are good, its current financial position is still too uncertain for the banks to be prepared to increase their support.

5 On the other hand I do not think that the Government should provide the full back-to-back guarantee that ICL appear to want for any financing they negotiate from EXIM or elsewhere to cover the costs of the collaboration venture. ICL's ideas on this point go far beyond the ideas about a taper which colleagues had in mind last May. Instead I think we should offer to extend the duration, but not the amount, of the existing guarantee beyond March 1983, but on a reducing basis. I suggest that I should write to Mr Laidlaw, along the lines of the attached draft, offering to extend the guarantee for three years beyond 1983, with the amount of the guarantee reducing to £150 million on 1 April 1983 and tapering to zero by 31 March 1986. It would then be for ICL to convince their bankers to increase their exposure as Fujitsu made shipments throughout the middle of the decade.

6 My proposed offer clearly does not meet Mr Laidlaw's request for the guarantee to be continued, at the reduced level of £150 million, for five years after March 1983. Moreover, it will probably satisfy neither the banks nor Fujitsu, to whose chief negotiator I suggest Kenneth Baker should send a letter on the lines of the attached. My proposed offer would represent a tough stance with which to open negotiations. I hope that you can give your very early agreement to it. ICL, the banks and Fujitsu (not to mention MITI and EXIM) are likely to press me very hard for a greater degree of public commitment to ICL's future. We shall have to resist this as firmly as possible but I may need to come back to you on this.

7 I am copying this letter to the Prime Minister, Barney Hayhoe, Robins Ibbs and Sir Robert Armstrong.

Yours Sincerely

I. Ellison

PATRICK JENKIN
(Approved by the Secretary of State but signed in his absence)

ICL : COLLABORATION WITH FUJITSU

BACKGROUND

On 10 November the new Chairman and Managing Director of ICL made a progress report on the company's financial prospects and collaboration strategy to Ministers and officials of the Department of Industry, Treasury, CSD and CPRS. Messrs Laidlaw and Wilmot outlined the resolute action they have taken to turn the company round. Their achievements include:

a determined cost-cutting measures, including making nearly 20% of the work-force redundant (with further redundancies to be announced shortly) and imposing a pay freeze;

b the development of a radical and imaginative new product strategy; and

c agreement on three important collaborative ventures, concluded in order to reduce ICL's R and D costs and enable the company to improve its product range at minimum cost.

2 The provisional outturn figures for the company's year to 30 September 1981 suggest that the efforts of Mr Laidlaw and Mr Wilmot are beginning to bear fruit. The trading loss for the second half of the year is approximately £16 million, after a loss of £34 million in the first half. Cash flow is £30 million better than forecast in June. The company hopes to make a rights issue before Christmas (this is particularly confidential) and to return to profitability in the second half of next year.

COLLABORATION WITH FUJITSU

3 On 9 September ICL signed Heads of Agreement with Fujitsu, Japan's largest computer manufacturer, for collaboration in the field of mainframe computers. The deal represents a remarkable negotiating achievement by Mr Wilmot. ICL will secure privileged and protected access, for the duration of the agreement, to both existing and emerging Fujitsu micro-electronic technology, which is acknowledged to have a technological lead over the rest of the world. The product line ICL will be able to build and market from mid-1983 should, therefore, give the company an important competitive edge, while retaining the essential technical characteristics of the 2900 range. Existing customers, including those in Government, will consequently be able to build on their earlier investment in software. The collaboration agreement is now central to ICL's new product strategy for mainframe computers: Mr Wilmot estimates that 90% of ICL's sales prospects for mainframe computers in 1984 are dependent on the agreement proceeding satisfactorily.

4 The agreement with Fujitsu falls into 2 parts:

a the transfer of computer technology to ICL for a fee of Yen 7.6 billion (currently about £18 million); and

b the purchase of Fujitsu computer products, between late 1982 and the end of 1986, up to a maximum value of Yen 70 billion (currently of the order of £170 million).

Fujitsu have offered to apply to Japan's EXPORT-IMPORT Bank (EXIM) for credit facilities to enable ICL to finance 80% of this deal. However, it is a standard condition of all EXIM financing that the foreign purchaser's main banks provide letters of guarantee to cover the credit extended to the Japanese exporter. ICL are of the firm conviction that their UK bankers will not be prepared to provide such guarantees without some form of back-to-back agreement with the Government. The Department of Industry and its merchant bank advisers share this conviction. The Japanese authorities and Fujitsu also appear to be keen to have some tangible sign of the Government's commitment to the survival of ICL before allowing such an important contract to be signed.

5 ICL have, therefore, requested that the Government's current Guarantee of up to £150 million of bank overdraft facilities (£50 million of the Guarantee has been transferred to a new class of redeemable preference shares issued in September to ICL's three main UK banks) be extended for five years beyond 31 March 1983. The new management have always considered that some form of tapering of the Guarantee beyond March 1983 would be necessary. Ministers agreed at a meeting chaired by the Prime Minister on 8 May that if Messrs Laidlaw and Wilmot pressed for a tapering of the Guarantee they should be told that the Government would have to consider the possibility. Their current request does not, however, represent any real tapering of the Guarantee and it is considered that a much more restrictive offer should be made to the company, making it clear that the banks will have to provide an increasing share of the support for the company as the benefits of the collaborative venture come through.

IT3
Department of Industry
12 November 1981

RL3ACZ

DRAFT

Addressed to:

C C F Laidlaw Esq
Chairman
ICL PLC
ICL House
1 Putney High Street
London SW15 1SW

File No.

Copies to:
PS/Mr Baker
PS/Secretary
Mr Young
Mr Croft
Mr Macdonald
Mr Preston
Mr Whittley
Mr Worman
Mr Lingard
Mr Chapman

Enclosures:

Originated by:
(Initials and date)

RAL 11/11/81

Seen by:
(Initials and date)

Type for signature of

Secretary of State

(Initials and date)

DEPARTMENT OF

My colleagues and I were most grateful to you and Robb Wilmot for the clear and thorough exposition of ICL's financial position and the implications of the Fujitsu deal which you presented to us on 10 November. At the end of the presentation you requested on behalf of your Board an early indication of the Government's reaction to your proposal that the current loan guarantee under Section 8 of the Industry Act should be extended for five years from April 1983, with a reduction then in the amount guaranteed from £200 million (including the preference shares) to £150 million. In particular, you sought a view from us which could be taken into account in your current round of discussions with Fujitsu.

As you rightly recalled, at the time of your appointment Ministers accepted that when you and Robb Wilmot had had the opportunity to assess the company's position in detail you might wish to come back to us to propose some form of tapering of the guarantee, instead of a cut-off after two years. Your presentation the other day showed

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File No.

that you have already made commendable progress in getting a grip on the company and beginning to pull it back to profitability. However, there is clearly some way to go before all your plans reach fruition and originally we did not expect to have to address the question of tapering with you at this stage, when the guarantee has itself been in place for only seven months. Nevertheless, we noted your firm conviction that the issue had to be faced now because of the need to provide an assurance to Fujitsu that ICL would be able to meet its financial obligations during the period of this major collaborative venture - an assurance which you believed your principal bankers would not be prepared to give at present without some measure of Government backing.

Our main difficulty in accepting your proposal for a five year continuation at a level of £150 million is essentially the one which I and the Chief Secretary indicated at the meeting. If your prospects in the mid 1980s are as good as your figures suggest, we would expect your bankers to accept a greatly increased level of commitment as profitability improves, and certainly well before 1988. Indeed, that has always been our understanding of the basis on which any tapering of the guarantee would be suggested. Why then should the Government accept the whole load for the whole period? I appreciate that the way your business with Fujitsu is likely to build up may well lead to a particularly high level of borrowing towards the end of the period, but by the same token you should by then be demonstrating the full benefits of the

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collaboration in a way which would be expected to attract support at normal commercial risk.

Nevertheless, we certainly share your appreciation of the importance of the Fujitsu deal and having considered your representations I can now say that the Government would be prepared to agree to an extension, by three years, of the period of the guarantee to the banks. However, the sum guaranteed would be initially no higher than £150 million and would have to taper significantly from that level over the period of the extension. In parallel, we would require your principal bankers to maintain a significant level of unguaranteed but committed facilities in place beyond March 1983.

This offer is of course made at a time when, as you made clear, there is still a good deal of uncertainty as to the real level of your likely future borrowing needs. You explained that the equation is a complicated one with a number of variables as between equity, borrowing, leasing arrangements and EXIM finance. It is clearly too early for us to ask you for a full corporate plan for the period in question, but I must leave you in no doubt that once this tapered extension of the guarantee is agreed and in place, together with the parallel bank facilities, you will have to draw up your detailed plans on the basis that no further Government support of this kind will be forthcoming. I took it from the replies which you and Robb Wilmot gave to Robin Ibbs on this point, at our meeting, that you are indeed planning to operate on that

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basis, but I thought I should spell out the Government's position clearly as the background to the offer I am now conveying to you.

To negotiate the details of an arrangement of this kind with the company and the banks will clearly take some time and I do not see how we could hope to complete the process by the time you aim to sign the agreement with Fujitsu on 5 December. Our suggestion would be, therefore, that we should explain to Fujitsu ourselves our readiness to extend the existing guarantee beyond March 1983, though in a tapered form, relating this directly to our enthusiasm for the collaborative deal and to our continued support for ICL, both as a user of the company's equipment and as a Government committed to the success of the UK information technology industry, but explaining that the full implementation of the financial package will take some time yet to bring about. We would hope in this way to enable the collaboration to get under way and to have dealt with the detailed financial arrangements well before you would expect to take any shipments of equipment from Japan.

If you would find it helpful to have a further meeting to go over this ground in more detail I would be happy to see you.

BW1AEO

DRAFT

File No.

Addressed to:

Mr Shiro Yoshikawa
Executive Director
Fujitsu Limited
Tokyo

Copies to:

PS/Secretary of State
PS/Secretary
Mr Young
Mr Croft
Mr Macdonald
Mr Preston
Mr Lingard
Mr Worman
Mr Whittley
Mr Chapman

Enclosures:

Originated by:
(Initials and date)

PJB 11/11/81

Seen by:
(Initials and date)

Type for signature of

.....Mr. Baker.....
(Initials and date)

DEPARTMENT OF

Her Majesty's Government have noted with great pleasure the signing of Heads of Agreement, on 9 September 1981, between Fujitsu and ICL for collaboration in the field of mainframe computers. This is very much in the spirit of the Agreement on the exchange of technology which I signed with Mr Tanaka last April.

Her Majesty's Government are confident that the Agreement will prove beneficial to both ICL and Fujitsu. For its part, ICL has made considerable advances since the financial crisis it experienced last February. As you know, the Government agreed last March to guarantee up to £200 million of bank overdraft facilities for the company for two years to 31 March 1983. In August we agreed to convert £50 million of this Guarantee into a guarantee of redeemable preference shares, to be held by ICL's three main UK banks. Her Majesty's Government are confident that ICL's determined cost-cutting measures, its imaginative new product strategy, and willingness to

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File No.

negotiate important collaborative ventures, will under the company's new management combine to ensure ICL's future success. We are satisfied that the company should soon return to profitability, and that it will represent a secure and successful long-term partner for Fujitsu. We welcome in particular the assurance of continuity which the collaboration between ICL and Fujitsu offers to the Government as a major user of ICL's mainframe computers.

Her Majesty's Government indicated to ICL earlier this year that they would be prepared to consider extending their Guarantee beyond March 1983, on a reducing basis, should this prove necessary. The company have now requested such an extension in connection with their collaborative agreement with Fujitsu. We have informed the Chairman of ICL that Her Majesty's Government are prepared to extend their Guarantee for three years, until April 1986, on a reducing basis, subject to further discussions with the company and its bankers. It is our view that there should be no further need for ICL's bankers to have such a guarantee beyond April 1986, taking account of the expectations we share with the company for its continued recovery and increasing financial strength.

BW1AEP

JU CONFIDENTIAL

cc Duguid
Walters ECON
PSL

DEPARTMENT OF INDUSTRY
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Secretary of State for Industry

24 July 1981

Richard Tolkien Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street SW1

R.
27/7

Dear Richard

ICL: PREFERENCE SHARES

My Secretary of State has asked me to pass on his thanks to the Chancellor for his letter of 16 July.

2 I understand that officials are dealing with a number of outstanding issues and that progress is being made. You may wish to know that my Secretary of State has agreed that ICL should not be committed to a rights issue in early 1982.

3 I am copying this letter to Tim Lankester (No 10), Roderick Lyne (FCO), Jim Buckley (Lord President's Office), Richard Dykes (Employment), John Rhodes (Trade) and to Mr Ibbs.

Yours ever
Richard Riley

RICHARD RILEY
Private Secretary

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cc MR Hoskyns

PJL

10 DOWNING STREET

From the Private Secretary

17 July 1981

ICL Preference Shares

I have shown the Prime Minister the recent correspondence on the proposal that ICL should convert £50 million of the Government's £200 million loan guarantee into redeemable preference shares. She reluctantly accepts that approval should be given.

I am sending copies of this letter to Brian Fall (FCO), Jim Buckley (Lord President's Office), Richard Dykes (Department of Employment), John Rhodes (Department of Trade), Gerry Spence (CPRS) and David Wright (Cabinet Office).

T. P. LANKESTER

Ian Ellison, Esq.,
Department of Industry.

CONFIDENTIAL

D

Mr. Ingrid
cc Mr. Walters

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

16 July 1981

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

Dear Keith

ICL: PREFERENCE SHARES

Thank you for your letter of 10 July and for the detailed way you have dealt with our doubts about the proposal to issue £50m preference shares under the £200m loan guarantee.

I have discussed this matter further with the Chief Secretary and other Ministerial colleagues in the Treasury, and I find their arguments against issuing these shares highly persuasive. There is little point in me going over the ground yet again, but it may be worth noting two relatively minor objections which nevertheless are not without their importance. I have, too, a major concern which I imagine you will share with me to some extent. The two points are:

(i) There is no obligation on the Government to support the issue of preference shares. The provision in the Loan Guarantee agreement was permissive. To this extent, therefore, it is misguided for Mr. Laidlaw to argue that he is being treated more badly than the previous management. He can be assured that we would have been just as reluctant to agree to this procedure if the previous management had stayed in office.

(ii) I do not think that the increase in tax payers' exposure in the event of receivership or liquidation, which would be implied by the conversion of £50m of the guarantee into preference shares, can be dismissed quite as easily as your letter suggests. It is not a situation which we can accept lightly. I understand that your officials were questioned by the Chairman of the PAC when they appeared before the Committee on 8 July on whether the Government had any security in respect of the Guarantee; it was implicit in this line of questioning that the Government's acceptance of the position of an unsecured creditor needed some defending. In the case of the preference shares there would, of course, be no possibility of receiving anything back in the event of a liquidation.

/But

But my major objection is more fundamental. The figures emerging from the monitoring meetings seem to me to throw considerable doubt on whether the guarantee and the appointment of new management will be sufficient to pull the company through. I suspect that the company may be too weak now for this combination to succeed. I note for example that on present forecasts the company's net worth is likely to fall as low as £20m. But this is based on what appear to be some optimistic forecasts on orders over the remainder of the company's financial year, and it is quite possible that net worth by September could be down to zero or even negative. On this very tight base it is planned to build borrowing of up to £400m. Even if the £50m preference shares is added to the equity (and whether the market will regard it as real equity is open to question), the debt/equity ratio could be so large as to strain credibility.

Yet a computer company needs to maintain the confidence of its creditors and its customers in order to carry on trading. I cannot really believe that the issue of the preference shares will help to establish this necessary confidence. I am aware that Mr. Laidlaw's judgement is otherwise, but I continue to think that the device is so transparent in its purpose that it will achieve very little other than to highlight how close the company is to financial collapse. I am sure you will agree with me that a major objective for the Government is to avoid becoming too closely tied to the fortunes of this company; but as I see it the preference share issue would have just this kind of impact on the public mind.

You will see from the foregoing that I share fully in Leon Brittan's objections. On the other hand I take the point made in your letter, and in Jim Prior's letter of 14 July and Robin Ibbs' letter of 13 July that the provision to make a preference issue was included in the guarantee agreement, and that to rest on the permissive character of the provision might precipitate a crisis of confidence in the company. With considerable reluctance therefore, and I may say with some misgivings, I am prepared to go along with the proposal; but subject to the following conditions on which I place considerable importance.

First, the form of the preference shares must be acceptable to us. I understand that the details are being discussed between our officials and I will not burden this letter, therefore, with details. But it is important to bear in mind that a preference share carrying a Government Guarantee takes on much of the character of a gilt edged security. This needs to be borne in mind in devising the details of the share. Similarly the Government commitment must not be extended in any way. The guarantee covers principal as well as accrued interest; it lapses two years from the date of the original agreement; and we would not envisage having to meet the guarantee, other than in conditions of receivership or liquidation.

/The second

The second point to some extent follows from the first. Since the share would be a form of gilt edges it is important that it should be firmly held in a few banks over the period of its life. It is essential, therefore, to secure that the agreement of the participating banks to take up the issue between them. The banks may be reluctant to do so, and if they cannot be persuaded I fear the proposal will need to lapse. The negotiation is a matter for ICL and the banks, but no doubt your Department will be expected to help. It would not be appropriate, I think for Treasury or the Bank of England to intervene in a matter of this kind.

I am prepared to leave the question of the future rights issue to your judgement and that of ICL's and their merchant bank advisers. But I do share Robin Ibbs' doubts as to the value of incorporating a reference of this kind into the statement. It would have been a different matter if a rights issue could have been announced simultaneously with thepreference share issue, but that clearly is not on. In the circumstances I for my part would not wish to press for such a reference.

I am copying this to the Prime Minister, Peter Carrington, Christopher Soames, Jim Prior, John Biffen and Robin Ibbs.

GEOFFREY HOWE

Prime Minister
See below

15 July 1981
Policy Unit

MR LANKESTER

ICL PREFERENCE SHARES

1. ICL's balance sheet badly needs strengthening. The new management and their merchant bankers want to convert £50m of the present loan guarantee into guaranteed preference shares. Without this, ICL's very high prospective gearing ratio will cause serious concern to customers and creditors. This would be a gift to ICL's competitors to exploit.

Flag A. 2. DoI's merchant bankers, Keith and Kenneth Baker, accept these arguments. They are supported by Jim Prior and also by Robin Ibbs, who anticipated this need for preference shares when the agreement was drawn up.

Flag: Bank

3. Some Treasury Ministers are reluctant to approve this change. In theory, there is some reduction in Government's security. But in practice, the assets offer very little security if the company collapsed.

4. We think that Keith and Jim Prior are right in saying that the key decision was whether to provide the guarantee or not. Now we've crossed that bridge, it is necessary to follow it through by meeting the new management's first request. Denying it - especially when it was anticipated in the agreement - would really make no sense at all at this stage. It would make the already difficult job of trying to rebuild confidence in ICL just about impossible. It would be very hard to explain.

5. Robin Ibbs has queried the wisdom of requiring the company to make a commitment to a rights issue in "early 1982". We understand this was Kenneth Baker's idea in order to placate the Treasury. We think Ibbs is right. It would be better for management simply to indicate their broad intentions, without being tied down to a deadline that may be impossible to fulfil.

6. Unless the Prime Minister wants to reconsider the Government's support for ICL, I suggest that she should make it clear that she would like Keith to proceed with his proposal to guarantee £50m of preference shares.

Flag D/ The Chancellor has now conceded. Are you content to go along with Sir Keith's proposal?

Respectfully
JOHN HOSKYNS

T.L. 17/7

10 DOWNING STREET

Andrew Dunnett

Could we have a word pls. I think we need a summary note of the issues, ~~[illegible]~~ and a recommendation.

It seems to me that Jim Prior makes the crucial point, in the light of which (Arnold Lovell has told me) Tracy

Ministers are likely to concede.

It will be all but impossible to arrange a PM chaired mtg before the end of July. A decision is needed before then.

R

14/7

CONFIDENTIAL

B

Caxton House Tothill Street London SW1H 9NA

Telephone Direct Line 01-213 6400 GTN 213
Switchboard 01-213 3000

The Rt Hon Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Great George Street
LONDON SW1

14 July 1981

Dear Geoffrey

ICL

I have seen a copy of Keith Joseph's letter to you of 10 July about the proposal that £50 million out of the £200 million guaranteed by the Government should be converted into redeemable preference shares. I note that this proposal is supported by ICL's Chairman and Finance Director, their financial advisers (Warburgs) and by Lazards who are advising the Department of Industry, and that the grave consequences of ICL's over-gearing, if the proposal is not accepted, may mean the resignation of the Chairman whom we installed less than two months ago.

I take the Treasury's point that this conversion would reduce the degree of security attaching to that portion of our guarantee. But as Keith points out this is in all the circumstances more a theoretical than a practical consideration. What I think is the nub of the matter is that rejection of the proposal might well have the effect of subverting the decision we took two months ago to support ICL, for all the reasons that were then fully deployed. Given that the guarantee agreement expressly provides for the sort of conversion now proposed, it would in my view be difficult, if not impossible, for us to explain to our supporters why we had decided to bring the company down on such an issue just when the new Chairman and his team are taking vigorous action to pull it round. I very much hope that on reflection you can agree to what Keith is proposing.

I am copying this to the Prime Minister, Peter Carrington, Christopher Soames, John Biffen, Keith Joseph and Robin Ibbs.

Yours
Jim

cc Mr Duguid
Mr Walters

C

2pp

CABINET OFFICE
Central Policy Review Staff
70 Whitehall, London SW1A 2AS Telephone 01-233 7765

From: J. R. Ibbs

CONFIDENTIAL

Qa 05623

13 July 1981

Dear Secretary of State,

ICL Preference Shares

Thank you for sending me a copy of your letter to the the Chancellor dated 10 July. GPII

Since the Government guarantee for ICL was first proposed my concerns have been:

i. A belief (to which you refer in your paragraph 3) that additional shareholders funds would be needed because further loans on their own would result in a totally unacceptable capital gearing ratio;

ii. A fear that confidence, profit improvement and cash flow would prove worse than was assumed in the figures provided when the guarantee was being discussed;

iii. A belief that the new management were being over optimistic in the plan they put forward before they took over, in which they hoped to reduce the immediate impact of redundancies on cash flow by resorting to extensive short time working.

All these concerns have proved well founded.

The guarantee was agreed to by Ministers because the alternative of receivership/liquidation looked so unattractive and expensive in view of the need to keep the Government's extensive range of ICL equipment

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Ashdown House
S W 1

running. Receivership/liquidation remains just as unattractive now as it was a few months ago. Because the Government decided to offer a guarantee which included a provision to convert part of it to cover redeemable preference shares, I do not think it would be sensible for them to back away now from the issue of preference shares. To do so would further damage confidence and put the new management in an invidious position. I therefore support your proposal on the issue of redeemable preference shares.

There is, however, one further point I should like to raise. I continue to have doubts about the rate at which confidence, orders and financial results can reasonably be expected to improve. I find it hard to imagine that by early next year performance will be such that an investor would voluntarily participate in a rights issue. In view of this I doubt the wisdom of including any reference to early 1982 in the draft statement to shareholders attached to your letter. The danger is that this will give rise to expectations that cannot be fulfilled. The chances of being able to come forward with a credible capital reconstruction early in 1982 seem to me small; failure to do so will further damage confidence if such a move is half promised now. If it is essential to mention future capital reconstruction, I think all reference to such an early date should be avoided.

I am sending a copy of this letter to the recipients of yours.

Yours sincerely,

J R Ibbs

JU340

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

10 July 1981

The Rt Hon Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Whitehall SW1

Dear Geoffrey,

ICL: PREFERENCE SHARES

1 When I wrote to you on 11 June I recommended that the Government should agree to ICL's proposal that the provision in the loan guarantee agreement should be activated to permit £50 million of the £200 million loan guarantee to be converted into redeemable preference shares. Leon Brittan replied on 15 June saying that you and your colleagues were still not convinced of the case for doing this. There have now been further discussions involving ICL, its financial advisers, the Treasury and the Department of Industry in which Kenneth Baker and Sir Peter Carey have participated. The Department has sought views from Lazards, who are now advising on the affairs of ICL.

2 These investigations have confirmed my view that the company's proposal is well founded and that to accede to it would be consistent with our original objectives when agreeing the loan guarantee. I understand, however, that you still consider that we should refuse ICL's request. I am concerned that we seem far apart on an issue which the new Chairman of ICL considers so serious that he has said that he will reconsider his personal position if his recommendation is rejected. I should like to spell out once more, therefore, my view of the main issues, partly to reply to Leon Brittan's comments and partly to bring up to date our other colleagues with an interest in ICL.

3 In the past few months we have decided collectively: first, to save ICL, because we are so dependent on them as suppliers, from financial collapse by providing a loan guarantee; secondly, to appoint a new Chairman and Managing Director to guide the company back to financial health within the period of the guarantee; and thirdly, to endorse the new management's plans for substantial redundancies. We should continue to act according to the spirit of these earlier decisions bearing in mind that it is less than two months since we asked the new management to take over and that, at the time, they made it clear that ICL's position would worsen before it could improve. The present problem is essentially a practical one and raises no new issue of principle. We knew when we offered the guarantee that ICL's forecast losses would damage its balance sheet by

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reducing shareholders' funds. I understand that Robin Ibbs, in particular, drew attention to the need to make some provision to avoid both the Directors' borrowing powers being exceeded and too exposed a gearing ratio. The loan guarantee agreement itself includes an express provision for converting £50 million of the guarantee into guaranteed preference shares.

4 In practice, however, the scale of the problem is greater than anticipated; shareholders' funds are likely to be even more seriously reduced through a combination of greater trading losses and provision for major redundancies. As a Government, we have accepted, indeed encouraged, the redundancies and these have been accelerated so that as much of the cost as possible can be carried on this year's balance sheet. The greater trading losses now foreseen reflect reductions in the forecast level of revenue-earning deliveries, in turn an indication that the market remains sluggish and that customer confidence is slow in returning. ICL forecast that, when the new balance sheet is struck on 30 September, shareholders' funds may have sunk to as low as £20 to £25 million from £142 million. Given that ICL need to establish a borrowing limit of £400 million, including ECGD cover, the ICL Chairman and Finance Director, the company's financial advisers and the Department's merchant bank advisers, all consider that the company would face a gearing ratio which would cause serious concern to customers and creditors, ~~especially~~ overseas, and which might be used against ICL by their competitors. Hence the request to us to guarantee £50 million of preference shares, which would increase shareholders' funds and allow the borrowing limit to be held at £350 million.

5 Leon Brittan has suggested that the issue of preference shares would be essentially cosmetic and that its effect might even be to reduce confidence. I do not agree. The recent round of discussions has shown that ICL is concerned about the attitude of the leasing companies and about the willingness of those banks not covered by the Government guarantee to continue their facilities. ICL and Warburgs consider that a balance sheet showing such a low level of shareholders' funds might well precipitate a crisis on these fronts, with serious implications for the general structure of financial support for ICL. I believe it would be wrong for the Government to force the company to take such a risk and that the proposed issue of preference shares would avoid it.

6 There are two other aspects to confidence. First, both Laidlaw and Wilmot believe that a number of factors have to come together to turn round the market view of ICL. They see my agreement to the preference shares proposal as an essential part of rebuilding confidence. Secondly, there is the confidence which we as a Government show in the new management and the confidence that this can engender in its turn.

7 The company have asked me to agree to their announcing the issue of preference shares at an EGM to be held during August. They must hold the EGM then, in any case, in order to agree new borrowing limits before the start of the new company year. They believe that, if they are to avoid damaging speculation, they must say something about capital restructuring at the same time. In the circumstances I think we must consent to the preference share proposal as soon as possible.

8 I recognise Leon's concern that in doing so we shall be increasing the taxpayers' exposure beyond the strict limits of the loan guarantee, but in practice I do not think that this is a point of substance. Leon believes there would be a reduction in security on that portion of the loan guarantee which is converted into preference shares. This would be important if there were any real difference in the amount the taxpayer would be likely to recover if the company collapsed, but there is little real security in terms of assets for the whole of the £200 million. We have always accepted this and the conversion of £50 million of the guarantee into preference would not change the position.

9 Leon is also concerned about the possibility that, at the end of the guarantee period, the company might find it hard to redeem the preference shares and that we might need either to take up the shares or to extend the guarantee. There is no denying that this could happen. But it is also possible that the guarantee for £200 million may be called; that is the risk we have taken. If, despite all Laidlaw and Wilmot's efforts, ICL could not redeem the preference shares at the end of the guarantee period, it would mean that all their plans for attracting new capital would have been abortive, that confidence would still be lacking and that the balance of the loan guarantee would be similarly at risk. In such a situation the fact that we had agreed to convert part of our guarantee to preference shares would make very little difference. In any case, I think we must accept that any risks which would arise if we agree to the preference shares proposal stem from the inclusion of the provision for such a conversion in the guarantee agreement.

10 As you know, the company are also willing to issue a statement at the EGM which would link the issue of preference shares with an intention to raise new capital by way of a rights issue at the earliest opportunity next year. I attach a copy of the latest draft of the circular to shareholders. I believe it would be most helpful to have the conversion to preference shares presented in this positive context.

11 Behind all this, the key issue seems to me to be whether or not we back the judgement of the men we appointed less than two months ago to run the company and fulfil the undertaking which in their view we have already given. We should surely give weight to their judgement of what will best contribute to ICL's recovery. In our own self interest as guarantor we should be chary of denying them the measures they believe necessary. They already appear to be taking a grip on ICL's affairs and the Department has been given an impressive preliminary outline of their thinking on the major issues of product policy, collaborative ventures and senior management changes. We could not realistically expect them to have restored confidence in the short time since they have been appointed. We have asked Laidlaw and Wilmot to undertake a difficult task. If they fail, the taxpayer will have to meet not only the full cost of the guarantee but also the immense cost of adapting the Government's computers. Confidence is the key issue; they need to rebuild consumer confidence and confidence among the financial institutions. To do so they need to be sure that we have confidence in them, which in turn requires us to back their judgement and to implement the provision about preference shares to which we agreed in principle when issuing the loan guarantee.

12 I hope you will therefore agree that I should tell ICL that I approve their proposal to convert £50 million of the £200 million loan guarantee into redeemable preference shares, subject to -

a confirmation by the banks that they will take up the shares;

b confirmation by ICL that the announcement at the EGM will also mention a future rights issue, in terms we approve; and

c completion of detailed discussions between officials and the company's advisers on the terms of the preference share issue.

13 In view of their interest in ICL, I am sending copies of this letter to the Prime Minister, Peter Carrington, Christopher Soames, Jim Prior, John Biffen and Robin Ibbs.

Yours ever, Keith

DRAFT: 1.7.81

DRAFT CIRCULAR TO ICL SHAREHOLDERS

CHANGE IN BORROWING POWERS

I wrote to you on 8th June giving you details of the unaudited results of the ICL Group for the first half of the current financial year which ended on 31st March, 1981. Against the background of the results of the first half of the year and the continuing difficult trading, it is likely that a substantial trading loss will be recorded for the year as a whole. Significant exceptional losses are also likely, in particular redundancy costs, as sales have not expanded as originally expected and technological changes are significantly reducing the number of people needed in manufacturing. This will result in a substantial reduction in reserves by 30th September, 1981. Borrowings have already risen significantly since the last balance sheet date, namely 30th September, 1980, and are expected to rise further before the corner is turned.

Whilst your Board are confident that, with the £200 million Government guarantee, adequate bank facilities are available for current trading, it is likely that the present borrowing powers under your Company's Articles of Association will not be sufficient. These powers are presently limited to three times capital and reserves, and are likely to be exceeded because of the anticipated erosion of capital and reserves. In these circumstances, particularly because of current uncertainty as to the exceptional costs and provisions that may be necessary, your Board believe that it would be more appropriate to express the limit on borrowings which may be incurred without the sanction of shareholders as a fixed sum.

A resolution will therefore be proposed at the Extraordinary General Meeting to be held on o August, 1981 to change such limit to the sum of £350 million. (This may be compared with the present limit of £424 million, which is three times capital and reserves as at 30th September, 1980.) This resolution is set out as resolution number 1 in the Notice convening the

Extraordinary General Meeting on page o of this document.

ISSUE OF REDEEMABLE PREFERENCE SHARES

You will find in the Notice convening the Extraordinary General Meeting a resolution (number o) to create a new class of redeemable guaranteed preference shares which it is proposed should be issued to the principal bankers to your company to raise £50 million. The detailed terms of these preference shares which are guaranteed by HMG are set out in Appendix o to this circular. In the light of the substantial reduction in ICL's share capital and reserves, due to current trading losses and the costs of the proposed manpower reductions, your Board has decided that at the same time as obtaining shareholder approval for changed borrowing powers their approval should be sought for the issue of preference shares which would subsequently take place as soon as possible. The facility of £270 million will upon the issue of the preference shares be reduced to £220 million and HMG's guarantee of the facility to £150 million. Provision for part substitution of preference shares for bank lending in such circumstances was included in the agreements supporting the facility.

Your Board recognises that this can only go part of the way to restoring a proper relationship between borrowings and share capital and reserves. As soon as practicable there will need to be a major restructuring of the capital of ICL and your Board intends that this should include an invitation to shareholders to participate in a rights issue. It will only be appropriate to propose this, however, when detailed industrial and commercial plans have been completed for the future of the company, including the full implementation of our manpower reductions and relocation arrangements, full assessment of the opportunities for collaboration with other companies and a clear picture of our order prospects for the future. Your Board do not expect to have reached this point before early 1982.

RECOMMENDATION

Your Board, which has been advised by S.G. Warburg & Co. Ltd. in these matters, strongly recommends you to vote in favour of both the resolutions, namely to change the borrowing powers and to create the preference shares. You should do so by completing the enclosed form of proxy and returning it to

o not less than 48 hours before the time appointed for the meeting. Completion of the form will not preclude your attendance at the meeting if you so wish.

JRSB/WJH/ngm

cc Mr Bryant

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SWIE 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

11 June 1981

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliamentary Street
SW1

PS/Sec
Mr Croft
Mr Hingorani (on file)

Dear Geoffrey.

R 17/7

ICL: PREFERENCE SHARES

Kenneth Baker and Leon Brittan have already been in correspondence about ICL's suggestion that we should activate the provision in the loan guarantee agreement relating to redeemable preference shares. As a result, ICL were told that they should explore alternative solutions to their problem.

2 However, at a meeting which Sir Peter Carey held on 9 June (at which Treasury officials were present) the new Chairman of ICL made clear that he sees an urgent need to rectify the severe imbalance in gearing which will result from meeting the costs of the major redundancy programme just announced. The redundancy costs together with the trading loss, will reduce the shareholders' funds for the next company year to the point where, if no correction is made to the level of net worth, a multiple of 10-12 times net worth will have to be sought when the shareholders are asked to amend the reference to borrowing powers in the Articles of Association. Mr Laidlaw accepted that in practice the shareholders would have no alternative but to agree. He emphasised, however, that in his view this course of action with the acceptance of an artificially high level of gearing, would be damaging to the company's prospects of recovery and he has now requested formally that I should agree to activate the alternative course of converting £50 million of the Government's loan guarantee into a guarantee of preference shares.

3 Sir Peter Carey put it to Mr Laidlaw that the difference between adjusting the net worth and going for a very high borrowing multiple was purely cosmetic, a point which I know has concerned you and your colleagues. Mr Laidlaw argued, however, that ICL's main problem remains the restoration of confidence, in the first instance among customers and financial institutions,

but subsequently among the wider range of information technology companies with whom partnership talks are to be held. He considered that a balance sheet with a 10 or 12 to one relationship between borrowing and shareholders' funds would be both an obstacle to the creation of confidence in ICL's viability and a gift to ICL's competitors in their dealings with prospective customers. On the other hand he made it clear that he believes the Government's conversion of part of its loan guarantee into preference shares will not only improve the face of the figures but will also help to create the right atmosphere to secure a more positive attitude from such key people as the providers of leasing finance and, when the time is ripe, from the shareholders in a rights issue.

4 I believe we must give great weight to Mr Laidlaw's considered opinion. He is not making this request lightly and he is certainly not underestimating the difficulties the company faces in turning the tide of opinion about its products and its future in the present economic climate. He has concluded that we can begin to turn that tide by converting part of our loan guarantee to a guarantee of preference shares. The Department's merchant bank advisers (Lazards) agree that a good case can be advanced for that view. We have also to consider the terms of our agreement with ICL. The relevant clause certainly makes it clear that I have to agree that the company needs to increase its shareholders' funds in this way and that I am not bound to activate the provision at the company's behest. But I would be wrong to withhold consent unreasonably under that clause and Lazards consider that the company's case for securing my consent is a reasonable one in their reading of the agreement.

5 On balance, I conclude that we should do as the company have requested. The provision in the agreement was intended to cover just the eventuality that shareholders' funds would fall dangerously low, though at the time the agreement was reached we did not envisage such a rapid redundancy programme or such an early activation of the option. There will be, of course, a change in the ranking in respect of the guarantee of preference shares. But, as we recognised in agreeing to accept the position of unsecured creditor for the guarantee, the value of the company in liquidation must be open to considerable doubt and the ranking of security which we agreed on then was a part of the price of defending our user interests.

6 If you agree that we should now go down this route, I propose that this should be subject to the willingness of the banks to take up the issue of the shares. They have not yet taken a formal position on this and, with your agreement, I will ask Sir Peter Carey to meet with them to this end.

7 I am sending a copy of this letter to Christopher Soames.

Yours. Ken.

Relayed by 'phone to GR girl with PM in Bristol 4/6/81

CONFIDENTIAL

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

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

TELEPHONE DIRECT LINE 01-212
SWITCHBOARD 01-212 7676

6401

Kenneth Baker's Office

cc Press Office

PA

Tim Lankester Esq
Private Secretary to
The Prime Minister
10 Downing Street
London
SW1

4 June 1981

Dear Tim,

ICL

The Prime Minister will wish to know of a major redundancy programme to be announced by ICL's new management on Friday 5 June.

The programme involves 5,200 redundancies (1,000 overseas) out of a worldwide workforce of some 31,000. Marketing and manufacturing activities bear the brunt of the cutbacks, which will affect all major ICL locations in the North West, (Manchester), the Midlands (Kidsgrove) and the South (Letchworth, Stevenage and Bracknell).

I am copying this letter to Jim Buckley (CSD), Richard Dykes (Department of Employment) and Terry Mathews (HM Treasury).

Yours sincerely,

Jonathan Hudson

JONATHAN HUDSON
Private Secretary

AHA/AHAAAM

grossly inefficient.

Copy of a letter sent to Tim Lankester from the Private Secretary to the Minister of State, Department of Industry (Mr. Baker).

ICL

The Prime Minister will wish to know of a major redundancy programme to be announced by ICL's new management on Friday 5 June.

The programme involves 5,200 redundancies (1,000 overseas) out of a worldwide workforce of some 31,000. Marketing and manufacturing activities bear the brunt of the cutbacks, which will affect all major ICL locations in the North West (Manchester), the Midlands (Kidsgrove) and the South (Letchworth, Stevenage and Bracknell).

Noted. (Comment: ICL need to rationalise their operations. They are grossly inefficient).

CF to file

file

Econ Pol

10 DOWNING STREET

From the Private Secretary

8 May 1981

I am writing to acknowledge your telegram about ICL which I have brought to the Prime Minister's attention.

T. P. LANKESTER

Mr. Goold.

CONFIDENTIAL

SECRET

– previously secret – downgraded to Confidential.

JS 5

Econ Pol

pc Mr Wolfson
" Hoskyns
" Ingham

SUBJECT.

10 DOWNING STREET

From the Private Secretary

8 May 1981

Dear Ian,

As you know, the Prime Minister held a meeting this morning to discuss ICL. The following were present in addition to your Secretary of State: the Lord President, the Chief Secretary, Mr. Kenneth Baker, Lord Cockfield, Mr. Reay Atkinson, Sir Peter Carey, Mr. Gerald Watson, Mr. Bill Ryrie, Sir Robert Armstrong, Mr. Robin Ibbs and Mr. David Wolfson. They had before them your Secretary of State's minute of 7 May.

Sir Keith Joseph said that the prospects for an early partnership arrangement had receded. This was partly because the problems of the company were worse than they had earlier seemed, and partly because their exposure in the press was sapping customer confidence and thus having an adverse effect on orders. Neither Univac nor NCR now seemed interested in taking a majority stake in the company as a whole; they were primarily interested in ICL's marketing operations rather than their production and R and D capability, and even a minority stake could well be conditional on substantial Government financial assistance. He had therefore concluded that ICL's current search for a partner under their existing top management was most unlikely to come to anything. The alternative options were to prepare for early receivership; or to appoint Messrs. Laidlaw and Wilmot to run the company with a view to restoring it to viability and finding a satisfactory partnership arrangement in due course. Receivership would be extremely expensive and would be hard to justify so soon after the guarantee had been given. While the Laidlaw/Wilmot option carried with it substantial risks, he had decided that it was the best available.

The Chief Secretary agreed that the Laidlaw/Wilmot option was the best available. None the less, he was concerned about the risks: the Government could all too easily find itself on a new and expensive "escalator". Laidlaw and Wilmot had already said that they would want the Government guarantee to be tapered beyond the two-year period, and there was a clear risk that they would ask for additional money. It was essential, therefore, that the Government's original strategy that the company should enter into a major partnership arrangement should remain intact. It would be unreasonable to ask them to actively

/ seek

CONFIDENTIAL

seek a partnership immediately; but they should be prepared to consider any proposals that might be forthcoming and at a later stage - as soon as they had worked out their strategy for restoring the company to viability - they should actively seek one. When he and other Ministers had seen Messrs. Laidlaw and Wilmot, the latter had indicated that they were interested in seeking relationships with other companies for particular products, but not an overall partnership. This conception needed to be corrected. Given that there was a real risk of failure, even under new management, it would be desirable for the work on the receivership option to be carried forward and completed.

Mr. Ibbs said that he, too, was worried about the risks of what was proposed. It was all too likely that the new management would run into problems that they had not envisaged. For example, the company's underlying balance sheet could well be a good deal worse than appeared at first sight because of off balance sheet financing. It was essential that it should be made clear from the beginning that the £200 million guarantee would not be increased: and that their job was to put the company into such a position that, if it proved necessary, they could raise additional equity finance. The more this was emphasised, at least it was less likely that they would come back for more funds from the Government. Moreover, if there were to be any tapering of the guarantee, the total amount should be reduced below £200 million in advance of the end of the two-year period. One of the main problems with which Laidlaw and Wilmot would be faced was the fact that the company was highly unionised. There was a real risk that the redundancies and short-time working which they were apparently proposing would be resisted. The Government must make it clear that it would not increase the guarantee in the face of union intransigence.

In discussion, the following points were made:

(i) The company at present was in effect bankrupt. It was therefore not surprising that Univac and NCR were unenthusiastic. But it was just possible that under new management the company could be reconstructed and made viable on a smaller basis. Laidlaw and Wilmot should make an excellent partnership: the former had a reputation for toughness that was badly needed at ICL, and the latter combined outstanding competence with a high degree of imagination. However, there were weaknesses in ICL's second tier management. It was understood that Laidlaw and Wilmot had no illusions about this, and intended to make changes.

(ii) It should be made clear to the new management that the Government's position as a customer of ICL equipment would have to be protected. At the same time, the decision to award the PAYE contract to ICL would have to be reopened. Sir Peter Carey explained that the new management intended to set up a working party, which would include the CCTA, to consider the whole question of protecting the Government's interest as user.

/ (iii)

(iii) It was argued that the new management should be pressed hard to enter into a major partnership as soon as possible. Against this, it was suggested that it was impractical to ask them to find a partner while at the same time expecting them to take action to turn the company around. Sir Peter Carey said that Laidlaw and Wilmot would be setting up a top management group to look at the prospects for partnership. In his view, they accepted that partnership was an important objective; but they wanted three months or so to consider what kind of arrangement or arrangements they should best go for. It was suggested that, when they had completed this review, the Government should itself carry out a review of the company's overall position and prospects.

(iv) There should be no presumption that the Government would agree to a tapering of the guarantee. If Laidlaw and Wilmot pressed for this, they should be told that we would have to consider. If in the event it were decided that some tapering were reasonable, it would be right to reduce the amount of the guarantee in the way suggested by Mr. Ibbs.

(v) It had to be recognised that the Laidlaw/Wilmot option would involve substantial redundancies and short-time working. But in their absence, there was little prospect of viability and the Government should insist on the redundancies they had in mind. Against this, it was pointed out that the Government's locus in this matter was limited. The Government could lay down certain financial conditions: it was up to management to decide on the redundancies, etc., that would be required.

Summing up, the Prime Minister said that, while there were considerable risks in Sir Keith's proposals, the alternatives looked worse. Accordingly, the Government should lend its immediate support to the appointment of Messrs. Laidlaw and Wilmot. It should be made clear to them that the Government's primary objectives remained to secure its customer interest and to avoid any call on the guarantee. It should be emphasised that they should not expect any additional financial support; and if they pressed for a tapering of the guarantee, they should merely be told that the Government would have to consider the possibility. They should be pressed as far as possible to actively seek a major partnership arrangement, although it had to be recognised that they could not be expected to look for a partner immediately and that they would need to carry out their own review of the possibilities. After they had completed their review in three or four months' time, the Government would need to consider their findings with them. In the meantime, as a contingency measure, work on the receivership option should be completed as suggested by the Chief Secretary. The PAYE contract decision would also have to be reviewed.

I am sending a copy of this letter to Terry Mathews (HM Treasury), Jim Buckley (Lord President's Office), David Wright (Cabinet Office) and Gerry Spence (CPRS).

Yours ever.

Tim Lankester.

Ian Ellison, Esq.,
Department of Industry.

SECRET.

4

10 DOWNING STREET

From the Private Secretary

8/5/87.

Cecil KJ said that the prospects for an early partnership arrangement had receded.

~~As the prospects~~

This was partly because the problems of the company were worse than ~~[~~ they had earlier seemed, and partly because ~~as a result of~~ their exposure in the past, was sapping customer confidence ~~in the company~~ and thus ~~affecting~~ having an adverse effect on orders. ~~After~~ Within Unirac now NCR ~~the prospective partner partners~~ now seemed interested in taking a majority stake in the company ~~as~~ as a whole; they were primarily interested in ~~taking over~~ ICL's marketing

10 DOWNING STREET

From the Private Secretary

operations ~~[illegible]~~ rather than their production and R and D capability, and even if ~~they to produce~~ ~~if they were to come~~ a minority stake could not be contributed or substantial government financial assistance. We have therefore concluded that ICL's current search for a partner under their existing top management was most unlikely to come to anything. The alternative options were to propose to carry ownership; or to appoint Messrs Laidlaw and Hilmer to run the company with a view to restoring it to viability and finding a satisfactory partnership arrangement in due course. Receivership

10 DOWNING STREET

From the Private Secretary

would be extremely ~~not~~ expensive and would be hard to justify so soon after the guarantee had been given. While the Lord Chancellor / Lord Advocate carried with it substantial risks, he had decided that it was the best available.

8 May 1981

Policy Unit

PRIME MINISTER

ICL

There is a danger of confusion about our objectives and the Laidlaw/Wilmot terms of reference:

(1) As I understand it, we can withdraw the guarantee if, inter alia, the management refuse or fail to consider overtures by potential partners or buyers for ICL. Wilmot made it clear at the last meeting that he would look with an open mind at any such approaches with the shareholders' interests in mind (as the Directors would in any case be bound to do).

(2) You want to ensure that ICL does not turn into another BL. You would like Laidlaw/Wilmot to "actively seek a partner". Wilmot may agree to this, but he will not mean what you mean by the word "partner". He will mean that, like any other businessman, he will be on the lookout for sensible collaborative deals, licences, partnerships, joint ventures which strengthen ICL's prospects and fit its strategy. (He and Laidlaw will be well aware of the delayed competitive risks when such agreements or ventures come to an end, and will no doubt make contingency plans.)

(3) While the BL lesson is very relevant, the BL analogy is misleading. We owned BL. We knew it was effectively doomed in a market which was peaking anyway. The downside was huge; we wanted to get out as soon as possible. (The BL lesson, with hindsight, is that Edwardes' instructions were never spelt out clearly to him in writing; and they became unenforceable the moment he sensed that we might, after all, give him further finance.)

(4) The ICL situation is different. It is not doomed in the same sense; the company is in a growth market, has shown profits (of a kind) recently; has some good products. The Government doesn't own ICL and I doubt if it can instruct Laidlaw/Wilmot, as a condition of its continued guarantee, to actively look

for a buyer (as opposed to a "partner", which can mean anything), unless that is what the shareholders want anyway.

(5) Of course, I know that this is what you would like to see, if it is possible. But I really don't think it is. Judging from the very full record of the meeting with Laidlaw/Wilmot, and from a subsequent discussion I had with Reay Atkinson, I am sure that Laidlaw/Wilmot see their prime task as to turn ICL round and develop a new strategy for it, with whatever collaborative and partnership deals make sense. They will know that it is a long shot, but that is the challenge to which they are responding. I don't think it is realistic to expect them to put everything they've got into that and simultaneously to search for a buyer. Of course, they must recognise that, if their hopes and plans go wrong, then a buyer is what they will have to look for. It sounds as if they are less likely than Edwardes to try to wriggle out of such a commitment and open up an unlimited source of Government funding. But, as Robin Ibbs said, we cannot even count on that and must make sure that they know from the outset that such a possibility does not exist.

I am copying this minute to Robin Ibbs and Sir Robert Armstrong.

JOHN HOSKYNS

COMMERCIAL IN CONFIDENCE

Econ Pol

Treasury Chambers, Parliament Street, SW1P 3AG

I K C Ellison Esq
Private Secretary to the
Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

8 May 1981

Dear Ian

ICL

Paragraph 29 of your minutes of the meeting on 6 May records:

"Lord Cockfield enquired about the scope for cutting out the servicing parts of ICL's activities."

On reading the minutes Lord Cockfield has requested that in order to get the record absolutely right he would be grateful if this could be amended as follows:

"Lord Cockfield enquired about the scope for making an independant operation of the servicing parts of ICL's activities ie by setting up a service company."

I am copying this letter to the recipients of the minutes of the meeting and the recipients of your Secretary of State's minute of 7 May to the Prime Minister (to which the minutes of the meeting was attached).

Yours sincerely

Jim Milner

J C MILNER
Assistant Private Secretary

Mr Lankester
yours?
WR 7/5

R 7/5

889113 PO SW G
299992 PO TS G
J51 LONDON TLX 255/242 7 1028

Prime Minister
I have acknowledged this.
JR
7/5

THE PRIME MINISTER 10DOWNING STREET

URGENT: FROM ICL USER CONVENTION

REPRESENTATIVES FROM 100 PRIVATE AND PUBLIC ORGANISATIONS USING ICL COMPUTERS WISH TO MAKE AN URGENT APPEAL TO YOU ABOUT THE FUTURE OF ICL. BRITAIN'S STRENTH IN THE USE, DESIGN AND PRODUCTION OF INFORMATION TECHNOLOGY OWES A GREAT DEAL TO THE PRESENCE IN THE UK OF ICL RESEARCH, DEVELOPMENT AND MANUFACTURING CENTRES. THIS HAS BEEN IMPORTANT, FOR EXAMPLE, IN HELPING TO CREATE BRITAIN'S SOFTWARE INDUSTRY.
AS USERS WE HAVE ~~ENJOEXXXX~~ ENJOYED A UNIQUE RELATIONSHIP WITH ICL THAT HAS BEEN OF MUTUAL BENEFIT. HAVING ICL'S KEY DEVELOPMENTS IN THE UK ALLOWS THE GOVERNMENT TO USE ITS PURCHASE POWER TO SHARE PRODUCT STRATEGIES. IT ALSO MEANS THAT USERS CAN PARTICIPATE IN PRODUCT DEVELOPMENTS AND BUILD UP EXPERTISE IN CRUCIAL SYSTEMS AND SOFTWARE SKILLS.
WE BELIEVE THAT ICL NOW HAS A GOOD PRODUCT LINE. WE HAVE INVESTED MUCH MONEY IN HELPING IN THIS DEVELOPMENT. IT WOULD BE A TRAGEDY FOR USERS AND THE NATION AS A WHOLE IF WE LOSE THE REWARDS OF THIS INVESTMENT NOW THAT IT IS ABOUT TO BEAR FRUIT. WE ALSO URGE YOU TO INSIST THAT ANY DECISION ABOUT ICL WILL ENSURE THAT THE COMPANY'S LONG TERM FUTURE IS SECURED ONCE AND FOR ALL. I WOULD BE PLEASED TO DISCUSS THE VIEWS OF ICL USERS WITH YOU OR ONE OF YOUR MINISTERS AT YOUR EARLIEST POSSIBLE CONVENIENCE.

GOOLD, CHAIRMAN ICL COMPUTER USER ASSOCIATION
C/O THE ICL USER'S CONVENTION THE GRAND HOTEL
EASTBOURNE

COL ~~10~~ ICL ETC GOOLD,

299992 PO TS G
889113 PO SW G

10 DOWNING STREET

TIM

The text of the telegram will be arriving later today, but ICL Users Convention were very anxious that the Prime Minister would see this urgently and so dictated an advance text.

Vanessa Burgess

7 May 1981

ADVANCE OF A TELEGRAM FOR THE PRIME MINISTER FROM GOOLD, CHAIRMAN, ICL COMPUTER USERS ASSOCIATION, C/O THE ICL USERS CONVENTION, GRAND HOTEL, EASTBOURNE.

Representatives from 100 private and public organisations using ICL computers wish to make an urgent appeal to you about the future of ICL. Britain's strength in the use, design and production of information technology owes a great deal to the presence in the UK of ICL research development and manufacturing centres. This has been important for example in helping to create Britain's software industry.

As users we have enjoyed a unique relationship with ICL that has been of mutual benefit. Having ICL's key developments in the UK allows the Government to use its purchase power to shape project strategies. It also means that users can participate in products development and build up expertise in crucial systems and software skills.

We believe that ICL now have a good product line. We have invested much money in helping in this development. It would be a tragedy for users and the nation as a whole if we lose the rewards of this investment now that it is about to bear fruit. We also urge you to insist that any decision about ICL will ensure that the company's long-term future is secured once and for all. I would be pleased to discuss the views of ICL users with you or one of your Ministers at your earliest possible convenience.

Copies sent to: Lord Soames, Sir Keith Joseph, Kenneth Baker, G. Watson (CCTA, Riverwalk House) and R. Atkinson (DOI, Dean Bradley House).

COPY NO 1 OF 13

PRIME MINISTER

ICL

Since we made the £200 million loan guarantee available to ICL on 19 March, the company have been pursuing their partnership negotiations with Univac, NCR and others, while simultaneously the Department, in consultation with the company's merchant bank advisers, main institutional shareholders and bankers, has been exploring possible strengthening of the management.

2 Progress towards partnerships has been disappointing. The position reached with the two front runners, Univac and NCR, is summarised at Annex A. Others (mainly CDC and Burroughs) remain interested, but would still have a great deal of preliminary work to complete before they could formulate specific proposals. There is no sign at present that any prospective partner is prepared to go beyond taking a substantial minority stake in ICL. Both Univac and NCR would expect ICL to carry through and fund substantial redundancies (upwards of 7000) before a partnership took effect. The cost (at least £20 million in addition to sums already set aside by ICL) would further erode the company's net worth and there have been indications that both prospective partners would be looking to the Government to provide a significant strengthening of the balance sheet before they would agree to go ahead. Univac's proposals also envisage a drastic curtailment over a period of ICL's product range, R&D effort and manufacturing operations. The institutional shareholders do not

regard the partnership proposals that have emerged so far as being in their, or other shareholders', interests.

3 Meanwhile, adverse criticism of the present ICL management has greatly increased and is being expressed by the banks, shareholders, customers, trade unions and in the press. There is a growing expectation that the Government must soon take decisive action to replace the present Chairman and, probably, the Managing Director. The Chairman has sought an urgent meeting with me, stressing that continuing press speculation about the company's future can only exacerbate its difficulties, particularly by sapping customer confidence.

4 An alternative top management team prepared to take over ICL has been identified in Mr Christopher Laidlaw, at present Deputy Chairman of BP, who would become executive Chairman of ICL, and Mr Robb Wilmot, Managing Director of Texas Instruments in the UK, who would become Managing Director. Together with the Lord President, the Chief Secretary, the Minister of State, Treasury (Lord Cockfield), the Minister of State, Industry (Mr Baker) and officials, I had a long discussion with Messrs Laidlaw and Wilmot yesterday to explore with them their approach to the company's immediate and longer-term problems. The record of our discussion is at Annex B.

This is worth reading
TL.

5 Mr Laidlaw and Mr Wilmot appear to complement one another well and their diagnosis of ICL's shortcomings is impressive.

Neither would be prepared to be associated with a hasty partnership along the lines currently being discussed with Univac or NCR. Their approach would instead be to institute a programme of urgent economies with the aim of reducing ICL's cash requirements and restoring profitability. At the same time they would change ICL's underlying strategy and seek to build on its strengths in marketing and product support by concluding a series of partnerships with selected companies producing higher technology products. By concluding factoring and licencing arrangements they would seek to make ICL fully competitive in a broad sector of the rapidly expanding information technology market. They have explained that their aim would be to reduce the size of the Government guarantee well before the end of its two year term but that some taper of the guarantee beyond the end of the two year period might be necessary.

6 We have to decide urgently whether we wish to take up the option which the availability of Messrs Laidlaw and Wilmot presents to us. Mr Wilmot in particular has other attractive offers open to him (including further progression in TI) and we must assume that he will not be prepared to wait for a decision from us beyond the middle of next week at the latest. He is not manifesting any blameworthy importance; he has not told his Board of his talks with us over recent weeks; if he is offered and accepts a post and then tells his Board - well and good; but now that the press is on his tail he risks being exposed to his Board without any acceptable post being offered him by us. We owe him therefore a rapid answer to minimise the risk of press identification.

The Options

7 We therefore face a choice between three options, all of which involve large risks and potential costs:

(i) continued search for a partnership by the present, largely discredited, top management of ICL. The costs to the Government of this course are impossible to estimate but could be substantial. There is no certainty that a satisfactory partnership would in the end emerge - at present no prospective partner is prepared to take control of ICL and assume full responsibility for its future. We should continue to be at risk that, if ICL were not restored to viability, a minority partner might threaten to withdraw unless substantial Government financial assistance was provided. Even the kind of unsatisfactory arrangement Univac and NCR are contemplating could probably only be concluded if the Government were to meet the cost of redundancies (upward of £20m) and perhaps strengthen ICL's finances in other ways. We might in addition consider offering a "dowry" to induce a partner to make an outright bid for ICL, but such a course would be difficult to negotiate, could prove expensive and is unattractive politically, especially as any partnership is bound to involve large redundancies. We also have to bear in mind that so long as the present weak and demoralised top management remain in charge our negotiating position with prospective

partners will be poor and deteriorating all the time and the value and commercial credit of the company will be dwindling.

(ii) Prepare for early receivership We ruled out receivership earlier, but at a time when we were advised that the prospects for a satisfactory partnership deal were better than they have proved to be. Officials have re-examined what would be involved in safeguarding the Government's user interests if receivership occurred and their report is at Annex C. This confirms that receivership would be an expensive and hazardous course. Much, if not all, of the £200m guarantee would have been called. Conversion costs for systems and software, for the public sector as a whole, would be of the order of £350m over a period of up to ten years. To provide maintenance and services in the meantime for the UK customer base would involve a capital cost of £100m and there would be a substantial additional revenue cost to the public sector. Even then the risk of disruption to Government computing facilities would be considerable. Moreover, having given the loan guarantee, we should face difficulty in finding a pretext for precipitating receivership, at least until there had been a further serious deterioration in the company's position.

(iii) Immediate appointment of Mr Laidlaw and Mr Wilmot to run the company. They understand that their remit would be to operate within the limits of the existing guarantee and to avoid any call being made upon it. They consider that this would be possible subject to the proposal for tapering in paragraph 5 above. I fully accept, however, that there can be no certainty that a new management team will prove to be able to restore ICL to viability and that we could find ourselves on a new "escalator" with repeated requests for ever-increasing Government support. I see no means of quantifying this risk. Messrs Laidlaw and Wilmot themselves recognise that they have so far been able to examine ICL's problems only from the outside and that the difficulty of securing effective remedial action could prove to be greater than they expect once they found themselves on the inside. Mr Wilmot's proposed strategy for a gradual withdrawal by ICL from continued development and production of their larger main-frame computers could also carry with it some risks and considerable costs for the Government as user and we should need to reach a clear understanding on this point before the new appointments were confirmed.

8 Nevertheless, in a situation in which none of the options

open to us is attractive, my preference would be to put our support behind Mr Laidlaw and Mr Wilmot. I believe that their appointment as Chairman and Managing Director would be widely welcomed and would halt the dangerous slide in confidence which threatens to undermine the company's position. They would bring to ICL tough professional management of a kind that has been sadly lacking in the recent past.

9 We should need to make it clear to them that the Government's primary objectives remain to secure its customer interest and to avoid any call on the guarantee. They must not expect any form of financial or other support from us beyond what is generally available (eg through our R&D support schemes and our policy on enlightened public purchasing). I should not, however, want to rule out the possibility of negotiating in due course some tapering of the guarantee, along the lines they have suggested. We should also confirm with them our understanding that, while they will not be seeking a partnership or takeover as a matter of urgency, they will maintain an objective attitude towards any proposals of this kind that may be made to the company in the coming months.

10 If we agree to make these changes in the top management, I should want to act quickly but in close co-operation with the institutional shareholders and the banks. This should not only make for a smoother transer, but would also ensure that the company's main potential sources for additional private sector finance were committed to the management changes. In addition,

I should seek to secure, again in co-operation with the shareholders and the banks, a strengthening in the non-executive element on the ICL Board.

11 I am copying this minute to the Chancellor of the Exchequer, the Lord President, the Chief Secretary and the Minister of State (Treasury), to Sir Robert Armstrong and to Robin Ibbs.

KJ

K J
7 May 1981

Department of Industry

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

PRESENT STATE OF PARTNERSHIP NEGOTIATIONS

Univac

Univac are not interested in a total acquisition. Their approach has been based on a takeover of ICL's major overseas operations but with a minority holding in the UK company. They would aim to substitute Univac products for most if not all of ICL's 2900 range while perhaps adopting ICL products at the low end of the range. There would be only limited continuation of production and R & D in the UK. They are most unwilling to contemplate any responsibility, financial or moral, for the substantial redundancies they see as essential.

NCR

NCR have moved away from interest in total acquisition in favour of some form of minority shareholding. They have indicated no clear strategy for users of the 2900 series although, following a disappointing review by ICL of NCR developments, they have dropped proposals to replace ICL products at the top end of the range. (At the lower end they believe ICL products could be replaced by new NCR technology with the prospect of productivity gains.) They are interested in continuation of ICL R & D in the UK but are particularly concerned at the effect of an ICL partnership on their own critical financial ratio. Meanwhile, GEC remains interested in the

principle of a 25 per cent stake if NCR produce an otherwise acceptable proposal.

ANNEX B

RECORD OF A MEETING TO DISCUSS ICL HELD IN ROOM 11.01 ASHDOWN HOUSE ON WEDNESDAY, 6 MAY at 8.30am.

Present

Secretary of State
Lord President
Chief Secretary
Lord Cockfield
Mr Kenneth Baker
Mr Robin Ibbs
Sir Peter Carey
Mr Ryrie
Mr Croft
Mr Watson
Mr Lovell
Mr Ballard
Miss Youde
Mr Atkinson
Mr Laidlaw
Mr Wilmot

1 The Secretary of State, in welcoming Messrs Laidlaw and Wilmot, said Ministers wished to discuss ICL's needs with them against the background of the Government's triple purpose which was to protect its interest as a client, to avoid the guarantee being called and to ensure long term viability for ICL, either in a partnership, in joint venture or, possibly, as an independent company. A time limit had been set for the guarantee and the Government thought that this meant that ICL should enter into a partnership. Ministers were aware of the visitors' views on a shot-gun marriage.

2 Mr Laidlaw explained that he was not familiar with the computer industry but that he had seen the accountancy documents produced prior to the issue of the guarantee. It seemed plain that ICL was in difficulties particularly in the fourth quarter of 1980-81 ending in September. The company itself was putting forward optimistic projections, anticipating an upturn in the economy and an increase in both the number and value of deliveries at maintained price levels. The Government guarantee created a problem since, if adherence to the two year term was to be a paramount consideration, it would be necessary to get the rubbish in ICL out of the way quickly. This would be costly but the Government did not wish to spend money. Consequently a middle way had to be steered between sorting out ICL's problems quickly and avoiding imposing costs on Government which might exceed £200 million. This made it necessary to proceed gradually which reduced what could be done in the current ICL accounting year; problems would still exist at the end of the guarantee period. This might make it necessary to taper the guarantee. Nevertheless there was a good chance of doing a considerable amount for the company by normal management means, such as reducing the inventory, ceasing over-production and eliminating manufacturing in the United States. A corporate

strategy could be developed by Mr Wilmot, possibly involving a partnership in mainframe computers which would safeguard the Government's interest but with other partnerships dealing with other types of equipment. Mr Laidlaw stressed, however, his need to familiarise himself with ICL first; this could take from 6 months to a year.

3 Mr Wilmot stressed that ICL had to be managed so as to make a profit. It had had problems for a long time. Its turnover was £6-700 million per annum but it was resourced for a turnover of some £900 million, an over-provision of 25%. This led to a cash outflow. It would be necessary to look at the company closely to see how its activities could be turned round; at present it was marketing-led and for example the marketing organisation had spent £25 million more in the most recent year than had been provided, but at the same time had under-performed its sales target. Another problem was that the company had accepted a pre-tax profit of only 7% on sales for several years. Current assets were consuming an excessive proportion of revenue and budgeted capital expenditure was 2% over retained earnings. The company as a whole was structured so as to consume £50 million of cash a year when functioning well with the result that considerably more cash had been consumed in the previous year following the turndown. Mr Wilmot thought ICL had poor production and management systems;
it took the company up to 6 months to respond to changes in the market with purchasing, production etc continuing at previously arranged levels for some months without responding.This was another cause of problems.

4 Mr Wilmot said ICL carried out its research activities thoroughly but in consequence was late in development where it needed to catch up with developments in the United States. He thought this problem soluble. The company was also secretive which was one of the causes of its recent problems, but it was also secretive with its own people which led to another set of problems. Management had been carried out on a contingency basis; central management had merely totted-up the bids from the various parts of the organisation and had added in generous contingency margins on top. Planning operations were essentially short-term with concentration on year one and not year two. This resulted in problems in year two which had been demonstrated by the increase in payroll costs from 20% to 28% in one year following the ending of the 1978 pay policy.

5 Mr Wilmot thought that on product strategy ICL had attempted to cover the whole waterfront but had failed to distinguish in which businesses the company was intended to operate. Other major firms apart from IBM had specialised. Also ICL had not done sufficient to anticipate the merger of data communications and data processing activities, or the future merger of data communications with telecommunications.

6 Turning to his prescription for the future, Mr Wilmot said there were immediate problems and long-term problems. So far as the immediate difficulties were concerned ICL was in a box. The Government had defined through its guarantee the maximum cash outflow which could be tolerated. The profit position was disastrous and this was of particular interest to any potential partner. Customer confidence was very low and had been low even before the Annual General Meeting. Overall the company had from 5,000 to 6,000 people too many for carrying out its current level of business and in a shotgun merger with a similar computer company ICL might find itself with 10-12,000 people too many. This excess manpower should have started to be shed 18 months previously. Now, however, to move out 5-6,000 people would cost £40-50 million. His own experience of moving out numbers of people was that this disrupted operations and had an adverse effect on the customers, leading to an added negative cash flow and a loss of customer confidence. His prescription for dealing with the cash problem was to place most of the workforce on a short work week so as to avoid disruption and to save money. Nevertheless there were 2,000 people surplus to requirements, many of whom would be poor performers who should be moved out at once. The remainder of the surplus manpower was skilled and it was desirable that they should not be lost to the country or to the computer industry. He thought therefore he could make a 5% reduction in manpower at once both on the shopfloor but more particularly amongst management. He thought that he could prolong short-time working for between 6 and 9 months. He thought he could also achieve significant economies in the £350-400 million spent on customer support and marketing. He expected to win a high degree of union co-operation for these measures but he did not have direct experience of labour relations within ICL.

7 Mr Wilmot expected to introduce a monthly cycle of management reporting with weekly updatings in place of the existing quarterly reporting arrangements with monthly updates. He thought this would help squeeze out excess inventory which now amounted to 6 months requirements. With a shorter production cycle there would be greater responsiveness to the market. Apart from this, ICL had been lax in ensuring payment by its customers.

This was partly the result of the company being marketing-led but extended credit also had the effect of relieving the company of surplus production. At present receivables amounted to 65 days and could be reduced to 50 days even at the cost of some loss of customers, thereby saving about £50 million.

8 Mr Wilmot thought that ICL was also soft with its suppliers, having over-intimate relationships with many, resulting in the company paying too much. He though that vendors needed to share in ICL's cash flow problems and he thought that ICL could extend the credit it took from its suppliers from 45 days at present to between 60 and 90 days.

9 Mr Wilmot expected to reduce capital expenditure by £4-5 million and expected that progress could be made with selling surplus production assets. He also expected to increase the prices charged by ICL for servicing and to convert many of the leased computers to outright sales. These various programmes would help stem ICL's cash flow crisis.

10 As far as strategy was concerned Mr Wilmot's goal was to conclude short-time working and minimise the cost of redundancies. This required a clear product strategy both in the short and medium term as well as for 10 - 20 years ahead.The immediate strategic need was to place the company on a profitable basis which was a precondition for partnerships. In the short term, however, partnerships did not seem to be available on terms which were reasonable to the Government or to ICL. ICL had many resources, particularly in marketing and customer support, which were lacked by many other companies which had high technology. He thought ICL could offer its marketing and customer support strengths to companies producing high technology products but it could not do this at present because of its liabilities, in particular its losses and the risk of the return of leased computers. By selling other people's technology ICL would have less need for expensive R&D.

11 Mr Wilmot hoped that the combination of measures he had outlined would permit ICL to negotiate with partners from a position of strength starting at the beginning of the second year. The intention was that negotiations would bear fruit at the end of the guarantee period. A main purpose would be to persuade the banks to pick up their credit lines again at the end of the existing guarantee period. There was the problem, however, that as at present envisaged the guarantee expired after two years and one day. It was obviously necessary for the company to begin to wind down the loans which were backed by the guarantee well before the end of the two-year period - he thought this should start at the end of year one - but he envisaged that a taper on the guarantee would be necessary beyond two years.

12 Describing his strategic approach in more detail Mr Wilmot said that ICL's biggest cost was its marketing operation; so he intended to increase volume by factoring other manufacturers' products. He thought factoring could be arranged in conjunction with some of ICL's present product range, with data-communications equipment and with office technology systems. The arrangements would not involve ICL making the equipment but there would be some development expense. Factoring arrangements could be set up with those overseas companies with which ICL wanted longer term collaborative ventures. He envisaged collaboration with up to 8 - 10 concerns and slow working towards mutual arrangements. He thought factoring agreements could be reached in between 6 and 12 months time.

13 Mr Wilmot said that ICL, like many of the US computer manufacturers, had considerable surplus manufacturing capacity because the market had stabilised and also because the new technology used less labour. He had it in mind to seek the disposal of one or two manufacturing plants as going concerns. (He expressed disappointment that Mitel had been given assistance for a new factory in Wales since they would have been ideal candidates to take over the Winsford plant).

14 Mr Wilmot said that a third strategic area would be for ICL to produce more products under licence from future partners. One example was discs where ICL already acted as a factor. Similar arrangements should be made for printers. He pointed out that most other computer companies built their own discs and printers which meant that ICL's claims about the value of sales per employee did not involve comparisons of like with like.

15 On the marketing side Mr Wilmot wanted to explore bringing in more data communication products. Many United States companies had excellent technological products but poor marketing arrangements. He quoted the example of word processing and Logica. Mr Wilmot thought that when data communications merged with telecommunications in a few years time there would be considable scope for collaboration between ICL and companies like Mitel. He also mentioned the scope for collaboration on laser printers and thought that ICL should become active in personal computers (which he described as personal work stations).

16 Finally, Mr Wilmot discussed the scope for disposals or spinning-off activity. He thought that ICL was involved in some activities, for example its expensive printed circuit board manufacturing operations which it could not afford and which operated at only 40% of capacity. He thought that the manufacturing capability for silicon duplicated the work done by other companies, for example, Ferranti which did not have the computer-aided design facility which ICL did. ICL's computer testing and quality assessment activities were under-used and it would be possible he thought to arrange collaborations on a going concern basis.

17 In reply to the Chief Secretary who asked about the timescale for these proposals, Mr Wilmot hoped to make substantial progress in a year. He expected that short-time working could be arranged for only about 9 months but that all staff, including the marketing team, would be on short time arrangements. The company should take immediate steps to remove those who were not pulling their weight. The establishment of factoring arrangements was not straightforward and would take some time.

18 Lord Cockfield thought that Mr Wilmot's proposals involved changing the emphasis of ICL's activity from a company which manufactured and sold its own products to a company which factored and which manufactured under licence. ICL was already buying 50% of its hardware. He thought that Mr Wilmot's strategy was crucially dependent on ICL's ability to find companies which

had products which were suitable for factoring or for manufacture under licence. He wondered whether suitable companies existed for the forms of co-operation which Mr Wilmot envisaged. Mr Wilmot replied that there were and that, despite its heavy R&D expenditure, which it could not afford, ICL was not keeping up with its competitors. He thought that in future computer companies would have to offer complete distributed computing systems. ICL did not have the resources to supply all the parts of such networks and so had no choice but to buy in technology. What he envisaged was a development of what had already been done by ICL which discs. He thought that suitable partner companies were available since it was expensive for companies to build up marketing arrangements. Even IBM were factoring in. He considered that any company which manufactured mainframes would be in difficulties, since none of them could afford to spend enough to keep up with IBM, except the Japanese companies. ICL had to wqork out how to use Japanese technology so as to satisfy IBM users. However, Japanese mainframe manufacturers could not sell their machines; the Japanese companies had invested heavily and could not get their products to the market.

19 The Chief Secretary believed that many of ICL's problems stemmed from its mainframe activities. He wanted to know how Mr Wilmot saw the future of the 2900 series. Mr Wilmot replied that ICL could not afford to spend many millions of pounds on developing new mainframes. The whole computer world was moving towards compatibility with IBM machines. He did not know the answers about ICL's mainframes but it needed to maintain the 2966s and he wished to explore the use of Japanese micro coding techniques to emulate ICL mainframes. This could help to achieve compability with IBM equipment and utilise the power of Japanese computers in a way which supported ICL's existing customers whilst permitting them to make a slow transition to IBM-compatible equipment. He did not think that there was any alternative to a policy under which ICL would not make a successor of its own to the 2966 machines.

20 The Chief Secretary enquired about Mr Wilmot's proposals on the development of the 2966. Mr Wilmot replied that there were two avenues to development: one involving cost reduction etc and here the introduction of LSI should not be done because it was too expensive. But he did think that work should be done on multi-processors for the 2966 but he did not know their cost. In reply to the Chief Secretary he added that he did not know how precisely he could ensure collaboration with the Japanese. Mr Baker said that Fujitsu wanted to get into Europe and had gone down the IBM compatibility route.

21 The Chief Secretary enquired about the Government guarantee and Mr Laidlaw and Mr Wilmot's ideas about tapering. Did they envisage that the Government's sole financial interest would be in the guarantee? Would the guarantee be reduced before 2 years expired but would it also be extended beyond the two-year period? Mr Wilmot replied that the aim was to meet the guarantee and in any case, if the two year term was to be met, there would be a need to reduce dependence on the guarantee early in its term. He could not say how much beyond the two-year period the guarantee would need to extend but he added that, if ICL could not succed

in beginning to taper off its dependence on the guarantee as early as the end of year one, then the Government would be entitled to consider folding up ICL. Mr Laidlaw thought it unwise to dwell too much on the details of the guarantee since he and Mr Wilmot had not yet got within the company. It would not be easy to start early on reducing the guarantee because the banks had to a great extent been anaesthetised by their dependence on it. Mr Wilmot stressed, however, that ICL could not afford a hiatus at the end of the two year guarantee period.

22 The Chief Secretary enquired about the extent to which Mr Laidlaw and Mr Wilmot expected money from the Government. Mr Wilmot replied that one of ICL's major problems had been its poor management of machine transitions. A large proportion of the machines it had produced were on lease and could be returned from lease. He thought one possibility was that he would not want money but a sensible programme for Government computer users making use of returned ICL machines. There followed a brief discussion about what precisely Mr Wilmot meant by this suggestion. Mr Wilmot said that when computer systems were upgraded many other users were willing to accept used equipment but he was not suggesting that the Government should accept unreliable equipment. He was not in the company and so could not go into detail but he understood that there were a number of returned machines which were an embarrassment to the company and he hoped that the Government would look sympathetically on new transition arrangements. Mr Watson found it difficult to follow the proposals; much would depend on what machines Mr Wilmot had in mind but many of ICL's 1900 range machines were not reliable. Lord Soames drew an analogy with the Government accepting the previous year's model of motor car when the latest model could go faster. Lord Cockfield thought that the idea which Mr Wilmot had suggested was not applicable to the Inland Revenue contract. He was not willing to believe that the arrangement could be implemented without firm evidence.

23 The Chief Secretary enquired about any other areas where Government policy decisions would be required. Mr Wilmot mentioned the Inland Revenue computer as an area where continued support would be important and he hoped that the Government would support ICL through enlightened public purchasing. He had in mind in particular assistance with the development of distributed processing systems and drew attention to the French Government's recent contract with Honeywell for a distributed system for museums. This contract meant that in 18 months time the French industry would be able to offer the world market a developed computer system for museums.

24 Mr Baker asked, assuming that Mr Laidlaw and Mr Wilmot joined ICL, the nature of any statement they would want on the search for a long-term partner. Mr Laidlaw stressed that because of low morale within ICL it would be necessary for the Government to make a reassuring statement.

25 The Lord President enquired about Government involvement in ICL's R&D. Mr Wilmot said that ICL's management assumed a DOI contribution for R&D support. He himself would prefer enlightened public purchasing arrangements to expenditure on direct R&D support. Mr Laidlaw said that ICL had between £12 and £14 million for Government support in their budget. Mr Atkinson said the figure in the DOI budget for 1981/82 was only £4 million at the moment.

26 Mr Wilmot stressed that the Government's confidence as a customer was vital to ICL. The Government had to appear 150% behind the company. The Secretary of State thought that Mr Wilmot's approach was that the company should solve its own problems by normal management means. If it took these actions ICL might attract a bid from another company on reasonable national terms. He wanted to know Mr Wilmot's reactions to such an approach and in particular whether he had contemplated working for another company. Mr Laidlaw replied that he had contemplated the issue He did not envisage the issue arising in the short term but he thought that the ICL management should establish a team to keep under assessment the possibility of partnerships including takeovers. He thought there were two parts to the business which might be subject to separate merger arrangements. He thought it unlikely that there would be a bid for the whole company but there might be bids for the mainframe business or the system operations. Mr Wilmot did not envisage a reasonable bid from any of the computer companies now considering offers for ICL He thought, however, that Xerox was a much more likely takeover possibility. He would, however, recommend to the shareholders a takeover bid which made sense in its totality and would not be prevented by pride in his achievements from accepting such a bid.

27 At this point, Mr Laidlaw and Mr Wilmot left the meeting.

28 Mr Ibbs said that the original proposition had been for the Government to secure a new majority owner for ICL but this proposition had disappeared. It was difficult even to get a minority shareholder on reasonable terms. The Government may now need to consider the "dowry" concept for attracting a majority shareholder. If the Government needed support for the computer equipment it already used he thought that Messrs Laidlaw and Wilmot represented as good a chance as there was. But risks were large. The team was outside ICL but could say things from that position in good faith which could be disappointed by reality. There could also be serious marketing disappointments. The costs to the Government might well go above £200 million.

28 Lord Cockfield thought that the Government were considering a totally different proposition from that put forward in March. There were a great number of liabilities off the ICL balance sheet. If the Government went down the proposed route there could be substantial additional claims. Mr Atkinson pointed out that all the overseas prospective partners had spotted the off balance sheet liabilities and their impact on the net worth of the company.

29 Lord Cockfield enquired about the scope for cutting out the servicing parts of ICL's activities. Mr Atkinson said that this was covered in the exercise of the cost of liquidation which he expected to be completed in 2 to 3 weeks time.

30 Mr Brittan thought that the Government needed to have answers on the costs of liquidation and a separate servicing company before reaching decisions. The Government could not decide on the present option whilst it was the only option put forward.

31 Mr Watson stressed the need for market confidence and the difficulty of turning round market confidence at the present time. So far as mainframe activities were concerned Messrs Laidlaw and Wilmot appeared to envisage no development of software, for the existing machines to run on for a few years and for a transfer to Japanese machines at the end of the day. It was necessary to look at the problem from within the company. Sir Peter Carey thought that some confidence would be generated by setting up a credible management.

32 The Chief Secretary thought there was a need to consider alternatives and in particular liquidation. Mr Watson said there could not be a viable servicing organisation for the Government in isolation.

33 Lord Soames wondered if the Government could do any better than to go down the road proposed. He thought there was a great number of unknowns both from the Laidlaw/Wilmot proposals and from the proposal to liquidate. It would not be possible to compare the costs of two unknowns. It was agreed that a meeting would be sought with the Prime Minister before the end of the week and that discussion at that meeting should take place on the basis of a paper to be prepared by officials outlining the various options open in the present situation.

I. Ellison

I K C ELLISON
PS/Secretary of State for Industry
Rm 11.01 Ashdown Ext 3301

7 May 1981

Circulation

PS/Chancellor of the Exchequer
PS/Lord President
PS/Chief Secretary
PS/Lord Cockfield
PS/Mr Baker
Sir Peter Carey
Mr Ryrie
Mr Croft
Mr Lovell
Mr Watson
Mr Atkinson

ANNEX C

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SECRET

ICL: CONTINGENCY PLANNING ON RECEIVERSHIP

(Note by Department of Industry in consultation with HM Treasury and CCTA)

Introduction

As part of the contingency planning commissioned by the Prime Minister in the course of the earlier ICL negotiations officials have been working urgently on the practical implications of Receivership (and probably almost simultaneous liquidation) of the Company. The object has been to establish how precisely it might be possible to make realistic contingency plans to protect Government's computing operations by the provision of adequate maintenance and services for upwards of six years following Receivership. This work involves detailed consideration of technical, financial and legal implications and the preparation of a form of 'warbook' which would enable action to be taken effectively and as a matter of urgency. It is not yet completed but this paper includes the agreed views of officials in all three Departments on the basic issues.

Costs of Receivership

2. If, in consequence of Receivership, ICL equipment currently installed in Government installations has to be replaced at an

earlier date than would be necessary if the Company was able to continue manufacture and maintenance of its 2900 range (or if a prospective partner was able to provide a gradual 'migration path' to its own equipment) then the additional cost to Government for conversion of existing systems and software will be at least £200m (£350m for the total UK public sector). To this cost of conversion has to be added the cost of additional equipment and the cost of additional computer accommodation (since it will not be possible to house the replacement equipment in existing accommodation for the essential period of parallel operation). These costs cannot at present be quantified.

3. The considered professional advice of CCTA (reinforced by the views as reported to officials by prospective US partners) is that the resource implications of conversion in terms of staff requirement are such that it would be totally impracticable within a period of 4-6 years of receivership. This makes it imperative in the event of Receivership to provide maintenance and services for between 6-10 years. The capital cost of this maintenance/service facility (ie. for securing an essential stockpile of spares and components) would be upwards of £100m for the UK customer base alone and (on the assumption that any service for customers outside the public sector would be self-financing) the annual revenue costs are of the order of £40m per annum, not all of which would be additional cost. This excludes liability for redundancy payments which would have to be made to the staff retained from ICL to undertake the maintenance

service: some 1400 would be necessary for central Government alone and the redundancy costs would be of the order of £20m (and double if a service was to be provided for all UK customers).

4. It must be assumed that, by the time of Receivership, much if not all of the £200m loan guarantee would have been utilised. There could be a further cost of indemnifying the Receiver but (see below) we believe that, by following the Rolls Royce (1971) precedent, this could be avoided.

Funding and relevant powers

5. In the event of Receivership it would be essential, in order to continue maintenance/service facilities, to have power either to indemnify the Receiver or (and this would be the preferred course) to acquire assets from him. The Industry Act could most probably be used for this purpose (if it could be established that one of the purposes of Section 7 (2) was met); but this would mean stretching the interpretation to be placed on the purposes of the Act and it could prove highly controversial in the circumstances in which Receivership would take place. There are no other powers available to the Department of Industry.

Essential mechanics

6. If maintenance etc services are to be available almost immediately on Receivership then, at that time, it means having an organisation in place, with management appointed, which could negotiate with the Receiver on:

a. extracting from ICL's Customer Engineering Division and Software Maintenance Centre - with their associated administrations - the people who would be required to provide essential services. Individuals would have to be identified and brought together in one location from the several places where they are presently serving. For central Government alone this involves 1000 engineers, 150 software staff and 200 support staff (many of whom might not wish to work in a purely maintenance organisation with an apparently limited life);

b. purchasing stocks of spares and components sufficient to minimise dependence upon any new manufacture (which may not be possible) during the potential run-down period;

c. provision of manufacturing facilities by the Company for certain limited hardware requirements necessary to maintain Departmental services and for limited expansion of these;

d. acquiring equipment from various Company plants necessary for testing facilities and the repair or refurbishment of particular parts of equipment.

These negotiations would include acquisition of documentation and other 'know how' from ICL's purchasing organisation.

7. The Government does not have a locus to appoint a Receiver nor to determine his choice. But, under the terms of the loan guarantee, the banks are obliged to give the Government five days' notice of their intention to appoint a Receiver and this would clearly give scope for consultation on the person to be appointed and, possibly, on discussing the provision of maintenance etc services. But, having regard to what would actually have to be done in practice, the only realistic course (following the Rolls Royce precedent) would be for the Government, simultaneous with the appointment of the Receiver, to announce its intentions to negotiate to acquire assets to ensure continuation of certain activities. This would mean setting-up a Companies Act company (with the Government as sole shareholder) and with officers who, hopefully, would have been earmarked beforehand. In the event of receivership this company would take over from the Receiver as soon as possible and run the continuing maintenance etc operations. Funds of the order of £100,000 would

be necessary for initial administration expenses.

8. Provided the nucleus of a management team is selected and preliminary discussions with a Receiver satisfactorily concluded before the date of his appointment Government has, in theory at least, the basis upon which to establish a maintenance facility within a short period of time and certainly before installations begin to degrade seriously. This seems the only realistic course at the outset though it would be for subsequent consideration whether the operation might not subsequently be assigned to one of the third party computer maintenance companies which exist (though none of them on a scale which would match that of this proposed operation) or to a major company like GEC. Nevertheless, the risk of interruption of Government computer operations before the new organisation becomes effective is real, particularly should it occur while Government staff themselves were not fully co-operative. But, whatever the arrangements, the success of the operation both initially and in the longer term would depend critically on the ability of the organisation to attract and retain staff many of whom will be in great demand and might not wish to serve in an organisation of this kind. Furthermore, in order to do the job effectively, these staff would depend on the ability of the organisation to bring together and operate successfully the equipment required for essential software maintenance and development. The risks would increase over time and it must be kept in mind that the maintenance support organisation would have to exist for at least six years in order to spread the costs and resources requirements for

converting to replacement systems (paragraph 7).

Risks

9. Three points to be taken into account are:

a. CCTA believe that, in the event of this organisation being set up on Receivership, there would be serious risk of industrial action affecting its operations. This would be precipitated by the unions responsible - in particular customer engineers and software staff as a reaction against the massive redundancies elsewhere in ICL. The possibility of strike action was mentioned by union representatives at their recent meeting with the Minister of State in the Department of Industry;

b. in the event of Receivership there is a strong possibility that current orders for essential equipment would not be delivered (eg equipment essential for DHSS unemployment benefit, Inland Revenue collection and other replacements) and this would seriously impair Government operations;

c. the organisation to be set up under these proposals would be responsible for the provision of services to UK users. It is difficult to see how, in the event of ICL going into receivership, it would be possible to maintain comparable facilities for users overseas. As

the figures in the table bring out, many foreign Governments use ICL equipment. Recent intelligence from BP is that ICL users in the oil states (eg Abu Dhabi) are extremely conerned about how they will maintain essential facilities if ICL falls. They are major users of ICL equipment.

Conclusion

10. In terms of Government powers and organisation it should be possible to set-up a basic maintenance and service organisation which would keep existing ICL systems in the UK going for several years; nevertheless there is a significant risk of an interruption to Government computer operations whilst the new organisation becomes effective. Some equipment to allow for modest expansion or enhancement of existing systems could be provided out of the present inventory of £70m and secondhand equipment coming on the market. Spares would have to be procured from a variety of sources - and this could be difficult; even so there would be high risk of having particular installations out of action for extended periods of time because of difficulties over spares. Major Departments using advanced systems would not be able to maintain their software to present standards and would need to depend more on the co-operation of their own staff. If, for any reason (eg industrial action) efforts to put this service in place within a short period of time were frustrated then the considered view of the CCTA (which officials in both the

Treasury and DOI would endorse) is that Government computing facilities generally would be at immediate and serious risk.

Department of Industry

6 May 1981

TABLE

X UK AND OVERSEAS USERS OVER £1m

UK USERS OVER £5m

PUBLIC SECTOR	£m
HMG : Civil, Finance,	70
DHSS, Health Auth.	74
Defence	93
Universities, Polytechnics, Colleges	75
Local Government	130
Metropolitan Police	5
BBC	4
Water	22
Gas	25
Electricity	26
Coal	5
British Steel Corp.	20
Transport (British Rail, Sealink, BA)	23
Post Office (incl. Girobank)	38
BNOC	1
UKAEA	18
Trustee Savings Bank	4

PRIVATE SECTOR	£m
Building Societies	12
Bank of England	6
Bankers Automated Clearing Services	7
British Aerospace	16
CWS	9
Imperial Tobacco Group	7
Glaxo/Vestric	7
Plessey	12
J. Sainsbury	5
Thorn Group	10
F. W. Woolworth	6

PRIVATE SECTOR £1m - £5m

Associated British Foods
Automobile Association
Albright & Wilson
BICC
Booker Belmont
BP
Burmah Oil Group
Buxton Group
Computel
Chloride Group
Debenhams
Data Sciences
Dowty Group
Ferranti
Fisons
GKN
House of Fraser
Hambros Bank
Hawker Siddeley
Heinz
Hoskyns
Hunting Engineering
IPC
Marks & Spencer
Marley Tiles
Metal Box
NMW Computers(Nth Stock Exchange)
Norwich Union Assurance
Performing Rights Society
Philips/Mullard
Rank Hovis
Ransomes
Rolls Royce
Swiss Bank Corporation
W.H.Smith & Son
Smith's Industries
J.H.Sankey
Tootal
Vickers
Unilever
VDS Group

Brian Griffiths

Qa 05360

To: MR LANKESTER

From: J R IBBS

7 May 1981

7/5

ICL

1. In March ICL was in serious financial difficulty and the Board were about to put the Company into liquidation. Because of the risk to the Government's computer operations if ICL went into liquidation, Ministers decided to make a guarantee of £200m. available for two years. This guarantee was intended to generate sufficient confidence, particularly among customers, to enable the Company to continue in business while negotiations with possible partners took place with the aim of reaching preliminary agreement with a suitable partner by the end of April. It was thought that ICL on its own with its existing management did not have a future. The guarantee was designed to place a strict limit on the Government's financial responsibility for the Company (in both amount and time), while safeguarding its interest as a user of ICL equipment.

2. Negotiations with potential partners have continued but it seems that no agreement is likely to be reached for some months. Furthermore, the two front runners, UNIVAC and NCR, after learning about the Company in depth, are interested only in taking a minority holding; the main potential financial burden in practice would remain therefore with Government and the difficulties of disengagement would probably increase. Both companies would require 2 to 3 thousand redundancies to take place, additional to those already planned, and a direct cash injection before they took any stake. In the meantime, the morale of ICL has deteriorated and confidence in the present management has further reduced. In brief, a solution through partnership looks much less likely than it did a few weeks ago.

3. The CPRS believes that there are four options to Ministers today:

(i) Receivership

(ii) Seek a minority partner

(iii) Seek a majority partner by offering a "dowry"

(iv) Appoint new management whose aim would be to make ICL viable and more attractive to potential partners.

(i) Receivership.

The Receiver would probably have to put the Company into liquidation immediately. To ensure maintenance of its ICL computers the Government would have to set up a maintenance and service company. There would be considerable risks attached to staffing and operating this company satisfactorily and a particular danger from industrial action. Provision of a full range of spares would be difficult as would the maintenance of software to present standards. Any problems in running the maintenance and service company could lead to serious dislocation of Government computing facilities. Satisfactory maintenance for ICL equipment overseas would be even more difficult to achieve and failure would lead to serious loss of confidence in UK products, for example in the Gulf States. Work by the Department of Industry has not reached the point where this option can be specifically costed, indeed the inevitable uncertainties make this very difficult, but it is certainly extremely unattractive. (The £200m. guarantee probably makes receivership difficult to contrive.)

(ii) Seek a minority partner.

Present indications are that loss of confidence in the present management will result in ICL being in further serious difficulties, and in a worse cash position than previously forecast, before a minority partnership can be concluded, since this is likely to take several months. Even with such a partnership the main financial risk is likely to remain with Government, and some direct cash injection and 2 to 3 thousand additional redundancies are likely to be necessary before a partner will come.

(iii) Seek a majority partner by offering a "dowry".

There must be a level of dowry at which some major computer company would 'take ICL away' and give an undertaking to maintain for a period ICL equipment. There is no indication what this figure may be, but it

could be large (greater than £200m?). A further complication is that the main candidates for doing this are US companies who could face anti-Trust difficulties. Although the option has the merit of eliminating the risk of any further calls on government funds, the initial cost of achieving this could well prove unacceptably high. In view of the growing lack of confidence in the present management, exploration of the option is probably ruled out at this stage by shortage of time.

(iv) Appoint new management whose aim would be to make ICL viable and more attractive to potential partners.

The Chairman and Managing Director now proposed by the Secretary of State are probably as good as could be found in present circumstances. I believe they under-estimate the difficulties that they will face and that there is a serious likelihood that the Government's financial investment will not be limited to the £200m. guarantee. In particular, the plan to change the emphasis of ICL's operations from mainframe computers to 'distributed systems' will take time and could prove expensive; the intention to operate prolonged short-time working could make practical management of the business extremely difficult and the continuing threat of ultimate redundancies could cause serious labour problems.

4. My own view is that all options entail the likelihood that the Government's financial involvement cannot be limited to an uncalled £200m. guarantee. With options (i), (ii) and (iii) I regard this as certain. Option (iv), new management, offers a chance of getting away without any direct injection of cash (although I think this unlikely) and certainly it should be made clear to the new management that they have to bring the company round without any help beyond the existing guarantee. Indeed, a key feature of their task is to generate sufficient confidence for share-holders to become willing to come forward with further funding when this is needed. In the circumstances, I believe therefore that Option (iv) has to be taken. But if the Government

decide on this course it should do so recognising that some additional financial assistance may ultimately be unavoidable.

5. I am sending a copy of this minute to Sir Robert Armstrong.

DEPARTMENT OF INDUSTRY
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With the Compliments of the

Private Secretary to the
Secretary of State for
Industry

K. Benson
for R. Riley

CS 248

NOTE OF A MEETING TO DISCUSS ICL HELD IN ROOM 11.01 ASHDOWN HOUSE ON 28 APRIL AT 11.00AM

PRESENT:

Secretary of State
for Industry
Lord President
Chief Secretary
Sir Peter Carey
Mr Ibbs
Mr Croft
Mr Ryrie
Mr Watson
Mr Lovell
Mr Ballard
Miss Youde
Mr Atkinson
Mr Lingard

cc Mr Duguid
Mr Tyson
Mr Lowe

12.
95

1 Mr Atkinson described the latest position on discussions about possible partners for ICL. Two front runners had emerged, UNIVAC and NCR. Both these companies believed they could offer protection to ICL's customer base but CCTA had not evaluated the realism of such claims. Both also believed that substantial redundancies within ICL would be necessary (probably in the region of 2,000 more than those being planned by ICL itself). UNIVAC envisaged taking a 49% share of ICL's UK business and a complete takeover of its overseas operations. It was understood that NCR also had a substantial minority shareholding in the UK operation in mind but no specific figure had been mentioned. Univac believed that ICL would require a cash injection of some £200 million towards which they would be prepared to put their existing UK computer operations (excluding Sperry). NCR thought that some £100 million would be needed of which they might consider providing some £20 - £50 million. On timing, it seemed likely that NCR would not initiate further talks but would await a further approach by ICL. The Univac people who had been looking at ICL intended to put proposals to their corporate head quarters in June.

2 The meeting then considered the question of ICL's management. Sir Peter Carey said that, in Mr Scholey's view, there had been a marked deterioration in morale within the company, partly explained by uncertainty about the position of top management. Customers and employees were also understood to be expecting changes at the top of the Company. The Department of Industry had identified possible replacements for Mr Chappell and Dr Wilson - Mr Christopher Laidlaw of BP and Mr Robb Wilmott of Texas Instruments - who might be willing to move to ICL. The Chief Secretary considered that the choice of new management might depend on the Government's priorities for the future of ICL. It should be made clear to incoming management that the Government considered ICL needed a partner urgently. Sir Peter Carey said that Mr Laidlaw and Mr Wilmott understood the

Government's position and recognised that the company could not continue alone. He believed that they would hope for a year in which to develop their plans although they understood that the position might change within that time. Mr Atkinson said that they also accepted the protection of the customer base as a priority. The Chief Secretary said that ministers should obtain a clearer idea of what Mr Laidlaw and Mr Wilmott had in mind for the company. It was agreed that ministers should meet Mr Laidlaw and Mr Wilmott (if possible, next week) and that, in advance of this meeting, officials would talk to them about the areas on which their view would be sought. These would include their thoughts about the future of the ICL 2,400 series of computers.

3 Mr Ibbs said that, on the basis of the figures available, he did not think that new management could pull the business round without more money. He considered that detailed cashflow forecasts for at least one year ahead were necessary before judging the case for brining in new management now. The Secretary of State asked about the position of GEC and Plessey. Sir Peter Carey said that GEC would consider a 25% share in ICL if NCR took a substantial (and probably majority) stake. Plessey were also interested but would only consider a minority share.

4 The Secretary of State asked whether the Government should consider purging the company. Mr Atkinson said that this would probably be what new management would do. The Lord President said that regardless of whether a partner was found, it was essential that the company should be got on a sound commercial footing. The Chief Secretary said that the Government should have contingency plans in the event of a Receivership operation being necessary. The Lord President considered that the receivership route could prove extremely expensive for Government and dangerous from the users point of view. In a hurried receivership (which was likely in view of ICL's circumstances) it was not certain that even adequate maintenance arrangements could be made. Liquidation might follow hard on the heels of receivership because of the nature of ICL's business.

5 The Secretary of State enquired why there had been relatively little interest in taking over ICL. Mr Ibbs considered this was because a large amount of cash was required to make the company sound and that the prospective return was insufficient. He said he was beginning to conclude that the Government should consider paying someone to take a majority share in the company in order to get it off the Government's hands. In return for a "dowry" a buyer should be asked for a guarantee of the customer base. It seemed that NCR was the most likely buyer and this would have the additional advantage of bringing in GEC. The Ministers present agreed that this approach should be examined as one of the options. It would also be necessary to ensure, as far as possible, that any buyer was itself commercially sound. Mr Lingard said that the Department of Industry had already commissioned some work in this area.

6 The Secretary of State asked whether it might be possible to establish a regency of new management while a new majority shareholder was found. Sir Peter Carey said that there was a dilemma. It might not be possible to arrange for a takeover while the present management were in office. On the other hand, new management of suitable calibre would probably not be willing to take on the task on the understanding that there could be a "shotgun wedding". The Chief Secretary said that it was essential to find out more about what Mr Laidlaw and Mr Wilmott would propose. The Lord President agreed and said that they were clearly very able men and it was fortunate that they were willing to take on this task.

7 The Secretary of State asked whether the Department should obtain the advice of a Merchant Banker about an approach to NCR. Sir Peter Carey said that the Department was ready to engage Lazards provided that Ministers agreed. The Secretary of State said that it would be important to ensure that the Department's advisers did not cross wires with Mr Scholey. It was agreed that the Department of Industry would appoint Lazards who would advise ministers on what Mr Scholey might be authorised to offer a new majority partner. Mr Ibbs suggested that Lazards' terms of reference should be:

> "To advise on the terms on which a majority stake in ICL could be aquired by a computer manufacturer of good standing".

8 Mr Ibbs identified four options for the future of ICL. They were:

(a) for ICL to continue with new management which would attempt to turn the company round before explaining the partnership option further;

(b) the early introduction of a partner with a substantial minority interest;

(c) a takeover;

(d) receivership/liquidation.

9 Mr Ibbs said that these four options should be assessed in terms of their implications for Government expanditure.

10 Finally, the Chief Secretary agreed that the general ban on new orders should be lifted and that CCTA should place orders with ICL for Strike Command and JARIC. He thought that further orders for ICL equipment shold be considered individually.

Richard Riley

RICHARD RILEY
PS/Secretary of State for Industry
Rm 11.01 Ashdown Ext 3301

28 April

cc PS/Lord President
PS/Chief Secretary
PS/SoS Defence
PS/Mr Baker
PS/Secretary
Officials present at meeting
PS/ CHANCELLOR

10 DOWNING STREET

TL.

Re * L. 29/4

FIRST CATCH YOUR CUSTOMER.

THEN NEGOTIATE SAFEGUARDS ON SERVICE AND EMPLOYMENT.

IF WE SET "CONDITIONS" WE GIVE ICL THE OPPORTUNITY TO FRUSTRATE A SALE AND LEAVE US AT LONG-TERM RISK.

DW.

Econ Pol

PRIME MINISTER

cc:- Mr Wolfson
Mr Hoskyns

ICL

You asked what was the state of play on ICL. I have requested a report from the Department of Industry by the weekend; in the meantime, the position appears to be briefly as follows.

ICL have been in discussion with Sperry/Univac, Burroughs, and CDC and NCR. Only the discussions with Sperry/Univac have so far got anywhere; but even these do not look very promising. Sperry/Univac have indicated that they are not interested in putting in any substantial sums of money, and they have asked the Department of Industry whether the loan guarantee will continue to be in place after ICL are taken over. The discussions with NCR, which Scholey was hopeful about, are some way behind; those with Burroughs and CDC are still further back.

One other company, Fujitsu, have been in touch with ICL, though this was before the guarantee was announced. Kenneth Baker who is in Japan this week will be asking them whether they might be interested in a takeover.

* Peter Carey is seeing ICL today to discuss the sorts of conditions which the Government would be looking for in the event of a takeover: these would include some commitment to continue development and employment in the United Kingdom and a commitment to look after the Government's interests as customer.

There is one other possibility which, I understand, Industry and Treasury Ministers are getting interested in - given that the discussions mentioned above are going so slowly. This is an option put forward tentatively by Laidlaw of BP and Wilmot, Head of Texas Instruments in the UK. They have suggested that BP and Texas might together take a majority stake in ICL.

T. P. LANKESTER

27 April, 1981

BF 1-5-81

CF chan

Ken Baker's Affairs

on Friday about X.

Lean Pd

PRIME MINISTER

cc:- Mr Wolfson
Mr Hoskyns

ICL

R 28/4

You asked what was the state of play on ICL. I have requested a report from the Department of Industry by the weekend; in the meantime, the position appears to be briefly as follows.

X

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R

27 April, 1981

JFF

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

13 April 1981

Barney Hayhoe MP
Minister of State
Civil Service Department
Whitehall
LONDON
SW1A 2AZ

MS

Dear Barney.

FUTURE OF ICL

Thank you for your letter of 2 April.

2. I agree that we need to decide our position on these important issues. Can I suggest that, in the first instance, we leave this matter to the interdepartmental group of officials (which includes CCTA and Treasury) who are now meeting regularly under Department of Industry chairmanship to follow up on all the matters arising from the loan guarantee? I understand that this approach is acceptable to your officials.

3. Copies of this letter go to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Employment and Trade, the Attorney-General and Sir Robert Armstrong.

Yours,

Keith

CONFIDENTIAL

JU

Econ 15

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
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TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

Secretary of State for Industry

2 April 1981

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Tim

Thank you for your letter of 25 March.
In view of concern about Section 332 of the Companies Act, it would probably be best not to say anything about hopes for the future.

Yours ever

Richard

RICHARD RILEY
Private Secretary

DRAFT REPLY TO

David Scholey Esq
SG Warburg & Co Ltd
30 Gresham Street
London EC2P 2EB

I am sorry not to have replied earlier.

Thank you very much for your letter of 23 March. May I, in turn, thank you for the significant role which you and your colleagues ~~have~~ played in ~~recent events.~~ helping us reach the decision which we made.

about ICL.

Civil Service Department
Whitehall London SW1A 2AZ
Telephone 01-273 3000

Minister of State

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

TL

2nd April 1981

2/4

Dear Keith,

FUTURE OF ICL

The loan guarantee you announced on 19 March gives us a welcome breathing space. But we now need to reach a view quickly on further problems arising from Government dependence on ICL computers, since they will affect negotiations between ICL and a prospective partner.

As you know we depend heavily on the continuing support of ICL systems and it is of immense importance to Government users that any prospective partner should take over this commitment. We face almost as great a problem over the computers we are planning to buy but have not yet acquired.

In the normal course we should have placed a number of orders with ICL over the next few months but it makes no sense to buy ICL 2900 machines unless we can be assured they will have an adequate working life. We also need to consider the resource consequences of transferring from ICL to other machines and the effect of competitive tender on procurement timetables. A further factor will be the Government's attitude to the new partnership relative to other multi-nationals. I appreciate the need to maintain confidence in ICL and I understand that in most, perhaps all, of the 11 cases involved action can be put off at least until the end of April.

In 13 other cases, including PAYE computerisation, contracts have already been signed and the question is whether a new partner will be willing to take them on and what terms would be acceptable to both partners. Officials are pursuing the question of how re-negotiation of these contracts would stand in relation to GATT rules.

We need to clarify our position on all these issues in preparation for the negotiations between ICL and a new partner. The latter will want to know what Government business he can expect and we shall need to make sure that Government computing is safeguarded. The CCTA are discussing urgently with user Departments their particular requirements and contingency measures, restricting those discussions to as narrow a circle of individuals as possible so as to minimise the risk of a leak which could damage confidence in ICL.

Copies of this letter go to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Employment and Trade, the Attorney General, and Sir Robert Armstrong.

Yours ever

Barney

BARNEY HAYHOE

cc: Mr. Ingham 26/3

✓NB PM

TPL, 26/3

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn

26 March 1981

Econ Pol

PRIME MINISTER

ICL - s.332 COMPANIES ACT 1948

At Cabinet on 19 March you said that my legal advice on ICL (attached) should be circulated to all members of Cabinet. It has been agreed that I should do this.

2. I think the advice is self-contained and self-explanatory. But it should now be read in the light of the decision that was taken, namely, to give ICL strictly limited assistance (both as to time and amount) and without any express or implied commitment to give any further help. Inevitably the need to restore confidence in ICL increases the risks under section 332 so that Ministers should be sure to say nothing that would call into question the strictly limited nature of the assistance, or imply that any more will be forthcoming in any circumstances.

3. This minute and the attachment go to all members of Cabinet and Sir Robert Armstrong.

MH

MINISTER OF STATE FOR INDUSTRY AND INFORMATION TECHNOLOGY

ICL

I refer to your minute of 12 March to the Prime Minister in which you ask, on page 6, for advice on the provision of finance by Government to ICL, especially in the context of section 332 of the Companies Act 1948. This subject is to be discussed by Ministers tomorrow.

2. The position as I understand it (not having seen the Touche Roche report which is being prepared this weekend) is that, without further assistance, ICL will cease in a few weeks to be able to pay its debts as they fall due.

3. I also understand that a statement has been passed on to the Board of ICL as a result of which they agreed to defer till tomorrow their decision on whether to apply for a voluntary winding-up. The statement read as follows:

> "The Government as clients intend to provide some measure of help for the Company in its present situation. This is complicated. Will you therefore adjourn the Board meeting on this particular issue until 16 March, by which time Ministers will have reached a decision".

Reasonably in my view, the Board of ICL has interpreted this statement as committing Government to some help - the nature and amount of which, however, has yet to be determined.

4. Against this background, you properly refer to section 332 of the 1948 Act. In essence, this provision means that if a company is wound up and prior to this the business of the insolvent company has been carried on fraudulently (for example by the company incurring debts which it has no prospect of meeting, or for any other dishonest purpose), any person who was party to the fraud can be made liable for all the debts of the company, whenever they were incurred.

/ In the case

5. In the case of anyone who gives financial help to an insolvent company, section 332 will found liability but only if
(a) those carrying on its business have done so fraudulently;
(b) there is a subsequent winding up; and
(c) the person giving assistance knows of the fraud so that, by virtue of the assistance, he becomes a party to the fraud.

6. As a matter of law Government cannot be made liable under section 332 because that section does not bind the Crown. However, successive Governments have regarded themselves as morally bound to act as if section 332 did apply to them, and the Law Officers have been advising on these lines at least since 1973.

7. Applying the doctrine to present circumstances and subject to the Touche Roche report, it appears that no-one has yet incurred liability by reference to section 332. But we are now advised that if further help is not given within a few weeks, ICL will be forced to cease trading. In my view, liability can be avoided if the following conditions are satisfied in relation to any assistance by Government to deal with the crisis.

(i) At the time the facility is given, Government has not formed and has no reason to form a positive view that the company cannot achieve viability in a reasonable period (say 12 months or such other fixed term as may be agreed for the facility) taking into account its terms and all the relevant circumstances including the prospects of a partnership deal. The Board of ICL would be obliged to keep Government informed of progress, so that its position could be monitored.

(ii) The facility itself is limited both as to time and amount; is expressed to be a "once and for all" arrangement; and does not state or imply either that the Government guarantees the long term future of the company or will provide further assistance if the facility proves insufficient. The same applies in relation to any public statements made about the facility, since creditors are likely to rely on such statements.

/ I recognise

8. I recognise that a facility as "tight" as this may not create enough confidence in ICL to achieve all the objectives, but that is a matter for colleagues' judgement. However, the more open-ended the facility is, the greater the liability of Government by reference to section 332, until the stage is eventually reached where the Government may feel obliged to meet all the debts of the company in which case section 332 will cease to be relevant because the Government is then in effect guaranteeing that the company will remain solvent.

9. If the latter is the true position, the best course in my view is to recognise it now and to act accordingly by agreeing to commit such funds as may prove necessary to avoid liquidation. Otherwise a limited facility on the lines suggested in paragraph 7 above would, I am satisfied, avoid any criticism of the Government's conduct based on section 332. This would allow it to provide facilities on a limited scale for the stated purpose of facilitating a partnership deal, and not entailing any further commitment.

10. This minute is copied to the recipients of yours.

J.R. Mallinson

H. M. Attorney General

(text approved by him
and signed in his absence)

15 March 1981

File

ds

B/F

25 March 1981

I enclose a letter the Prime Minister has received from Mr. David Scholey. I would be grateful for a draft reply for the Prime Minister to send.

T P LANKESTER

Richard Riley, Esq.,
Department of Industry.

No ack. necessary

TPL

DRAFT STATEMENT TO THE HOUSE OF COMMONS

BY SECRETARY OF STATE FOR INDUSTRY

With your permission, Mr Speaker, I wish to make a statement about International Computers Ltd.

The House will be aware that the Government is a user on a substantial scale of ICL computers with equipment to a value of more than £300 million supporting vital operations in some 20 Departments including defence, revenue assessment and collection, agriculture, health and social security. Because of this dependence upon ICL's products we have therefore shared the concern expressed by the Company's Chairman at the Annual General Meeting on 3 February about the deterioration in its trading position. In reporting the results for the year to 30 September 1980 he indicated that there had been a sharp drop in profit in the second half of that year, that the company was currently trading at a loss and that adverse trading conditions could continue well into the current year. However, given a revival in markets, the Chairman said ICL expected a significant improvement in the profitability of its operations.

The trading position of the Company is of course essentially for its management, its shareholders and its bankers and it is to the banks that ICL looks primarily to maintain its credit facilities on a worldwide basis. However, the Government has a special interest in ICL as a substantial customer for its products. To protect this special interest we have, therefore, given a positive response to a proposal that the Government should provide a limited, temporary measure of support for ICL. This support for ICL, in addition to a contribution towards R & D which could be available under existing criteria, should give the Company the chance to review its longer term business opportunities. I am glad to be able to say in this context that banks are continuing their support for the company /in an amount of £70m/.

I therefore intend to seek from the House at the earliest opportunity its authority to provide a guarantee for further facilities to be

/provided ...

provided by banks for ICL under Section 8 of the Industry Act 1972. Such a guarantee will not lead to any increase in public expenditure unless it is called; and I emphasise that it will be in a limited amount and for a limited time. The terms I will be proposing to the House will be for ~~an amount~~ a guarantee of up to £200m for a period of up to 2 years.

~~This is an exceptional measure reflecting [both] our interest as a user of ICL machines [and the unprecedented effect of the world wide recession on the computer industry.]~~

DEPARTMENT OF INDUSTRY
Permanent Secretary's
Office
Ashdown House
123 Victoria Street
London SW1E 6RB
Tel: 01 212 7003

Mr Whitmore

With the Compliments of

Sir Peter Carey

CS 13

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DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7005
SWITCHBOARD 01-212 7676

Sir Peter Carey KCB
Permanent Secretary

19 March 1981

Mr T F Mathews
Private Secretary to the
Chief Secretary
Treasury Chambers
Parliament Street
London SW1

Dear Terry,

ICL

Thank you for your letter of 19 March. The Chief Secretary's comments on the statement have been taken into account.

Copies as for your letter.

Yours ever,

J S NEVE
Private Secretary

Treasury Chambers, Parliament Street, SW1P 3AG

J S Neve Esq
Private Secretary to
Sir Peter Carey
Department of Industry
Ashdown House
London SW1

19 March 1981

Dear John,

ICL

The Chief Secretary has seen the draft statement attached to Sir Peter Carey's letter of 18 March to Clive Whitmore. He has two comments:

i) The Chief Secretary does not favour the inclusion of the words "and tapered" at the end of the statement. The assistance does not taper. It is for a specific sum available in full, as a guarantee, throughout the term;

ii) The Chief Secretary wishes the word "no" to be deleted from the beginning of the answer to supplementary question No. 11. He is quite sure that the government must avoid any implication that it is warranting the future successful performance of the company.

I am sending copies of this letter to Clive Whitmore (No. 10), Ian Ellison (Department of Industry), Jim Buckley (Lord President's Office), Jim Nursaw (Attorney-General's Office), Jonathan Hudson (Mr Baker's Office, Department of Industry), Richard Dykes (Department of Employment), Stuart Hampson (Department of Trade), Robin Ibbs (CPRS) and David Wright (Cabinet Office).

Yours ever

Terry Mathews

T F MATHEWS
Private Secretary

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph MP
Secretary of State
Department of Industry
Ashdown House
123 Victoria Street
London SW1

19 March 1981

Dear Keith,

ICL

I have seen the latest draft of the statement you will be making to the House this afternoon. I would like to make a general point.

We are all agreed that it is essential that this decision should not result in our incurring any general obligation to support the company. What we have agreed to is an offer of support, by way of a guarantee, limited in amount and duration, which is intended to meet the condition in paragraph 7 of the Attorney General's minute of 15 March and so avoid any liability related to Section 332 of the Companies Act.

The Attorney emphasised in paragraph 7(ii) that, if these conditions are to hold, public statements made about the facility should not state or imply any intention to provide further assistance. This means, I believe, that it will be essential to eschew any general statement of confidence in the future of the company, which might be held to mislead shareholders and creditors. The latest draft of the statement seems to me satisfactory in avoiding any such statements, but I hope you will forgive me for emphasising this point again since it will be relevant also to any other comments which you or other colleagues may make, for example in answer to questions.

I am copying this letter to the Prime Minister, the Attorney General, the Lord President, the Secretaries of State for Trade and Employment, Mr Ibbs of the CPRS and Sir Robert Armstrong.

Yours ever
Leon

LEON BRITTAN

CONFIDENTIAL

Sir Peter Carey KCB
Permanent Secretary

cc Mr Wolfson
Mr Hostgas
Mr Lankester

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7005
SWITCHBOARD 01-212 7676

19 March 1981

Mr C Whitmore
10 Downing Street
London SW1

Dear Clive,

ICL

Negotiations with the banks and the company continued until 2.30 am, by which time we had reached complete agreement on everything except the rate of interest. Here, the banks, because of the risk they were accepting on the £70M and the long time involved (2 years), sought a rate of $\frac{5}{8}$% over the banks' base rate or the London Inter-Bank Overnight Rate as the case may be. The company thought this excessive and burdensome and we were disposed to agree. Ultimately we negotiated a $\frac{1}{2}$%, subject to confirmation this morning. This I have now received.

... I enclose copies of the documents finally agreed. For technical reasons, the guarantee and its accompanying conditions are now contained in three separate documents. We managed to obtain most of the conditions we wanted, with two exceptions:

(i) We had to yield the point about security, which was in any event not meaningful.

(ii) Because of the contractual arrangements the company has with its unions, the best we could secure on redundancy payments was that they would offer nothing above the contractual rate, including to new employees, whom they must be free to engage if they are to continue trading successfully.

We have inserted a condition which gives us a free hand to reconstruct the Board of the Company and to make such appointments as we want. It will be very necessary to do this without much delay, and we are thinking of suitable names. On Mr Scholey's strong advice this may have to include the Chairman and we would in no way dissent from this.

Application is being made by the Company to the Stock Exchange for suspension of the shares at 9.15 am, on the assumption that there will be a statement after Questions this afternoon. Resumption of trading in the shares is a matter for decision by the Company in the light of developments, particularly in the partnership negotiations. We shall be consulted.

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Since public statements will make no reference to partnership negotiations, there may be an assumption that our aim is to maintain the Company in its independent state. We shall therefore need to ensure that the companies at present in negotiation are told privately that this is not our objective and that we wish the negotiations to proceed as quickly as practicable.

Copies as before.

Yours ever,

Peter.

Peter Carey

THIS GUARANTEE is made on the day of 1981 BETWEEN MIDLAND BANK PLC, BARCLAYS BANK PLC, NATIONAL WESTMINSTER BANK PLC AND CITIBANK NA (the "banks") and THE SECRETARY OF STATE FOR INDUSTRY ("the Guarantor").

In consideration of the banks making available to International Computers PLC ("the Company") by way of financial assistance bank facilities of up to £270 million to be available until 31st March 1983 and to be provided in accordance with the terms of a facility letter to be agreed between the banks and the Guarantor, the Secretary of State for Industry acting under Section 8 of the Industry Act 1972 as amended and pursuant to a resolution of the Commons House of Parliament passed on 1981 and with the consent of the Treasury and subject to the terms and conditions set out in the Schedule hereto, hereby GUARANTEES payment to the banks on demand made at any time but not after 31st March 1983 any amount of principal, interest and any accrued bank charges extended by them to the Company in pursuance of those facilities:

PROVIDED THAT -

a) the total liability of the Guarantor under this Guarantee shall at no time exceed the sum of £200,000,000 (two hundred million pounds sterling) and

b) this Guarantee only applies to the extent that the said facilities are drawn on in excess of the amount of £70,000,000 outstanding at any time including interest (as well after as before judgement) upon the sum demanded from the date of demand until actual payment.

CONFIDENTIAL

SCHEDULE OF TERMS AND CONDITIONS

(1) It is hereby agreed that the terms of any facility letter agreed between the banks and the Company in consequence of this Guarantee shall be subject to the written approval of the Guarantor and shall not be altered without such approval.

(2) The banks whether as debenture holders or otherwise agree not to appoint a receiver of the undertaking, property or assets of the Company or to put the Company in liquidation without giving [5] business days' prior notice to the Guarantor.

(3) The Guarantor may upon giving 30 days prior written notice to the banks terminate the whole or any part of his liability under this Guarantee, provided that if at any time it appears to the Guarantor that any person or group of associated persons have acquired 30% or more of the voting shares of the Company the Guarantor may exercise his right under this Condition without giving the banks any prior notice except insofar as any liabilities of the Guarantor have arisen before the date of termination.

(4) In the event of a receiver of the undertaking, property or assets of the Company being appointed the banks shall have the immediate right to call upon the Guarantor to make such payment under the Guarantee as will be sufficient to discharge the Guarantor's obligation thereunder in respect of the total amount of principal, accrued interest and accrued bank charges outstanding as at the date on which the call is made, subject to any necessary adjustments subsequently agreed between the Guarantor and the banks.

ICL PUBLIC LIMITED COMPANY 19 March 1981

Proposed heads of terms for facility letter to be issued by Midland Bank, Barclays Bank, Citibank and National Westminster Bank.

Borrower/Obligor	International Computers Limited
Amount	£270M sterling and multi currency as available
Purpose	General trading requirements
Facility Description	Loans, overdrafts, guarantees and other engagements (guarantees and other engagements to be subject to a sub limit to be defined)

Lenders	£
Midland Bank	104.5M
Barclays Bank	79.6M
Citibank	61.0M
National Westminster	24.9M
Total	270.0M

These banks will enter into an agreement amongst themselves to apportion risks equitably

Period	For repayment and extinguishing all liabilities by 31 March 1983
Remuneration	

Security - as in existing agreements

(a) Floating charge by International Computers Limited - to apply to £70M only.

(b) Unsupported guarantees from the following:

ICL Public Limited Company
ICL Computers Limited
International Computers (Overseas) Limited
International Computers (Rentals) Limited
International Computers (Investments) Limited

(c) Other security to be requested by the banks, possibility of guarantees from other subsidiary companies.

(d) Guarantee by UK Government for all indebtedness and obligations to the banks in excess of £70M up to a total of £270M.

Events of default

The banks to be at liberty to demand immediate repayment and to withdraw the facility on the happening of any one or more of the following events:

(a) Failure to pay or provide any monies whether principal or interest under this facility.

(b) Default in repaying any other monies payable to the lenders.

(c) Default in the performance of any term, provision or agreement in this facility letter.

(d) Order or effective resolution for winding up otherwise than for the purpose of reconstruction or amalgamation while solvent and approved by the lenders.

(e) Convening a meeting or entering into arrangements or composition for the benefit of creditors generally.

(f) Distress or execution levied or sued out upon or against any property and remaining undischarged.

(g) Any encumbrancer taking possession or a Receiver or similar officer being appointed.

(h) The ceasing or the threatening to cease to carry on business.

(i) Any other security becoming enforceable.

(j) Inability to pay debts within meaning of Section 223 of Companies Act.

(k) A body or connected bodies acquiring 30% or more of the shareholding control of ICL Public Limited Company or any material subsidiaries without prior written consent of the lenders.

(l) Material sale of assets or business without written consent of the lenders.

(m) The UK Government giving notice of the termination of its guarantee in accordance with that guarantee.

(n) The gross assets of International Computers Limited falling below £270M at any time.

(o) The consolidated net worth of ICL Public Limited Company (including any equity guaranteed by the UK Government) plus any liabilities by the lenders guaranteed by the UK Government or any other indebtedness outside this facility (but excluding the first charge debentures) falling below £100M.

NB. As appropriate, all the above events of default to apply to ICL Public Limited Company and any main subsidiary.

Conditions Precedent	In addition to customary clauses the four banks will wish to provide for all past agreements with the four banks to be supervised by this agreement and for all outstanding utilisations whether absolute or contingent to become subject to this new agreement. Also satisfaction required as to borrowing powers.
Other Conditions	Regular joint monitoring by banks and HMG. Negative pledge.

The banks will wish to insert technical and other clauses - e.g. procedure for translating other currencies into sterling.

In consideration of the Guarantor agreeing to enter into the Guarantee, the Company undertakes for the period of the guarantee that:

i) The Company will consult with the Guarantor about any increase in the Company's issued share capital necessary to ensure that the borrowing limit under the Company's Articles of Association is not exceeded. If it is agreed between the Company and the Guarantor that there should be such an increase, the Guarantor will, if so required, guarantee the redemption of up to £50M in nominal amount of Redeemable Preference Shares issued by the Company and in such event the amount of the Guarantee will be reduced pro tanto.

ii) The Company will use its best endeavours to bring negotiations with a prospective partner to a successful conclusion as soon as possible, the arrangements to be acceptable to the Guarantor, and the Company will co-operate with the Guarantor at all stages of the negotiations, taking into account the Government's interest as a user of computers.

iii) The Company will furnish to the Guarantor all such information as it may from time to time require relating to the activities of the Company.

iv) The Company will consult fully and at regular intervals with the Guarantor on all matters affecting the composition of the Company's Board and Senior Management structure and the Guarantor will have the right to require the Board, subject to the provisions of the Articles of Association of the Company, to appoint such Directors as the Guarantor may nominate.

v) The Company will not, without the written consent of the Guarantor, grant to any director or employee terms more favourable as regards compensation for redundancy or cessation of employment than the terms currently in force for directors or employees of comparable grade, seniority and terms of service or make any payment to any such directors or employees beyond their entitlement in the event of their redundancy or cessation of employment arising by virtue of any statutory provision or any agreement for that purpose made by the Company before the date of this agreement.

CONFIDENTIAL

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7005
SWITCHBOARD 01-212 7676

Sir Peter Carey KCB
Permanent Secretary

18 March 1981

Mr C Whitmore
10 Downing Street
London SW1

Dear Clive,

ICL

During the day, Mr Scholey reported, following a meeting of the Board of ICL, that the directors were moving rapidly to a position in which they felt they would have to seek receivership. This was not for any single identifiable cause, but because of the growing speculation and uncertainty surrounding the company. Mr Scholey therefore advised that the position could not be held beyond the end of the week.

At the same time, we learned from Lord Benson that it was the intention of the banks to reject the proposal we had put to them yesterday.

Against this background, I had a further meeting with the banks this afternoon. After discussion, and after they had consulted their superiors in London and New York, they agreed to maintain their facilities at £70M for the period of up to 2 years which I had mentioned to them. Within this facility they would assume responsibility for such other banks as might wish to withdraw their present facilities. This was conditional on the Government's arranging for a guarantee of further facilities. While we began at a figure of £150M, it rapidly became clear that we would need a larger sum than this to secure the banks' £70M. In the event we moved to £200M because all concerned agreed that this provided a better chance that the guarantee would not be called than any lower figure.

We shall be meeting the banks later tonight to discuss the conditions which we shall wish to attach to the guarantee. We are also seeing the company in order to secure their agreement. Both the banks and the company are aware that we aim to make a statement to Parliament tomorrow afternoon in order to prevent further deterioration in the situation. Subject therefore to the satisfactory outcome of these further talks we should be in a position to proceed tomorrow. I shall notify you the moment this position is reached.

The guarantee document will contain a provision for the interest rate to be charged. This will be a point for negotiation with the banks.

CONFIDENTIAL

The point about suspension of the shares is being discussed with the company and their advisers. But we should remember that it is not in our power to seek such a suspension: that is a matter for the company and the Stock Exchange. Nor can a suspension continue for more than a very limited period of time. This point too will be clearer by the morning.

... We have been looking again at the draft statement and notes for
... supplementaries in the light of today's events. I attach a re-draft of the statement which includes a revised penultimate paragraph proposed by the Chief Secretary. I also enclose a revised and extended list of notes for supplementaries.

Copies as before.

Yours ever

Peter.

Peter Carey

CONFIDENTIAL

DRAFT STATEMENT TO THE HOUSE OF COMMONS

BY SECRETARY OF STATE FOR INDUSTRY

With your permission, Mr Speaker, I wish to make a statement about International Computers Ltd.

The House will be aware that the Government is a user on a substantial scale of ICL computers with equipment to a value of more than £300 million supporting vital operations in some 20 Departments including defence, revenue assessment and collection, agriculture, health and social security. Because of this dependence upon ICL's products we have therefore shared the concern expressed by the Company's Chairman at the Annual General Meeting on 3 February about the deterioration in its trading position. In reporting the results for the year to 30 September 1980 he indicated that there had been a sharp drop in profit in the second half of that year, that the company was currently trading at a loss and that adverse trading conditions could continue well into the current year. However, given a revival in markets, ICL expected a significant improvement in the profitability of its operation.

The trading position of the Company is of course essentially for its management, its shareholders and its bankers and it is to the banks that ICL looks primarily to maintain its credit facilities on a worldwide basis. I am glad to be able to say in this context that banks are maintaining support for the Company.

I have already referred to the special interest of the Government in ICL as a major customer of their products. ICL machines are also used extensively elsewhere in the public sector, and by major corporations, both in this country and abroad. ~~The Government recognise too that the information technology industries in this country are vitally important to our future prosperity~~. For these reasons we have responded positively to a proposal that, in

Deleted at request of DTI's Industry

the present circumstances of world recession, the Government should provide a limited, temporary measure of support for ICL. This support for ICL, in addition to R & D support which will be available in the normal way, should give the Company the chance to review its longer term business opportunities.

I therefore intend to seek from the House at the earliest opportunity its authority to provide a guarantee for facilities to be provided by banks for ICL under Section 8 of the Industry Act 1972. This guarantee will be limited to an amount of up to £200M for a period of up to 2 years: it will not lead to any increase in public expenditure unless it is called. Because the guarantee is for a limited amount and for a limited time, it is entirely consistent with the Government's policy for assistance contained in our manifesto that where it is in the national interest to help a firm in difficulties, such help must be temporary and tapered.

NOTES FOR SUPPLEMENTARIES

1 Change in Government Policy?

NO. The measure is temporary and the circumstances exceptional. I have referred already to the dependence of Government computing upon ICL equipment.

2 What about the Prime Minister's "Weekend World" Interview on 1 February

In that interview the Prime Minister did not rule out selective help under existing industrial legislation.

3 Why is a guarantee needed at all?

I referred in my statement to the impact on the company of the world-wide recession.

4 Why £200M? Will it be enough to see the company through?

The company and their banks judge this to be sufficient. The Conservative Manifesto of 1979 made it clear that where it is necessary to help a firm in difficulties such help must be temporary and tapered.

5 What happens at the end of two years?

The guarantee lapses.

6 Is there sufficient money available under Section 8 for this purpose?

Yes.

7 Does the guarantee have to be cleared with the European Community?

Yes. This is being sought.

8 Supposing the guarantee is called: addition to public expenditure?

Providing a guarantee does not itself involve any public expenditure

and has no effect on PSBR. But it is the nature of a guarantee that expenditure will be required if it is called.

9 Are the Government prepared to acquire a stake in ICL?

No. We are not taking up any equity.

10 Permanent pensioner/lame duck/Government rescue?

The Government is simply providing a guarantee limited as I have indicated.

11 Surely ICL have an appalling future?

No. ICL have an excellent product range with well-established markets at home and abroad. The £200M covered by the guarantee is judged by the Company and the banks to be sufficient.

12 A result of restrictive Government policies?

High technology industries like the computer industry are particularly exposed in a world recession. ICL have successfully kept their share of a rapidly falling world market.

13 Any further support contemplated?

No, other than the normal support available to qualifying companies such as research and development.

14 Government attitude to and knowledge of foreign take-over? Protection of existing users?

This is primarily a matter for the company. If there were to be any approach, the Government's attitude would depend on its particular nature. Any partner would I am sure have as a major commercial objective the need to secure the loyalty of ICL's customer base.

15 What about redundancy?

This is a matter for the management.

16 What about the Company's management?

The Government and the banks will naturally keep a close watch on the company's performance throughout the duration of the guarantee.

NEB QUESTIONS

17 What profit did the Government make on the sale of the 25% NEB shareholding in ICL?

The NEB made a profit of £25 million on its £13 million investment.

18 Today's market price is /43p 7. What was it when the shares were sold?

480, although the shares were split into four in 1980 (£1 into 4 x 25p).

19 Hasn't the Government taken advantage of inside information in disposing of its shares before they plummeted?

There was no reason to question ICL's future performance at the time of the sale. The decision to sell the shares was taken simply as part of wider Government plans to dispose of NEB's assets.

/If pressed7

In the same month as the sale the company had reported a healthy annual profit of £46 million, an increase of 22%. There were similar increases in turnover and earnings per share.

PRIME MINISTER

Parliamentary Affairs

I can see nothing in next week's business which needs to be raised at Cabinet.

If it is decided that Keith Joseph should make his statement on ICL tomorrow afternoon, you might ask him to inform colleagues about it.

MS

18 March, 1981

SECRET

Econ Pol

TL

18/3

Treasury Chambers, Parliament Street, SW1P 3AG

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

18 March 1981

Dear Tim,

The Chief Secretary has seen your letter of 17 March to Ian Ellison, recording the discussion at the Prime Minister's meeting yesterday on the future of ICL.

With regard to paragraph (ii) on page 2 of your letter, the Chief Secretary has asked me to record that he was not just concerned that the guarantee itself should meet the conditions set out in the Attorney General's minute of 15 March. He also stressed that any accompanying statements, however informal, should make it quite clear that the government is not undertaking any commitment to go beyond the guarantee, and is in no way warranting the future successful performance of the company.

I am sending copies of this letter to Ian Ellison (Department of industry), Jim Buckley (Lord President's Office), Jim Nursaw (attorney-General's Office), Jonathan Hudson (Mr Baker's Office, Department of Industry), Richard Dykes (Department of Employment), Stuart Hampson (Department of Trade), Robin Ibbs (CPRS) and David Wright (Cabinet Office).

Yours ever,

Terry Mathews

T F MATHEWS
Private Secretary

SECRET

COMMERCIAL IN CONFIDENCE

CONFIDENTIAL

File

cc: Econ Pol
Ld Pres, CSD
CSO, HMT
Att-Gen.
M/S, DOI
D/Emp

OSG

10 DOWNING STREET

From the Private Secretary

bc: Mr Ingham
Mr Wolfson
Mr Hoskyns
D/Trade
CPRS
CO

18 March 1981

ICL

As I told you on the telephone, the Prime Minister has seen your letter of 17 March enclosing a draft of the proposed guarantee, a draft Ministerial statement, notes for supplementaries and a note on Parliamentary procedure. She has asked me to say that she is content with the terms of the proposed guarantee subject to any comments which the Attorney-General and the Chief Secretary may have. She has, however, asked what would be the rate of interest on the Second Special Loan Account Monies: you told me that this was a point for the Treasury to consider.

The Prime Minister has also noted that no decision has been taken on whether share dealing should be suspended in the event of the guarantee being required. This point was raised in your minute of 16 March, but we did not discuss it at yesterday morning's meeting. You told me that your Department and the Treasury would be considering this again in the course of today.

The Prime Minister has not at this stage offered any comments on the draft statement or on the other notes enclosed with your letter.

The Prime Minister has also seen your letter of 17 March reporting on your discussion yesterday afternoon with the lead banks, and she has noted that so far their attitude appears to be better than we had expected. We understand that you are seeing them again this afternoon, and that you will report back.

I am copying this letter to Jim Buckley (CSD), Terry Mathews (Chief Secretary's Office), Jim Nursaw (Attorney-General's Office), Jonathan Hudson (Minister of State's Office, Department of Industry), Richard Dykes (Department of Employment), Stuart Hampson (Department of Trade), Robin Ibbs (CPRS) and David Wright (Cabinet Office).

T. P. LANKESTER

Sir Peter Carey, KCB,
Department of Industry.

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

RB

(197)

10 DOWNING STREET

Prime Minister,

Sir Peter Carey's Office asked that you see the attached tonight.

Alan
Duty Clerk
17.3.81

(1) We have not yet decided on suspension of shares

(2) Subject to Pol's and Ch. Ex's comment - agree guarantee. Right in principle?

(3)

MT

CONFIDENTIAL

cc Walters
Hoskyns

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7005
SWITCHBOARD 01-212 7676

Sir Peter Carey KCB
Permanent Secretary

17 March 1981

Mr C Whitmore
10 Downing Street
London SW1

Dear Clive,

ICL

As agreed at the Prime Minister's meeting this morning, I attach:

(i) a draft of the guarantee;

(ii) a draft Ministerial statement;

(iii) notes for supplementaries;

(iv) a note on the Parliamentary procedure for implementing the guarantee.

Copies as before.

Yours ever,

Peter,

Peter Carey

CONFIDENTIAL

(NB See notes at end of the text)

THIS GUARANTEE is made on the day of 1981 BETWEEN (1) ICL PLC ("the Company") and (2) MIDLAND BANK PLC, BARCLAYS BANK PLC, NATIONAL WESTMINSTER BANK PLC AND CITIBANK PLC ("the banks") and (3) THE SECRETARY OF STATE FOR INDUSTRY

In consideration of the banks making available to the Company by way of financial assistance -

(a) loan facilities of up to /£70/,000,000 (/seventy/ million pounds sterling) to be available until /30th April 1983/ /and to be advanced on an account designated "SPECIAL LOAN ACCOUNT" in accordance with the terms of a facility letter dated / 19 / ("the facility letter")/ and

(b) loan facilities of up to / / hundred million pounds sterling to be available from 1981 until / / /and to be advanced on an account designated "SECOND SPECIAL LOAN ACCOUNT" in accordance with the terms of a facility letter dated / / ("the second facility letter")/.

Now the Secretary of State for Industry ("The Guarantor") acting under section 8 of the Industry Act 1972 as amended by the Industry Act 1975 and pursuant to a resolution of the Commons House of Parliament passed on 1981 and with the consent of the Treasury and subject to the terms and conditions set out in the Schedule hereto, hereby GUARANTEES payment to the banks on demand made at any time on or after 30 April 1981 but not after 1983 (hereafter referred to as "the relevant period") any amount advanced by them to the Company in pursuance of the facilities mentioned in paragraph (b) above:

PROVIDED ALWAYS that the total liability ultimately enforceable against the Guarantor under this Guarantee shall not exceed the sum of / / (hundred million pounds sterling) which sum shall be reduced by the amounts of principal repaid by the Company to the banks from time to time and credited to the Second Special Loan Account together with interest (as well after as before judgement) upon the sum demanded from the date of demand until actual payment.

⊙ rate?

SCHEDULE OF TERMS AND CONDITIONS

(1) It is hereby agreed by the banks that no part of the facilities mentioned in paragraph (b) of this Guarantee shall be made available to the Company until the facilities mentioned in paragraph (a) thereof have been fully utilised by the Company.

(2) It is hereby agreed by the banks and the Company that the terms and the amount of any loan made to the Company in pursuance of the facilities mentioned in the said paragraph (b) shall be approved by the Guarantor and the Treasury before the loan is made by the banks.

(3) If at any time during the relevant period arrangements are made between the Company and any other person or persons whether incorporated or not whereby there is a change of control or of the controlling interest in the Company /_all obligations of the Guarantor under this Deed shall cease except insofar as they have arisen before that time_7 /_the Guarantor may at his option withdraw from or modify his obligations under this Guarantee except insofar as they have arisen before that time_7 unless the Guarantor has previously given his written approval to the change.

(4) The Company hereby agree to pay to the Guarantor all monies which the Guarantor becomes liable by virtue of this Deed to pay to the banks and the Company as beneficial owner hereby charges by way of floating charge in favour of the Guarantor as security for all such monies all the undertaking property and assets of the Company whatsoever and wheresoever both present and future.

/_ (5) The Company shall not be at liberty to create or permit to subsist any mortgage charge or lien on or in respect of any part of the said undertaking, property or assets except with the written consent of the Guarantor and any debentures mortgages or charges hereafter created by the Company shall be expressed to be subject to this Deed and it is hereby declared that any

charges created by the Company over its undertaking, property or assets in favour of the banks or any of them with respect to any of the facilities mentioned in ~~paragraph 1 above~~ this Guarantee have priority over the charge mentioned in condition (4) above.]

[(6) The Company undertakes that during the relevant period it will not make or give effect to any agreement or arrangement (whether legally enforceable or not) with any of its employees, or with any person or body or organisation representing those employees whereby those employees become entitled to or to claim any payment [or other benefit] in the event of their ceasing to be employed by the Company in addition to any payment [or benefit] to which they are legally entitled by virtue of any agreement for that purpose made by the Company before the date of this Deed.]

(7) The banks whether as debenture holders or otherwise agree not to appoint a receiver of the undertaking, property or assets of the Company without the written consent of the Guarantor.

(8) The Company undertakes to use its best endeavours to bring negotiations with a prospective partner to a successful conclusion as soon as possible, the arrangements to be acceptable to the Guarantor and the banks, and the Company undertakes to cooperate with those parties at all stages of the negotiations taking into account the Government's interest as a user of computers.

[(9) Conditions as to circumstances where the Company is to be treated as in default so as to trigger liability under the Guarantee.]

(10) The Company will furnish to the Guarantor all such information as he may from time to time require relating to the activities of the Company.

(11) The Company undertakes to ensure that all of its subsidiaries act in all respects as if each such subsidiary were a party thereto and accordingly the references herein to the Company shall be treated as if they included references to any such subsidiary.

NOTES

Paragraph (a) A firm condition of the Government Guarantee for up to two years would be a willingness of the banks to make their ungnarangeed facility of £70,000,000 /? at least £50,000,000/ for the same period.

Paragraph (b) The final version would specify the maximum figure /? £200,000,000/. The discussion with the banks on 18 March will indicate whether a lower sum would be sufficient.

Condition 3 This condition specifies two alternatives if a successful partnership leading to a change of control is negotiated. Under the first option the Government would be obliged to withdraw the guarantee. Under the second option the Government would be entitled to withdraw the guarantee. But it would also be able to continue the guarantee, reduce the amount, or shorten the duration, without a new Resolution of Parliament, if the negotiations with the new partner justified this.

Condition 5 This Condition will be needed only if comparable provision is not contained in relation to the floating charge in the existing debentures of the banks.

Condition 6 This Condition is aimed to prevent the company from making redundancy payments to the company's employees over and above the statutory entitlement under redundancy legislation and payments to which they are legally entitled under existing agreements with the Company. This condition would however involve the present Government for the first time in the imposition of conditions for payments to the workforce before it agrees to provide selective

assistance. The previous Government sought to impose conditions on pay awards to employees in 1977-78. This was within its statutory powers, but it decided to reverse this policy following criticism from recipients of selective assistance and the then Opposition.

Condition 9

This Condition relates to technical provisions specifying the precise circumstances where the Government's obligations are to arise under the Guarantee whenever ICL in in default with the banks. The provisions need to be worked out in the light of the terms of the existing loan agreement between ICL and the banks.

CONFIDENTIAL

DRAFT STATEMENT TO THE HOUSE OF COMMONS

BY THE MINISTER FOR INFORMATION TECHNOLOGY, DEPARTMENT OF INDUSTRY

With your permission, Mr Speaker, I wish to make a statement about International Computers Ltd.

The House will be aware that the Government is a major user of ICL computers with equipment to a value of more than £300 million supporting vital operations in some 20 Departments including defence, revenue assessment and collection, agriculture, health and social security. Because of this dependence upon ICL's products we have therefore shared the concern expressed by the Company's Chairman at the Annual General Meeting on 3 February about the deterioration in its trading position. In reporting the results for the year to 30 September 1980 he indicated that there had been a sharp drop in profit in the second half of that year, that the Company was currently trading at a loss and that adverse trading conditions could continue well into the current year. However, given a revival in markets, ICL expected a significant improvement in the profitability of its operations.

The trading position of the Company is of course essentially for its management, its shareholders and its bankers and it is to the banks that ICL looks primarily to maintain its credit facilities on a worldwide basis. I am glad to be able to say in this context that it is a measure of their confidence in ICL, as a Company with excellent technology, good R & D and a worldwide

marketing base, that banks both in this country and overseas are maintaining their support for the Company.

The information technology industries in this country are vitally important to our future prosperity. The Government recognise the important contribution of this developing technology in improving the performance of industry and commerce and in increasing the efficiency of public administration. For this reason and because of our interest as a customer we have responded positively to proposals that, in the present circumstances of world recession, we should provide a temporary measure of support for ICL.

I therefore intend to seek from the House at the earliest opportunity its authority to provide a guarantee for a banking facility for ICL under Section 8 of the Industry Act 1972. This guarantee will be limited to an amount of /up to £200 M/ for a period of up to 2 years.

NOTE FOR SUPPLEMENTARIES

1 Change in Government Policy?

NO. The measure is temporary and the circumstances exceptional.

2 What about the Prime Minister's "Weekend World" Interview on 1 February?

In that interview the Prime Minister did not rule out selective help under existing industrial legislation.

3 Why is a guarantee needed at all?

I referred in my statement to the unavoidable impact on the company of the world-wide recession.

4 Why £200M? Will it be enough to see the company through?

The company and their banks judge this to be sufficient.

5 What happens at the end of two years?

The guarantee lapses.

6 Is there sufficient money available under Section 8 for this purpose?

Yes.

7 Supposing the guarantee is called: addition to public expenditure?

Providing a guarantee does not itself involve any public expenditure and has no effect on PSBR. But it is the nature of a guarantee that expenditure will be required if it is called.

8 Are the Government prepared to acquire a stake in ICL?

No. We are not taking up any equity.

9 Permanent pensioner/lame duck/Government rescue?

The Government is simply providing a guarantee limited as I have

indicated.

10 Surely ICL have an appalling future?

Not at all. ICL have an excellent product range with well-established markets at home and abroad.

11 A result of restrictive Government policies?

High technology industries like the computer industry are particularly exposed in a world recession. ICL have successfully kept their share of a rapidly falling world market. The company should share in the benefits of expanded opportunities as the world economy recovers.

12 Any further support contemplated?

No, other than the normal support available to qualifying companies such as research and development.

13 Government attitude to and knowledge of foreign take-over? Protection of existing users?

This is primarily a matter for the company. The Government's attitude will depend on the nature of any particular approach. Any partner would I am sure have as a major commercial objective the need to secure the loyalty of ICL's customer base.

CONFIDENTIAL

STAGES IN IMPLEMENTING A £200M GUARANTEE UNDER SECTION 8 OF THE INDUSTRY ACT, 1972

I Oral Parliamentary Statement

i Information Technology Division of Department of Industry provide Private Office with draft which has to be cleared with the Prime Minister and other Ministers.

ii Statement made in House.

II Affirmative Resolution under Section 8(8) to permit Assistance of over £5 million

i Resolution drafted by Industrial Development Unit of Department of Industry in conjunction with Solicitors.

ii Resolution approved by Secretary of State.

iii Parliamentary Branch arrange for Resolution to be sent to Table Office in House of Commons with Explanatory Memorandum for Whips.

iv Notice inserted in Orders of the Day enabling the Secretary of State to move the Resolution.

v Whips arrange debate (NB this normally takes up to 2 weeks: minimum 7-8 days).

CONFIDENTIAL

Sir Peter Carey KCB
Permanent Secretary

cc Mr Wolfson
Mr Hoskyns
Mr Ingham.

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7005
SWITCHBOARD 01-212 7676

17 March 1981

Prime Minister.

So far so good.

17/3

Mr C Whitmore
10 Downing Street
London SW1

Dear Clive,

ICL

Accompanied by Mr Ryrie, Treasury and Mr Ibbs, CPRS, I again saw representatives of ICL's three lead UK banks and Citi Corp this afternoon and put to them the proposition authorised at the Prime Minister's meeting at 10.45 this morning.

The banks explained that, in what they saw as the deteriorating situation of the company, they did not now regard themselves as having any committed lines. The figure of £50M was what they had judged would be necessary to hold the situation until 10 April, the date which had originally been given to them for conclusion of Mr Scholey's partnership negotiations to the point of heads of agreement. I explained to them the developments since we had last met, namely the progress on negotiations with two US companies and the decision by Government to involve itself in these with the objective of securing their successful conclusion by 30 April. What was required therefore was a period of 6 weeks during which the company's position could be held, customer confidence not further eroded and the negotiations themselves not jeopardised. To effect this, it would be very helpful if the banks were prepared to restore the £70M facilities which had been the figure mentioned on the occasion of the last meeting. We were seeking only a limited undertaking; beyond 30 April, if a partnership had not been agreed - at least in outline - a new situation would arise.

The banks did not reject this proposal outright, but undertook to consider it overnight. They did not themselves raise the question of a Government guarantee, but asked whether we could consider putting in a limited sum of R & D support. I said that we could consider this: we had proposals for such support but the money so supplied had to be used for the purpose for which it was provided and we would need to be satisfied on this score. The banks made it clear however that a sum of around £12M would help greatly to secure the position until 30 April by giving confidence of continued Government involvement.

The second point they raised concerned the other banks, both in the UK and abroad. If they were prepared to increase their facilities, some way must be found of ensuring that the other banks were given the same sort of confidential information about the Government's position which had been accorded to them. They would consider with Lord Benson how this might be achieved.

It was agreed that we would meet again at 4.00 pm tomorrow. The tone of the meeting was markedly more cooperative than on the previous occasion and there seemed to be a genuine wish on the part of the banks to help insofaras they could do this consistently with their own interest. It was not necessary for me to refer to the guarantee proposal, but I would need to be able to table this tomorrow if the banks in fact reject what we have put to them.

I am sending copies of this letter to those who attended this morning's meeting with the Prime Minister.

Yours ever,

Peter.

Peter Carey

SECRET

SUBJECT

2

cc. Master set. Econ Pol

10 DOWNING STREET

From the Private Secretary

17 March, 1981

Dear Ian,

As you know, the Prime Minister held a further meeting this morning to discuss the future of ICL. This was a continuation of the meeting held last night at which Sir Peter Carey was invited to refine the options for further action. His minute of 16 March, which was considered at this morning's meeting, was in fulfilment of this remit. The following were present in addition to your Secretary of State: the Lord President, the Chief Secretary, the Attorney-General , Mr Kenneth Baker, Sir Peter Carey, Mr Ryrie, Lord Benson of the Bank of England, Mr David Scholey of Warburgs, Messrs Whittley and Preston from your department, and Sir Robert Armstrong and Robin Ibbs.

First of all, several factual amendments were suggested to Sir Peter Carey's minute. In particular:-

(i) paragraph 4, line 2 - the reference to "the other United Kingdom banks" should read "the other banks lending in the United Kingdom".

(ii) paragraph 5, first sentence - the reference to "overseas banks" should read "banks lending overseas". The figure of £42 million in the final sentence of paragraph 5 should read £52 million.

(iii) paragraph 6 (ii) - this should read "arranging a guaranteed bank facility limited in terms of time and money", with a consequent amendment to paragraph 11(iv).

(iv) paragraph 7(ii) - the third sentence should read "on the basis that the UK clearing banks were willing to maintain..."rather than "increase". In the following sentence "stayed at" should read "reduced to".

(v) paragraph 11(i) second sentence should simply read "the banks would be told confidentially about the state of negotiations". The phrase "the pari passu condition could be withdrawn" only applied if the guarantee were given; its proper place was therefore in paragraph 11(iv).

The following comments were then made on the proposals:-

(i) The Chief Secretary said that he hoped that a guarantee would only be offered as a fallback if the banks refused to keep their existing lines of credit open on the necessary scale. In requesting them to maintain their present facilities no reference should be made to the possibility of a guarantee. Against this, Sir Peter Carey pointed out that this was not a realistic option. He and Lord Bension would of course try to get them to maintain their existing facilities without the provision of a guarantee. But the four lead banks, whom he had seen the previous week, would certainly raise the question of a guarantee. For he had told them, with the authority of Ministers, that the Government was considering a guarantee: and indeed he had discussed

/with them its possible

possible terms and conditions. They had reacted adversely, in particular to the suggestion that the Government should stand pari passu with them; and partly as a result of the discussions, they had reduced their committed facilities from £70 million to £50 million. In short, it seemed very unlikely that it would be possible to persuade the banks to maintain their facilities so as to cover ICL's cash needs even until 30 April without some form of guarantee.

(ii) The Chief Secretary said that, if a guarantee facility were to be arranged, it was essential that it be limited in terms of time and money. More specifically, it must meet the conditions set out in paragraph 7 of the Attorney General's minute of 15 March so as to ensure that the Government did not have to meet the company's debts if in due course it was forced to cease trading. The Chief Secretary also said that he was concerned that the proposal that the guarantee should be up to £200 million might in the event turn out to be inadequate. The company's cash forecast had already deteriorated substantially. What reason was there to believe that the position would not deteriorate further? Against this eventuality, he considered that contingency planning should be undertaken on what would be the consequences and how the Government would cope with them if it were decided that additional assistance over and above the £200 million should not be forthcoming.

(iii) It was suggested that, as a quid pro quo for the guarantee which would now be provided without the pari passu condition, the lead banks should be asked to maintain their existing facilities of £70 million. The Government should try to persuade them to maintain these for the same period as that proposed for the guarantee (ie 2 years) or until a partnership for ICL had been successfully negotiated. But it had to be recognised that they might not be prepared to go along with this - particularly as, on present projections, their security would be worthless after another 2 years. However, the Government should insist as a minimum that they hold the £70 million in place until 30 September. If that turned out to be the most they were prepared to do, consideration would have to be given to how the £70 million would be replaced. But this need not be done at once because the question would only arise if a partnership arrangement failed to come off.

Summing up a brief discussion, the Prime Minister said that Sir Peter Carey and Lord Benson should meet the banks later today, and try to persuade them to maintain their present facilities at least until 30 April. If the question of a guarantee was raised, they should tell them that the Government was prepared in principle to offer one; but the terms and conditions were still being worked out. They could, however, indicate that the pari passu condition was being withdrawn. Sir Peter Carey could also tell the company that the assurance which he had given them the previous week that the Government would provide some measure of help still held. The meeting was agreed that the guarantee should be up to £200 million for a period up to 2 years. Further work on the terms and conditions should be undertaken rapidly taking into account the point made by the Chief Secretary about the need to limit the Government's future liability and the suggestion that the lead banks be asked to keep their facilities in place. At the same time, negotiations should be pressed forward as rapidly as possible between ICL and their possible partners; if necessary, some dowry should be available, but the precise nature and amount of this should not be decided at this

 / stage.

stage. Urgent consideration should be given to the Parliamentary procedures that would be necessary for the guarantee to be given and a draft statement should be prepared. Finally, contingency planning should be undertaken on the lines suggested by the Chief Secretary: this would involve the Treasury, Department of Industry and the CSD only. It was essential that knowledge of this work should be kept within Government.

I am sending copies of this letter to Jim Buckley (Lord President's Office), Terry Mathews (Chief Secretary's Office), Jim Nursaw (Attorney-General's Office), Jonathan Hudson (Mr Baker's Office, Department of Industry), Richard Dykes (Department of Employment), Stuart Hampson (Department of Trade), Robin Ibbs (CPRS) and David Wright (Cabinet Office).

Yours ever,

Tim Lankester

Ian Ellison, Esq
Department of Industry

Touche Ross & Co.

Chartered Accountants

C Whitmore Esq
10 Downing Street
London
SW1

16th March 1981

Dear Mr Whitmore

In accordance with the request I received from John Neve, I enclose four additional copies of our report.

I regret the quality of the earlier copies of the report which were reproduced during the night.

Yours sincerely

B A SMOUHA

Hill House 1 Little New Street London EC4A 3TR – Telex 884739 TRLNDN G – Telephone (01) 353 8011

10 DOWNING STREET

16th March,1981

PRIME MINISTER

I.C.L.Report

The Touche Ross view that an outright sale would be both dangerous and difficult to achieve is a judgement which we should question. David Scholey may have some views. It is possible that a loose co- operation would be the worst of all worlds. It would open our customer base to a competitor whilst sales to his customer base would be very unlikely.

The argument, therefore, against losing control might rapidly turn into an argument for providing the funds necessary to ensure long term viability. £200m could turn out to be a relatively small initial deposit !

On page 24 it is implied that, on a £380m despatches assumption, we would need to inject approximately £30m on grant this year in order to keep I.C.L. within its borrowing restrictions. It may be that the amount we can grant them towards R & D is nearly as critical as a loan guarantee.

DW.

David Wolfson

CONFIDENTIAL

SUBJECT.

cc. Master set.

MR WHITMORE

ICL

Following a meeting presided over by the Prime Minister at 4.45 pm on Monday 16 March the following further action and options were identified.

1. Sir Peter Carey would meet the three principal clearing banks and Citibank on 17 March and would request them to maintain their present level of facilities to ICL of £70m at least until 30 April and subsequently for such further period as would be necessary for the Government to make alternative arrangements.

2. The banks would be reassured confidentially about the state of negotiations between ICL and prospective partners. It was agreed that continuing confidence in ICL by customers was an essential consideration here and that no public announcement should be made of the negotiations with partners.

3. In order to further the success of these negotiations, the banks would be told that the Government at an appropriate time would be involving itself, as the company's major customer, in the negotiations with the prospective partners. The precise nature of this involvement need not be specified (but see paragraph 9 below).

4. Once the four lead banks had been seen, a meeting would be held by the Bank of England with the other UK banks involved so that they might be informed of the situation in similar terms to those notified to the lead banks. Again, this notification would be on a basis of complete confidentiality about the negotiations in progress. The aim would be to persuade the other UK banks to maintain their facilities until at least 30 April. But it was recognised that this might be very difficult in view of their unsecured exposure.

5. The question would then arise of the position of the overseas banks, whose exposure amounted to £42 million. This sum was withdrawable at any time; and withdrawal could precipitate an event of default, notifiable to all other lenders. Consideration was

CONFIDENTIAL

/therefore

therefore given to a means of holding this position. The Government might stand in for this sum of £42 million, but it was recognised that this would be unlikely in itself to be adequate since the UK banks would certainly insist on similar treatment. This would involve a further £52 million.

6. Consideration was then given to the Government's fallback position if negotiations with the banks failed. There were three options

(i) an open-ended guarantee designed to keep the company trading indefinitely;

(ii) a guarantee limited in terms of time and money; and

(iii) the taking of preference shares by the Government in the company.

7. (i) Open-ended guarantee

The disadvantage of this course was that it would be likely to put up the share price (with consequent detriment to partnership negotiation); and that it would be difficult for the Government to disengage at any stage. The amount of money thus at risk was unquantifiable.

(ii) Guarantee limited in terms of time and money

Under this course it was agreed that sufficient money would have to be committed in order to meet the peak borrowing requirement of the company in August as identified in the Touche Ross Report i.e. £230 million. Thus the limit would have to extend from £100 million at the bottom to £200 million at the top of the scale. On the basis that the UK clearing banks were willing to increase their commitment to £70 million there could be a limit for the Government of £160 million. But this would be £180 million if the banks stayed at £50 million. So far as time was concerned, it was considered that the limit should be up to two years: a shorter period would not ensure customer confidence and would raise questions as to the Government's intention on the expiry of the period. Presentationally, it would be necessary to emphasise that the Government was entering into this substantial - though

/limited -

limited - commitment because of its exposure as a major user of ICL equipment.

(iii) Preference shares

It was agreed that a Resolution of the House of Commons providing support should be as flexible as possible. In fact, the Resolution simply authorises the agreed sum and does not limit the way in which the assistance can be provided - loan, guarantee or preference share. It would no doubt be necessary for the Minister, in introducing the Resolution, to state the method the Government had in mind.

A preference share could be taken under this.

8. Suspension of Shares

The question was raised whether a suspension of ICL's shares would be necessary in the light of the action to support the company. The very fact of suspension would require disclosure of the reasons for it; and protracted suspension would be difficult to justify. However, the majority view was that limited suspension should be envisaged, with a general explanation that discussions were continuing about possible partnerships without specifying the companies concerned. This would merely reveal what was already widely known, namely that ICL was in the longer term seeking a partner. But the risk had to be recognised that mention of partnership discussions, however general, might lead to a withholding by customers of further orders until the identity and nature of the partnership emerged.

9. Dowry

It was recognised that successful conclusion of the partnership negotiations might require the Government to offer some dowry, for example to deal with substantial redundancy costs. However, it was agreed that it was not necessary to be specific at this stage about the nature or extent of this dowry. One element in a dowry might be the continuing availability of a guarantee if this was still in operation. It was sufficient to have in mind that this was a possibility open to the negotiators which would be determined precisely in the light of the progress of negotiations.

/ Summary

Summary of Conclusions and Recommendations

10. The serious disadvantages of receivership are evident: it would be extremely costly and would endanger the maintenance of Government computing. However, the Treasury were anxious that it should not necessarily be ruled out as an option if negotiations for partnership failed over the next two months.

11. The following course of action is recommended:

(i) There should be an immediate request to the four lead banks to maintain their present facilities of £70 million at least until 30 April. The pari passu condition could be withdrawn and the banks would be told confidentially about the state of negotiations.

(ii) Thereafter there should be meetings with the other UK banks and, if necessary, the leading foreign banks, with the same objectives.

(iii) Negotiations should be pressed forward as rapidly as possible with both Univac and NCR. If necessary some dowry should be available but the precise nature and amount of this should not be decided at this stage.

(iv) Consideration should be given to ~~a~~ guarantee to the banks of up to £200 million for a period up to two years in order to cover the company's peak borrowing this year and to provide a basis of customer confidence. (This would be in the event of failure to secure adequate cover ~~for~~ the banks alone.)

12. Since the assurance given to the company on 10 March expires tonight, they should be told tomorrow that it continues in effect for a few further days while Ministers decide the precise form which the help intended for the company would take.

13. I am sending copies of this minute to the recipients of my letter of 14 March to you.

P. C.

Sir Peter Carey

16 March 1981

Copy to Mr Wolfson
Mr Hastings.

CONFIDENTIAL AND COMMERCIAL IN CONFIDENCE

MINISTER OF STATE FOR INDUSTRY AND INFORMATION TECHNOLOGY

ICL

I refer to your minute of 12 March to the Prime Minister in which you ask, on page 6, for advice on the provision of finance by Government to ICL, especially in the context of section 332 of the Companies Act 1948. This subject is to be discussed by Ministers tomorrow.

2. The position as I understand it (not having seen the Touche Roche report which is being prepared this weekend) is that, without further assistance, ICL will cease in a few weeks to be able to pay its debts as they fall due.

3. I also understand that a statement has been passed on to the Board of ICL as a result of which they agreed to defer till tomorrow their decision on whether to apply for a voluntary winding-up. The statement read as follows:

> "The Government as clients intend to provide some measure of help for the Company in its present situation. This is complicated. Will you therefore adjourn the Board meeting on this particular issue until 16 March, by which time Ministers will have reached a decision".

Reasonably in my view, the Board of ICL has interpreted this statement as committing Government to some help - the nature and amount of which, however, has yet to be determined.

4. Against this background, you properly refer to section 332 of the 1948 Act. In essence, this provision means that if a company is wound up and prior to this the business of the insolvent company has been carried on fraudulently (for example by the company incurring debts which it has no prospect of meeting, or for any other dishonest purpose), any person who was party to the fraud can be made liable for all the debts of the company, whenever they were incurred.

/ In the case

5. In the case of anyone who gives financial help to an insolvent company, section 332 will found liability but only if
(a) those carrying on its business have done so fraudulently;
(b) there is a subsequent winding up; and
(c) the person giving assistance knows of the fraud so that, by virtue of the assistance, he becomes a party to the fraud.

6. As a matter of law Government cannot be made liable under section 332 because that section does not bind the Crown. However, successive Governments have regarded themselves as morally bound to act as if section 332 did apply to them, and the Law Officers have been advising on these lines at least since 1973.

7. Applying the doctrine to present circumstances and subject to the Touche Roche report, it appears that no-one has yet incurred liability by reference to section 332. But we are now advised that if further help is not given within a few weeks, ICL will be forced to cease trading. In my view, liability can be avoided if the following conditions are satisfied in relation to any assistance by Government to deal with the crisis.

(i) At the time the facility is given, Government has not formed and has no reason to form a positive view that the company cannot achieve viability in a reasonable period (say 12 months or such other fixed term as may be agreed for the facility) taking into account its terms and all the relevant circumstances including the prospects of a partnership deal. The Board of ICL would be obliged to keep Government informed of progress, so that its position could be monitored.

(ii) The facility itself is limited both as to time and amount; is expressed to be a "once and for all" arrangement; and does not state or imply either that the Government guarantees the long term future of the company or will provide further assistance if the facility proves insufficient. The same applies in relation to any public statements made about the facility, since creditors are likely to rely on such statements.

/ I recognise

8. I recognise that a facility as "tight" as this may not create enough confidence in ICL to achieve all the objectives, but that is a matter for colleagues' judgement. However, the more open-ended the facility is, the greater the liability of Government by reference to section 332, until the stage is eventually reached where the Government may feel obliged to meet all the debts of the company in which case section 332 will cease to be relevant because the Government is then in effect guaranteeing that the company will remain solvent.

9. If the latter is the true position, the best course in my view is to recognise it now and to act accordingly by agreeing to commit such funds as may prove necessary to avoid liquidation. Otherwise a limited facility on the lines suggested in paragraph 7 above would, I am satisfied, avoid any criticism of the Government's conduct based on section 332. This would allow it to provide facilities on a limited scale for the stated purpose of facilitating a partnership deal, and not entailing any further commitment.

10. This minute is copied to the recipients of yours.

J.R. Mallinson

H. M. Attorney General

(text approved by him
and signed in his absence)

15 March 1981

CONFIDENTIAL

Copy to: Mr Wolfson
Mr Hastings.

Sir Peter Carey KCB
Permanent Secretary

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 7005
SWITCHBOARD 01-212 7676

14 March 1981

Mr C Whitmore
10 Downing Street
London SW1

Dear Clive,

ICL

Since Mr Baker signed his minute of 12 March to the Prime Minister, there have been a number of further developments of which Ministers should be aware before their meeting on Monday:

(a) IDAB: the Industrial Development Advisory Board have considered and approved the Department's proposal to provide a guarantee to support ICL. A brief summary of the Board's views is at Annex A.

(b) Partnership Negotiations: Mr Scholey of Warburg's, having reviewed the progress made so far in ICL's discussions with NCR and Univac, has advised that if determined efforts are made it should be possible by about 10 April for the prospective partners to decide in principle whether there is a satisfactory basis for agreement and to make an announcement about their intentions.

(c) GEC: I consulted Lord Weinstock and Sir Kenneth Bond about possible help from GEC. They took the view that receivership, however justified on merits it might be, would do serious damage to Britain's reputation worldwide. GEC would see no objection to control over ICL passing to a foreign company and would positively welcome a partnership with NCR (whom GEC know well and respect). GEC would in principle be prepared to take a minority equity stake in the resulting merged company in order to preserve a British presence and would be willing to make their interest known to NCR at the appropriate moment. I have conveyed this information to Mr Scholey who regarded it as very helpful. If, on the other hand, no partnership proved possible and an ICL receivership was unavoidable, GEC would do what they could, subject to protecting their own interests, to help the Government to safeguard its position as user.

(d) Position of the Banks: In the light of Mr Scholey's views Lord Benson has had a further discussion with ICL's main bankers (Midland, Barclay's, Citicorp and Natwest) to seek to persuade them to provide the company with sufficient assurance about its financial position to enable the Board to continue to trade until at least mid-April. The result was extremely disappointing. The banks were prepared to go no further than undertaking to make available a total of £50 million, repayable on demand, to supersede all existing facilities and commitments. But the company (to whom this information has not yet been passed) have been assuming that the four banks were firmly committed to providing a minimum of £70 million. Moreover, ICL are growing increasingly concerned at the possibility that one or more of their overseas bankers may at any time call for repayment of outstanding loans (for example they are due to have discussions with the Dresdner in Frankfurt on Thursday next week). Mr Stuart, ICL's Finance Director, told me this morning that in his view even the full £70 million facility from the four main banks was unlikely to be sufficient to see the company through until mid-April.

(e) Possible receivership: I have held two meetings with Peat Marwick and Mitchell in their capacity as experts in receivership to explore on a contingency basis what might be involved if ICL went into receivership. Mr Stuart attended the second meeting. Our discussions have confirmed that receivership would be a high-risk, and inevitably expensive, course for the Government, because of the great difficulty of ensuring that the nucleus of the company required to safeguard Departments' user interests was kept together. A fuller note on the position is at Annex B.

(f) Government's position in relation to S332 of the Companies Act: The Department's Solicitor has been taking part in all the recent discussions concerning ICL and the Law Officers' Department was represented at this morning's discussion with Peats on receivership. A report will be made to the Attorney General on Monday morning so that he will be in a position to advise Ministers at their meeting later in the day.

(g) Leasing: Concern has been expressed in earlier discussions that ICL's very large involvement in leasing operations might be a further and hitherto unexplored source of vulnerability. This has been investigated and will also be covered in the Touche Ross report. As the note at Annex C explains, the risks do not appear to be serious.

My further discussions with the company and their advisers have underlined the significance which they are attaching to the

assurance which I passed to them on Ministers' instructions on 10 March. This indicated that the Government, as customers, intended to provide some measure of help for the company in its present situation and that Ministers would have reached a decision by 16 March. The company are therefore expecting to know by Monday evening what form of help they can expect from the Government and the Board will then wish urgently to consider their position.

The Treasury (Mr Ryrie) and the CPRS (Mr Ibbs) have been associated throughout with the discussions described above, except that with GEC.

I am sending copies of this letter to the recipients of Mr Baker's minute of 12 March, as well as to Mr Baker himself.

Yours ever,

Peter.

Peter Carey

CONFIDENTIAL

ANNEX A

COMMERCIAL IN CONFIDENCE

INDUSTRIAL DEVELOPMENT ADVISORY BOARD

ICL LTD: SUMMARY OF CONCLUSIONS REACHED AT MEETING OF THE BOARD HELD ON 12 MARCH 1981

Present: Mr C Hogg, Courtaulds (in chair)
Mr J Rae, Chloride
Mr S Thomson, Ford
Mr E Hammond, EETPU
Mr I Irvine, Touche Ross

1 The Board considered a proposal for assistance for ICL Limited, under Section 8 of the Industry Act, 1972.

2 The Board commented that its advice was being given without a full understanding of the company's cash position and the scope for immediate remedial action. The advantages of a guarantee as opposed to receivership depended very much on the costs and benefits of each which in turn depended on the eventual outcome of partnership negotiations and the ability of the Government to enforce the conditions attached to the guarantee. It advised the Government to give careful consideration to these points and, in particular, to the problem of containing redundancy costs.

3 In conclusion, the Board's advice was as follows:

(a) The Board agreed that the case for the Government acting to provide a route towards long term survival of ICL in a partnership was overwhelming, even though there remained doubts as to whether there was a strategic basis for success even if the financial and management problems were solved in a partnership.

(b) On balance, they agreed that on the information available the method of support proposed was preferable to receivership, but they recommended that the Government should look carefully at the advantages of the latter course, and how it could be structured to preserve as much of the company as possible. If the partnership negotiations failed the Government would in any case have to contemplate this course. They might also have to contemplate it if the redundancy payments could not be curtailed.

(c) The Board therefore endorsed the proposal to provide guarantees on the lines suggested, and agreed that the conditions to be imposed covered their main areas of concern. However, the Board commented firstly, that the Government had to recognise how difficult it might be to enforce these conditions, particularly that relating to redundancy payments; secondly, that the company's management inspired them with no confidence - they were gravely concerned about its capacity to deal with the period of

crisis, particularly if the partnership negotiations faltered; and thirdly, that the Government needed to face squarely at this stage the issue of what it would do if the partnership negotiations failed or the redundancy payments could not be curtailed.

ANNEX B

RECEIVERSHIP

Appointment of a receiver can be triggered by

(a) preferred creditors and debenture holders

(b) the directors of the company requesting such creditors to appoint a receiver

(c) unsecured creditors overseas (such as overseas' banks) requesting a guarantee and so precipitating an "in default" situation.

2 ICL has two types of debenture:-

(a) public, represented by Pearl Assurance and ranking in priority to the floating charge

(b) the three clearing banks and Citi Corp which hold a floating charge over the ICL operating company.

3 Any of these parties can get the benefit of a charge and appoint a receiver. Pearl have only a nominal stake and are not likely to do so. Although the clearers, perceiving a continuing cash outflow, could appoint a receiver to limit their exposure, the present advice is that they will not do so within the next few weeks. The more serious risk is that the Dresdner Bank, which is unsecured, could request a guarantee at a meeting with the Company on 19 March which could induce a collapse of the debentures.

4 The directors of ICL could themselves take action to get the clearing banks to appoint a receiver in the event that they no longer consider that the Government's assurances protect their Section 332 position. The Board next meets to discuss the position on 18 March.

5 Once appointed, the responsibility of the receiver is to the holder of the charge in order to realise the maximum from the assets placed under his control. If a receiver is requested, on behalf of other parties to manage, and trade on, he will require an indemnity for actions taken following his appointment. Our advice is that, in the circumstances of ICL, when it is not possible to guarantee the product in the event of receivership, it would in any circumstances be difficult for a receiver to agree to continue to trade.

6 Our professional advice is that, in ICL's situation, receivership, which would produce an immediate and dramatic downturn in business, would be followed by liquidation. Only customers with urgent requirements would consider placing orders and, since the enterprise consists substantially of new business, continuing revenue would be seriously affected. The running costs of the Company (with a payroll of £20m per month) are high and the receiver would be compelled to shed about 10,000 employees immediately including manufacturing, research and development and sales personnel. Assets would be returned from the leasing companies (see Annex C). The assets, substantially in equipment (and greatly exceeding liabilities in value while the Company trades), would be valueless apart from their use as spares for maintenance purposes. In this generally disorderly situation it would be extremely difficult for a receiver to ensure an effective transfer of ICL's operations and product line to a prospective purchaser.

7 Even with an indemnity (see paragraph 5) it would also be difficult for a receiver in these circumstances to continue to provide maintenance and support services for existing users of ICL equipment. He would in effect be called upon first to form, then to operate and ultimately to sell off what could only be regarded as a dying business.

8 What would have to be done by the receiver; by any third party engaged for the task or by the Government to continue a maintenance and support facility would be to secure the necessary facilities from the Company, and the employees with the relevant skills to maintain the operations for a period of 4/5 years. More specifically:

(a) for equipment already installed (£320M in central Government, £200M in rest of public sector) equipment to provide for modest expansion or enhancement of existing systems could be provided out of the present inventory of £70M and from second hand equipment coming on the market;

(b) spares, and in particular smaller components to a value of £3M, would have to be procured from a variety of sources: this is difficult at times for a major trading company like ICL and would be much more so for any maintenance organisation. A further £3M of spares per annum would have to be fabricated from manufacturing information provided out of ICL and this would be increasingly difficult to achieve;

(c) a maintenance team of upwards of 1,000 engineers, 100-150 software specialists and 300 support staff would have to be brought together from different parts of ICL's operations and different locations to provide the service for central Government (and possibly the rest of the public sector). This would be difficult to control because many of the people are in great demand at the present time and would not wish to serve in a moribund

outfit. Furthermore, to do the job effectively, the present maintenance personnel, particularly in software rely heavily on the main software and other development facilities in the rest of the Company. If these disintegrate, only rudimentary maintenance and support can be provided

9 The costs of providing services on this scale for central Government are difficult to estimate. There would be an initial capital expenditure of between £20M-£30M to provide a basic inventory and test equipment. Thereafter annual costs would be of the order of £40M-£50M on staff and additional spares.

10 In summary therefore, it would be possible at least in theory to contemplate setting up a basic maintenance and service organisation to keep existing ICL systems going for several years. There would, however be very high risk of having particular installations out of action for weeks at a time, eg because of difficulties over spares,and major Departments using advanced systems would not be able to maintain their software to present standards. The service would be threatened over time by difficulties in retaining staff and, from the outset, by risk of industrial action by the trade union (ASTMS) representing maintenance staff. The union could hold Government responsible for not providing support and instruct members not to cooperate in any subsequent maintenance operations.

11 The problems of providing maintenance and support for major users in the event of receivership are not confined to the UK Government and public sector. Some 30 foreign Governments use ICL equipment: for example the whole of the New Zealand Social Security System is totally dependent on the Company.

LEASING

The company considers that there is no serious risk of receivership being precipitated by actions taken in regard to the leasing base of £210M worldwide. This is primarily because there is no likelihood of users dependent upon ICL equipment seeking to return equipment which is subject to leasing arrangements.

2 However, once the Company is placed in the hands of a receiver, the leasing position could be a factor leading to almost immediate liquidation. Computer Leasing Ltd, and all other off-balance sheet companies providing leasing facilities, would claim immediate repurchase and this would seriously increase the cash drain.

01-405 7641 Ext. 3417
Communications on this subject should be addressed to
THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

Our Ref : 400/81/79

13 March 1981

Mrs E A Riley
Office of Kenneth Baker MP
Department of Industry
Ashdown House
123 Victoria Street
LONDON S W 1

TL
PC.
13/3

Dear Mrs. Riley

ICL

We discussed earlier today the request for the Attorney General's advice on page 6 of Mr Baker's minute of yesterday to the Prime Minister. This is to record what I said.

2. On the present state of knowledge in this Department about the Government's plans, I do not think there is much the Attorney General could safely add to the general principles (relating to s. 332 of the Companies Act 1948) which are set out in paragraph 3 of the draft conditions of guarantee circulated by Jonathan Hudson on 10 March.

3. But I have prepared a submission to the Attorney General in the light of Mr Baker's minute and I shall take his (The Attorney General's) views on this over the weekend. It has been agreed that I will attend Mr Baker's meeting on Monday at 9.15 a.m. so that I can report these views and obtain such details as the Attorney General may need in connection with further advice.

4. This is copied to Geoffrey Preston (DOI), Tim Lankester (No 10) and David Wright (Cabinet Office).

Yours sincerely

John R Mallinson

J R MALLINSON

CONFIDENTIAL
COMMERCIAL - IN CONFIDENCE

Qa 05290

To: MR LANKESTER

From: J R IBBS

Future of ICL

1. As you know I have kept in close contact with the Department of Industry on the ICL situation. Mr Baker's minute to the Prime Minister is a good summary of events up until last night. However, because further developments are still occurring, including the Touche Ross investigation over the weekend, I propose to defer any comments on the various options until the meeting arranged for Monday afternoon.

2. I am sending a copy of this minute to Sir Robert Armstrong.

13 March 1981

CONFIDENTIAL

cc A. Duguid

FROM THE office of the
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

Kenneth Baker MP

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 -6401
SWITCHBOARD 01-212 7676

Tim Lankester Esq
Private Secretary to
The Prime Minister
10 Downing Street
SW1

13 March 1981

CF
Mr Link up
with
other MPs

Dear Tim

TL

FUTURE OF ICL

I enclose a copy of the terms and conditions precedent to guarantee by HMG to the clearing banks in respect of ICL under Section 8 of the Industry Act 1972. This should have been attached to Mr Baker's minute of 12 March to the Prime Minister, and I apologise for the omission. Copies of this go to the Private Secretaries to the recipients of Mr Baker's minute.

Yours sincerely

Liz Riley

LIZ RILEY
ASST PRIVATE SECRETARY

DRAFT CONDITIONS PRECEDENT TO GUARANTEE BY HMG TO THE CLEARING BANKS IN RESPECT OF ICL UNDER SECTION 8 OF THE INDUSTRY ACT 1972

NOTES

1 The objectives are that:

(a) the Guarantee should be given to the four clearing banks, with ICL as a party to the Guarantee, in such a form that the banks in lending under the Guarantee ensure compliance by the company with the conditions set out below; HMG would have right of recourse under the Guarantee to ICL.

(b) The Government should take security next in line to the named clearers and other current named creditors - preferably with a fixed and floating charge, but if necessary with a floating charge only. The Government guaranteed facility should be drawn on only after both secured and unsecured existing clearing banks facilities have been taken up.

2 The terms of the Guarantee should be for one year in the sum of £100 million to be invoked if the four clearing banks have to make advances over and above their existing commitments (ie £105 million).

The decision to appoint a Receiver, if the position deteriorates during the term of the Guarantee, would require unanimous agreement of HMG and the four clearing banks.

3 The position of HMG in relation to Section 332 requires it to be satisfied that ICL is in no imminent danger of being insolvent or, if it is, there is a reasonable prospect of recovery taking into account the Guarantee.

The conditions which HMG should impose are:

(1) The Company will seek to renegotiate with its employees the terms of the current Security of Employment Agreement (15 March 1977) in order that payments in respect of future redundancies should be restricted to statutory entitlement under the Employment Protection Consolidation Act 1978. Any more favourable legal rights existing prior to renegotiation would have to be respected.

(2) The Company must use its best endeavours to bring negotiations with a prospective partner to a successful conclusion as quickly as possible. The arrangements must be acceptable to HMG.

(3) The clearing banks, jointly with HMG, will monitor and report regularly on these negotiations and on the pattern of the Company's trading activities (where appropriate making use of nominated accountants).

(4) Mr David Scholey, Warburg, will be appointed by the Board of ICL to take the lead in all partnership

negotiations on behalf of the Company. The Company will act in agreement with HMG and the banks at all stages of these negotiations and on all matters affecting the interests of the Government as user of computers.

(5) The Company will consult fully with the banks and HMG and take account of their views on the management structure of the Company.

cc Mr Walker
Mr Ingwid
Mr Wolfson

Prime Minister

The banks are taking a very tough line, and Mr Baker is suggesting a bigger guarantee than £100m, and possibly some cash support for R and D. Touche Ross will be sending in a report over the weekend.

TL

13/3

CONFIDENTIAL
COMMERCIAL IN CONFIDENCE

PRIME MINISTER

FUTURE OF ICL

MINISTERIAL REMIT

At the meetings held by you on 9 March it was agreed that the receivership option for ICL had to be ruled out and that the Government should provide a loan guarantee in the sum of £100million. In association with the Attorney General and Lord Cockfield, I was directed to prepare a draft statement of the terms on which such an identified term loan facility could be extended to the Bank and the conditions to be imposed upon ICL by the banks precedent to the offer of the guarantee.

A copy of these terms and conditions, as endorsed by you is attached. With one change of substance directed by Treasury Ministers, they formed the basis of preliminary discussion with the banks on 11 March conducted by Sir Peter Carey for the Department of Industry, supported by Lord Benson and Mr Ibbs. The change required by the Treasury was to paragraph 1(b) of the conditions relative to the clearing banks and was put to the latter in the following terms:

> The Government proposes to take security pari passu with the named banks and with a floating charge.

DISCUSSION WITH THE BANKS

The banks attending the discussion were the three clearers, (Midland, Barclays and NatWest), and City Corp. Sir Peter Carey first referred to the terms, drawn up on the advice of the Attorney General, in which he had spoken to the Chairman of ICL on 10 March in order (successfully) to persuade the Board not to contemplate receivership of the Company on that day, on the assurance that the Government would inform the Company of its final decision on 16 March. Although this imposed a tight timetable the banks agreed to Sir Peter's suggestion that the meeting should be regarded as exploratory in that, if there was any disagreement, both sides would withdraw to reconsider their respective positions and would meet again to continue discussion as soon as possibe.

It was agreed at the outset that the facilities available to ICL from the banks at present, including uncommitted lines,

should be taken as £103.5 million, although Midland, NatWest and City Corp pointed out that facilities totalling £33.5m within that total were regarded by them as uncommitted funds. No figure for the loan guarantee was revealed during the initial part of the discussion.

The main points to emerge from the discussion were:

a the conditions relative to the banks caused them serious difficulty on two main counts. The first was the Government's wish to stand pari passu. They regarded this as totally unacceptable when they were bearing all the initial risk of extending their lines. The second was the practical problems they foresaw if Government were to announce a limited guarantee, especially one with a security on it. The immediate reaction of the unsecured creditors would be to withdraw as quickly as possible. The banks argued that this condition could mean that the guarantee could be drawn down very quickly (say within two weeks) and that receivership might then be precipitated.

b the banks questioned the estimates of cash flow on which the Government had drawn up its offer. Though their nominated accountants (Peats) had been investigating the company for several weeks they were not in a position themselves to state the position with any certainty. But, in the view of the banks, the Company was sinking rapidly because orders were being deferred. Any guarantee by the Government would therefore have to be in an amount sufficient to cover the current cash outflow and, in their view, to offer prospects of recovery even under a satisfactory partnership (and the banks were sceptical of the prospects of such a partnership being negotiated). Their initial conclusion was that the sum might need to be of the order of £200m.

c a guarantee was no substitute for the essential need to inject substantial sums of money into the Company having regard to the fact that, even with essential improvements in management, it must take some 2-3 years to bring the Company round to a profitable condition. They doubted whether any of the prospective partners would be able or willing to provide all the money necessary, unsupported.

d in the light of the Budget proposals affecting the

banks, they were totally unable to finance the Company out of trouble from their own resources. The essential basis of any joint package, which inevitably must increase the risk of the banks, was a realistic and substantial bridge which must include a substantial security for a realistic time.

COMPANY'S VIEWS

This morning (Thursday) Sir Peter Carey and Mr Ibbs held a meeting with the Chairman and senior management of the company in order to establish their view of the financial situation and immediate prospects and to ascertain progress in the partnership discussions. The main points made by the company were as follows:-

a Borrowing: the worldwide overdraft was currently some £115million and a similar figure was now forecast for the half-year point at the end of March. This was the same level as ICL's assessment of secure and committed borrowing facilities but ICL was in fact making use of uncommitted facilities too, which gave theoretical headroom. However, any withdrawal of uncommitted facilities would cause obvious embarassment. Some overseas bankers were now pressing hard and the UK bankers had indicated they would not be willing to replace lost overseas lines at present. If confidence held they should be able to hold the borrowing within their facilities into April, but thereafter the overdraft would grow, reaching £175m in August at peak, and although it was now expected to drop again to £120m by the year end in September the period between April and then looked most dangerous in the absence of any further support.

b Orders: the effect of loss of confidence was showing in the order achievement for February, which was about level with the previous year on a worldwide basis but showed a large shortfall on budget in the UK (£5million instead of £20million). Major customers were delaying commitments because of doubts about the company's future. However, their forecasts of profit and cash flow were still based on equipment deliveries of

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£420million during the year, which was already a 12½% reduction on marketing predictions. Software and services revenue was expected to be some £300 million on top of the hardware element.

c Costs: there were no obvious areas in which costs were now expected to be higher than budgeted, but they were having to pass up the chance of securing certain longer term savings (especially through redundancies) because of the impact it would have both on morale and confidence and on the profit and loss account. They estimated that the rationalisation necessary within a partnership might cost as much as £50-60million in redundancies; the offsetting benefit, from harmonised product lines, joint overseas marketing etc could also be considerable but would be longer term.

The next ICL Board meeting is to be on Wednesday next (18 March). At the Department's request, at today's meeting with ICL the company agreed to an urgent accountancy investigation by Touche Ross (who have been acting for the Department) over this weekend, working from the basis of the report by Peat Marwick which was prepared for ICL's bankers. This should give us a better feel, by Monday, for the validity of the company's figures and should enable us to determine the risk of either a more rapid cash outflow or a far higher peak.

DoI have promised to send this on soon as it is ready - hopefully on Sunday.
TL

POSITION OF BANKS

After the banks withdrew Lord Benson undertook to establish informally what terms might form the basis for a second round of negotiations with the banks. However, he has now reported that at a meeting this afternoon (Thursday) they proved to be intransigent over terms. They would certainly not accept that the Government should have pari passu status and they would not agree to extend their current level of lending to ICL (some £14million) beyond a total of £50million, short of a total guarantee by Government. In other words, they would not meet the condition that the Government guarantee should be drawn on only after both secured and unsecured existing bank facilities had been taken up.

i.e. ICL have only borrowed £14m from the clearers so far, against facilities of £103.5m. ICL's total borrowing on overdraft is currently £100m, ~~[illegible]~~ of mostly unsecured from the non-clearers.
TL.

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OPTIONS

At this stage, therefore, the options facing us are:

a Receivership: Since the potential cost of any viable alternative is now likely to be greater than we had thought, the arguments for an immediate receivership are that much stronger. The arguments against receivership - which, in ICL's situation means almost immediate liquidation - have been fully rehearsed. The strongest remains that Government computing would be put at immediate and serious risk primarily because of disruption of essential maintenance. Even if receivership could be "controlled" in some way in order to safeguard Government users it would be both uncertain in the success of its operation and very expensive. There is now a strong further argument against a course of action which would lead to immediate receivership - namely, the intensive negotiations with CDC and Univac. These involve their top management teams, and are progressing. The negotiations with Univac are regarded by the Company as having a "better than evens" chance of success. A third prospect, NCR, has approached ICL on the basis of a total outright bid and, following encouraging preliminary negotiations at top level in the USA, a top NCR team is coming to the UK for detailed negotiations in the week beginning 16 March, their President is coming to the UK on 25 March, followed by their Chairman on 3 April. I saw today Mr Scholey of Warburgs, who is leading this negotiation on behalf of the Company. He thinks NCR is the most likely prospect; he has not spoken to CDC or Univac directly, but will speak to the latter when their investigations are resumed early next week. He also said that in his opinion the opportunity of partnership was attractive to the three companies.

b Provision of Support : We would maintain the course we agreed on Monday, offering a Section 8 loan guarantee but with the terms modified to cede pari passu status in favour of "next in line" security. However, the sum of the guarantee needed is now bound to be higher than £100million in the light of the lower level of facilities which the banks are now willing to offer ICL and - depending on what Touche Ross report to us - to

take account of faster cash outflows in recent weeks.

If we take this course I am sure we must make the provision adequate for the purpose and, if Touche Ross identify it, be ready also to help overcome any dangerous loss of impetus in development spending by a limited measure of direct assistance to R & D under existing schemes. Proposals currently before us from ICL would involve extra expenditure of some £25 million during 1981/82.

Receivership remains a very expensive course to central Government (conversion of computer programmes etc £150-200m; ECGD £100-200m; maintenance of equipment open-ended but probably higher than conversion; cost to rest of public sector - eg Health Service - at least £150-200m), very damaging for Government operations and would give rise to very strong positive criticism. I am therefore still inclined to favour (b).

There are, however, certain aspects of this option which cause me serious concern and on which I should be grateful for my colleagues' views. I see real difficulties in meeting a public announcement of a guarantee limited in time in such a way that it would engender confidence in the company among creditors and customers, without at the same time at least implying that we were in fact standing behind the company totally. I understand that even if our guarantee is limited in both money and time it could be said, by analogy with Section 332 of the Companies Act, that the very offer of the guarantee carried with the moral responsibility to pay the creditors in full in the event of a subsequent collapse during the guarantee's term. This is a point on which the Attorney General's advice would be most helpful.

I believe we should also consider whether we might offer a guarantee which ends once the partnership deal is signed. Mr Scholey is of the opinion that it might be possible to determine a partner by Easter and announce then the companies' intention to merge, even though the details might take a further 4-6 months. We might envisage playing a direct role in bringing a partnership to fruition at the earliest possible stage.

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I am sending copies of this minute to the Chancellor of the Exchequer, the Lord President, the Secretaries of State for Trade and Employment, the Attorney General, Sir Robert Armstrong and Mr Ibbs.

L.R.

KB

12 March 1981

CONFIDENTIAL

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

11 March 1981

T.P. Lankester, Esq.,
No.10, Downing Street

pm seen

TL
13/3

Dear Tim,

ICL

As I mentioned on the telephone, following an internal meeting this morning in the Treasury, chaired by the Chancellor, Bill Ryrie spoke to Sir Peter Carey about the terms and conditions of the guarantee which it is envisaged should be offered by the Government to the clearing banks in respect of ICL under Section 8 of the 1972 Industry Act. These were set out in the note attached to Jonathon Hudson's letter of 10 March to you.

Sir Peter Carey agreed:-

(i) that all possible efforts should be made at the meeting this pm to secure the agreement of the banks, that the Government should share with the clearers in their existing security on a pari passu basis. This, I understand, reflects more accurately the view reached at the meeting on Monday, 11 March, chaired by Mr. Baker, than does 1(b) of the note attached to Jonathon Hudson's letter;

(ii) to ask the banks whether they know of any other problems, which the company might be experiencing or expecting, which the Government should be aware of. (We have in mind possible difficulties which ICL's leasing subsidiary - CLL - might pose for the company.)

I also understand that, to reflect these uncertainties, the meeting this afternoon will now be on a basis of no commitment, and that the Treasury will be represented at official level.

/The PM

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The PM may wish you to reflect all or some of these points in your reply to Jonathon Hudson's letter.

Yours ever,

Richard Tolkien.

R.I. TOLKIEN

Econ Pol

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PM seen (in meeting folder) 11/3/81

Treasury Chambers, Parliament Street, SW1P 3AG

Jonathan Hudson Esq
Private Secretary to the Minister of State for Industry
and Information technology
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

11 March 1981

Dear Jonathan,

ICL

Lord Cockfield has questioned the accuracy or completeness of the report in your letter of 10 March of the meeting which took place in the evening of 9 March, on three points.

First on point (b), he says that Lord Benson was insistent that the Government's guarantee should rank pari passu with the advances by the clearers under their existing commitments. While some doubt was expressed in some quarters whether he would succeed, the statement that this should be "a negotiating position" and should not be "a stumbling block" does not reflect either the importance placed on the point or the determination expressed to pursue it.

Second on point (f), the real dispute was between six months for which Lord Cockfield pressed and twelve months favoured by most other participants in the meeting: and the arguments reported related to those periods. There was little or no discussion of a period longer than 12 months and had there been Lord Cockfield would have dissented even more strongly.

Third, his clear recollection is that it was reported that the question of the Chairmanship was likely to be resolved anyway in the near future without the need for the Government to make this a condition of the guarantee. The "more

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fundamental changes ... [which] could follow the satisfactary negotiation of a partnership agreement", to which para h refers, related to other changes in Board membership.

I am copying this to John Wiggins here, Tim Lancaster (No 10), Jim Buckley (CSD) the Private Secretaries to the Attorney General and Lord Benson, Gerry Spence (CPRS) and David Wright (Cabinet Office).

Sincerely,

Peter Michael

P A MICHAEL
Private Secretary

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Econ Pol

01-405 7641 Ext. 3291

Communications on this subject should be addressed to
THE LEGAL SECRETARY
ATTORNEY GENERAL'S CHAMBERS

ATTORNEY GENERAL'S CHAMBERS,
LAW OFFICERS' DEPARTMENT,
ROYAL COURTS OF JUSTICE,
LONDON, W.C.2.

Our Ref: 400/81/79

11 March 1981

G H Taylor Esq
Solicitor's Department (DI)
Departments of Trade and Industry
Monsanto House
10/18 Victoria Street
LONDON S W 1

11/3

Dear Geoffrey

ICL

I have now seen the Private Secretary's letter of yesterday circulating the draft conditions of guarantee.

Since the letter does not refer to the position of this Department, I had better record for completeness that the Attorney General has now seen the draft and approves it - both in general and as reflecting his views on s. 332 of the 1948 Act.

Copied to Jonathan Hudson (DOI) and Tim Lankester (No 10).

Yours,

John Mallinson

J R MALLINSON

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(1)

COVERING CONFIDENTIAL

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY

Kenneth Baker's Office

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 6401
SWITCHBOARD 01-212 7676

Prime Minister:-

This submission is self-explanatory.
Are you content?

N.P.G. Mitchell
Duty Clerk 10/3/81

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

10 March 1981

Yes - agree terms of guarantee.
M.T.

Dear Tim,

ICL

Following last night's meeting officials here have been discussing the terms and conditions of the guarantee with the Law Officers, CPRS and the Treasury. I attach a note agreed by these Departments setting out the details. I would be grateful if you could seek the Prime Minister's agreement to this; Sir Peter Carey and Lord Benson will be meeting the banks tomorrow afternoon to discuss the terms.

Sir Peter Carey has now spoken to the Chairman of ICL along the lines set out in my earlier letter of today's date. As a result the Board of ICL have agreed to defer consideration of their position under Section 332 until 16 March, or until the details of any guarantee are settled, whichever is the sooner.

I am copying this to Jerry Wiggins (Treasury), Jim Buckley (CSD), Peter Michael (Treasury), the Private Secretary to the Attorney General, Gerry Spence (CPRS) and David Wright (Cabinet Office).

Yours ever,

Jonathan Hudson

JONATHAN HUDSON
Private Secretary

DRAFT CONDITIONS PRECEDENT TO GUARANTEE BY HMG TO THE CLEARING BANKS IN RESPECT OF ICL UNDER SECTION 8 OF THE INDUSTRY ACT 1972

NOTES

1 The objectives are that:

(a) the Guarantee should be given to the four clearing banks, with ICL as a party to the Guarantee, in such a form that the banks in lending under the Guarantee ensure compliance by the company with the conditions set out below; HMG would have right of recourse under the Guarantee to ICL.

(b) The Government should take security next in line to the named clearers and other current named creditors - preferably with a fixed and floating charge, but if necessary with a floating charge only. The Government guaranteed facility should be drawn on only after both secured and unsecured existing clearing banks facilities have been taken up.

2 The terms of the Guarantee should be for one year in the sum of £100 million to be invoked if the four clearing banks have to make advances over and above their existing commitments (ie £105 million).

The decision to appoint a Receiver, if the position deteriorates during the term of the Guarantee, would require unanimous agreement of HMG and the four clearing banks.

3 The position of HMG in relation to Section 332 requires it to be satisfied that ICL is in no imminent danger of being insolvent or, if it is, there is a reasonable prospect of recovery taking into account the Guarantee.

The conditions which HMG should impose are:

(1) The Company will seek to renegotiate with its employees the terms of the current Security of Employment Agreement (15 March 1977) in order that payments in respect of future redundancies should be restricted to statutory entitlement under the Employment Protection Consolidation Act 1978. Any more favourable legal rights existing prior to renegotiation would have to be respected.

(2) The Company must use its best endeavours to bring negotiations with a prospective partner to a successful conclusion as quickly as possible. The arrangements must be acceptable to HMG.

(3) The clearing banks, jointly with HMG, will monitor and report regularly on these negotiations and on the pattern of the Company's trading activities (where appropriate making use of nominated accountants).

(4) Mr David Scholey, Warburg, will be appointed by the Board of ICL to take the lead in all partnership

negotiations on behalf of the Company. The Company will act in agreement with HMG and the banks at all stages of these negotiations and on all matters affecting the interests of the Government as user of computers.

(5) The Company will consult fully with the banks and HMG and take account of their views on the management structure of the Company.

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ICL'S REDUNDANCY AGREEMENT

1 The Company's redundancy arrangements are contained in its Security of Employment Agreement dated 15 March 1977

2 This Agreement was negotiated with the seven staff unions and extended unilaterally to include hourly paid workers though this group has not formally signed the agreement. The only consideration for the agreement was a general undertaking on cooperation but we are advised by Lawyers that it must now be presumed to be incorporated as part of the contract of service of all employees.

3 The basis of payment is as follows:

Terminal payments as specified in the Employment Protection Consolidation Act 1978 (ie the basic legal entitlement);

plus for staff with up to and including 5 years service, 1 week of full pay for each completed year;

plus for staff with over 5 and up to 20 completed years as above with 1½ weeks of full pay for each completed year over 5;

plus for staff with over 20 years, as above with 2 weeks full pay for each year of service over 20.

In addition to these payments ICL provide a payment equivalent to 10 days pay in lieu of holidays and have a supplementary benefit provision in case of hardship (eg any member of staff with more than 30 years service proving hardship after 30 weeks unemployment would receive 75% of normal salary for a further period of 30 weeks).

4 When the Winsford plant was closed, all staff received a special additional plant closure payment of between £1750 - £2350.

5 ICL have obviously made redundancy payments well in excess of the basic legal entitlement. The averages so far have been:

hourly paid staff - £1850 (average of 6 years service)
staff - £4000 (average of 8 years service)
managers (ie £11,000 and upwards)
- £10,500 (average of 12 years service)

average age of staff receiving redundancy payments is 35.

The Company believes that it is binding upon it to make payments under its Agreement until this is renegotiated.

6 I have spoken about the position on Redundancy payments with the Department of Employment. They point out that:

(a) under the statutory entitlement the maximum payment is £3900 and the average £1000;

(b) in view of the existence of a formal Company Agreement it would be improper for the Company to seek unilaterally to impose a change upon its employees;

(c) the line which they recommend is that general commercial considerations should determine the amounts which particular Companies make as redundancy payments.

It follows that they could endorse no more than we set down in Condition 1.

COPY NO 1 OF 18

SECRET

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB
TELEPHONE DIRECT LINE 01-212 6401
SWITCHBOARD 01-212 7676

FROM THE
MINISTER OF STATE
FOR INDUSTRY AND
INFORMATION TECHNOLOGY
Kenneth Baker's Office

Econ Pol

Tim Lankester Esq
Private Secretary to
The Prime Minister
10 Downing Street
London SW1

MBPM
PL
1573

10 March 1981

Dear Tim,

ICL

Mr Baker chaired a meeting on the evening of 9 March at 10 Downing Street to discuss the terms of and conditions that should be applied to a guarantee which would be given under Section 8 of the Industry Act 1972 to loans to ICL from three of the London clearing banks and Citibank (the clearers) The Attorney General, Lord Cockfield, Lord Benson, Mr Ibbs, Mr Woolfson and Sir Peter Carey, Mr Croft, Mr Atkinson and Mr McElheran from the Department of Industry were also present.

Mr Baker explained that the Prime Minister had asked the group to meet urgently following the Government's decision to provide a guarantee. In initial discussion concern was expressed about the future viability of the Company and it was stressed that drastic action would be needed to reduce losses. However, the group noted that discussions on possible partnerships with a number of companies were proceeding satisfactorily and the company had a strong customer base. In addition, the company had already taken steps to improve the cash flow.

The following terms and conditions were agreed:

a the Government should guarantee loans by the clearers to ICL in addition to the clearers existing commitments of £105m. Although ICL currently had credit facilities in excess of this a considerable part of these were lines of credit from overseas banks which could not be relied upon. The group therefore deemed it prudent to assume that only the clearers current loan facilities and their additional guaranteed lending (£100m) would be available.

b the Government should seek to share with the clearers in their existing security on a pari passu basis. It was agreed that this should be a negotiating position and that it should not be a stumbling block to the conclusion of an agreement;

c the clearers should closely monitor the performance of ICL and should report back to the Government if there was any deterioration in the company's position;

d the terms of any redundancy payments made by ICL should be restricted to statutory entitlement;

e the company should use its best endeavours to negotiate a partnership deal and it was agreed that Mr David Scholley should be asked to lead these negotiations. There was also agreement that it was essential to safeguard the Government's interests as a user of ICL equipment and therefore the Government should have a right to veto any proposed agreement. However, it was recognised that the company were actively pursuing partnership and the strength of the public sector customer base was an attractive asset. Therefore, it was likely that any purchaser would be able to give satisfactory assurances on this point. In order that this condition should be implemented it was necessary that the Government should be kept informed and should be consulted at all stages with a view to it satisfying its interest as a user;

f it was agreed that the desirable term for the guarantee should be one year. On the one hand a longer term would restore customer confidence but on the other it would reduce the pressure on the company to seek a partnership. However, the group questioned whether the terms of Section 332 of the Company's Act would require a longer period; if 12 months were not adequate this would have to be reviewed;

SECRET

g the Government should have the right to appoint a Receiver. This condition was necessary to safeguard the Government's interest if the situation of the company deteriorated irrevocably; and

h the company should consult with the Government and the clearers on the membershp and structure of the Board. It was agreed that, as a first step, the Government and the clearers should seek to have two non-executive directors appointed to the Board. More fundamental changes in the Board membership could follow the satisfactory negotiation of a partnership deal.

Since the ICL Board would be meeting on 10 March to discuss the question of appointing a receiver Sir Peter Carey was asked to see the Chairman of ICL the following morning and to explain to him that the Government intended to provide some measure of support for ICL. Whilst the details of this were being settled he would suggest that the company should adjourn discussion of its position under Section 332 until 16 March. Lord Benson undertook to talk quickly to the Midland and Barclays Banks with a view to informing them that the Government would shortly wish to open discussions them on the terms and conditions of a guarantee.

I am copying this to Tony Wiggins (Treasury), Jim Buckley (CSD), Peter Michael (Treasury), the Private Secretaries to the Attorney General and Lord Benson, Geoffrey Spence (Cabinet Office) and David Wright (Cabinet Office).

Yours sincerely,

Jonathan Hudson

JONATHAN HUDSON
Private Secretary

CONFIDENTIAL

Qa 05278

To: MR LANKESTER

From: J R IBBS

ICL

1. Following the Prime Minister's meeting yesterday morning the CPRS and the Department of Industry established the sequence of main events leading up to the present crisis in the Company's affairs. I attach a copy of a paper which tabulates these events.

2. I am sending a copy of this minute to Sir Robert Armstrong.

J.R.

10 March 1981

Att

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ICL : WHAT HAPPENED

DATE	COMPANY	DEPARTMENT OF INDUSTRY	OTHERS
Autumn 1979	Drew up new corporate strategy based on fast growth (20%pa) as response to increasing competitive pressures (especially from IBM and Japan), based on improved product line.	Discussed in detail, at Permanent Secretary level, against background of forthcoming PAC hearing.	
November 1979	-	Explained and endorsed new strategy to PAC. Lower prospects of recovery through profit formula defended as being consistent with longer term industrial objectives.	
Late 1979	(Contemplated rights issue; dissuaded by NEB?)	(Not informed until much later of this episode - and never formally)	(NEB believed to have opposed rights issue)
December 1979	Announced 1978/79 results: Turnover £624m (+23%), profit £45.7m (+22%) positive cash £16m.	-	NEB sold 25% holding, at profit of £25m; picked up enthusiastically by City.
First quarter 1980	Experienced growing pressure on margins, especially affected by exchange rate overseas: also poor management of overseas business.		
6 February 1980	Chappell took over from Hudson as Chairman		

DATE	COMPANY	DEPARTMENT OF INDUSTRY	OTHERS
May 1980	1 Announced half-year results. Turnover growth sustained (+21%) but profit growth less strong (+10%). (Reduced profit growth was in spite of "favourable sales mix".) 2 Released management accounts for March 1980, revealing that "once-for-all" action had been taken to maintain profit, in particular by switching from rental to leasing (in all, represented £7.7m. of profit for half-year out of £20.5m.). There had therefore been a fall in underlying trading profit.	Asked Touche Ross to study half-year results.	Touche Ross, on behalf of Department, asked 19 questions on make-up of half-year results. Discovered, inter alia, the size of rental/ leasing benefit to profit.
24 July 1980	Met Permanent Secretary DoI to discuss 5 year prospects. UK growth of orders had dried up. No increase in orders expected over previous year. Profit expected to be lower (£40m. instead of £50m.); overdraft expected to be £100m. by December 1980. Forecast growth 10% rather than 20%. Redundancies expected (1000 per year in next 2 years). Presented options for longer term future - including retrenchment or partnership - but did not envisage bringing to point of action for year or two.	Urged ICL to pursue partnership or association with cash rich company urgently. Would assist in taking soundings. Commended short term cost-saving action.	
11 September 1980			Peak share price - 196p.

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DATE	COMPANY	DEPARTMENT OF INDUSTRY	OTHERS
12 September 1980	Called Department in for informal briefing. Orders had failed to materialise. Break even expected in second half of company year, to end September (or at best full year profit of £25m-£30m). Overdraft of £60m in prospect. Cash projections for 1980/81 showing £130m overdraft at end December, rising to £180m on worst case at peak in March - all put to ICL Board. Finance Director concerned about lack of response but working hard on remedial measures.	Situation reported to senior official level. Touche Ross asked to review June/July accounts (received recently) as matter of urgency. Particular concern expressed about management. Informal proposals put to ICL for strengthening Board (not taken up in the event).	Touche Ross rounding off work for Department on monitoring. Monitoring subsequently done by DoI accountants.
mid October 1980	Further informal word from Finance Director. Profit likely to be £25m. Overdraft at end year cut back to £35m or less. But still likely to be unacceptable at March 1981 without further action. Redundancies in prospect.	Management accounts for August received - showing small profit. Finance Director's conversation reported. Action from company awaited.	Share price hovering at 150p.
30 October	Formally reported to DoI Permanent Secretary on financial position. Continuing slump in orders, reflecting recession. Operating plan for 1980/81 already being revised downwards. Break-even as best estimate for next year's profitability. Major cost-cutting exercise under way; about to announce 2,200 redundancies and factory closure. Little progress made with partnership talks.	1 Urged ICL to redouble efforts on partnership talks. Supported cost-cutting efforts. 2 Permanent Secretary reported financial position and remedial action plan to Permanent Secretaries at CSD and Inland Revenue.	

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DATE	COMPANY	DEPARTMENT OF INDUSTRY	OTHERS
5 November 1980		Briefing for Secretary of State in advance of E Committee exposed position and recommended endorsement of management action in context of PAYE decision.	E Committee agreed to give PAYE contract to ICL.
Mid November 1980		Received management accounts for September, giving full year picture.	Share price 120p.
11 December 1980	ICL announced full year results. Turnover up 15% (to £716m), profit down 46% (to £25m). Overdraft contained to £10m. Further deterioration of financial position forecast in Chairman's statement, tempered by confidence in longer term prospects.		
Mid December 1980		Discussions between DoI accountants and Touche Ross	
15 December 1980			Share price 70p.

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EVENTS THIS YEAR

6 January :	Managing Director explained crisis in cash and profitability to Under Secretary, in advance of -
15 January :	Formal meeting with DoI Permanent Secretary. Advised to see Ministers. (Share price 48p)
21 January :	Formal meeting with Mr Baker. Advised to seek partner with all urgency and present plans on that basis.
2 February :	Minute to Prime Minister from Mr Baker.
3 February :	Company AGM : E Committee meeting.
5 February :	Share price 32p.

Econ Pol
Mtg.
as minuted
yesterday
morning

10 DOWNING STREET

Tim.

Mr Smith copies
to of all correspondence
to ~~CPRS~~ Dunnett

Despite John's PQ
against a X letter,
we have not had
copies of the CPRS
or Cabinet Office notes
on ICL.

Could we have them,
pl?

Andrew.

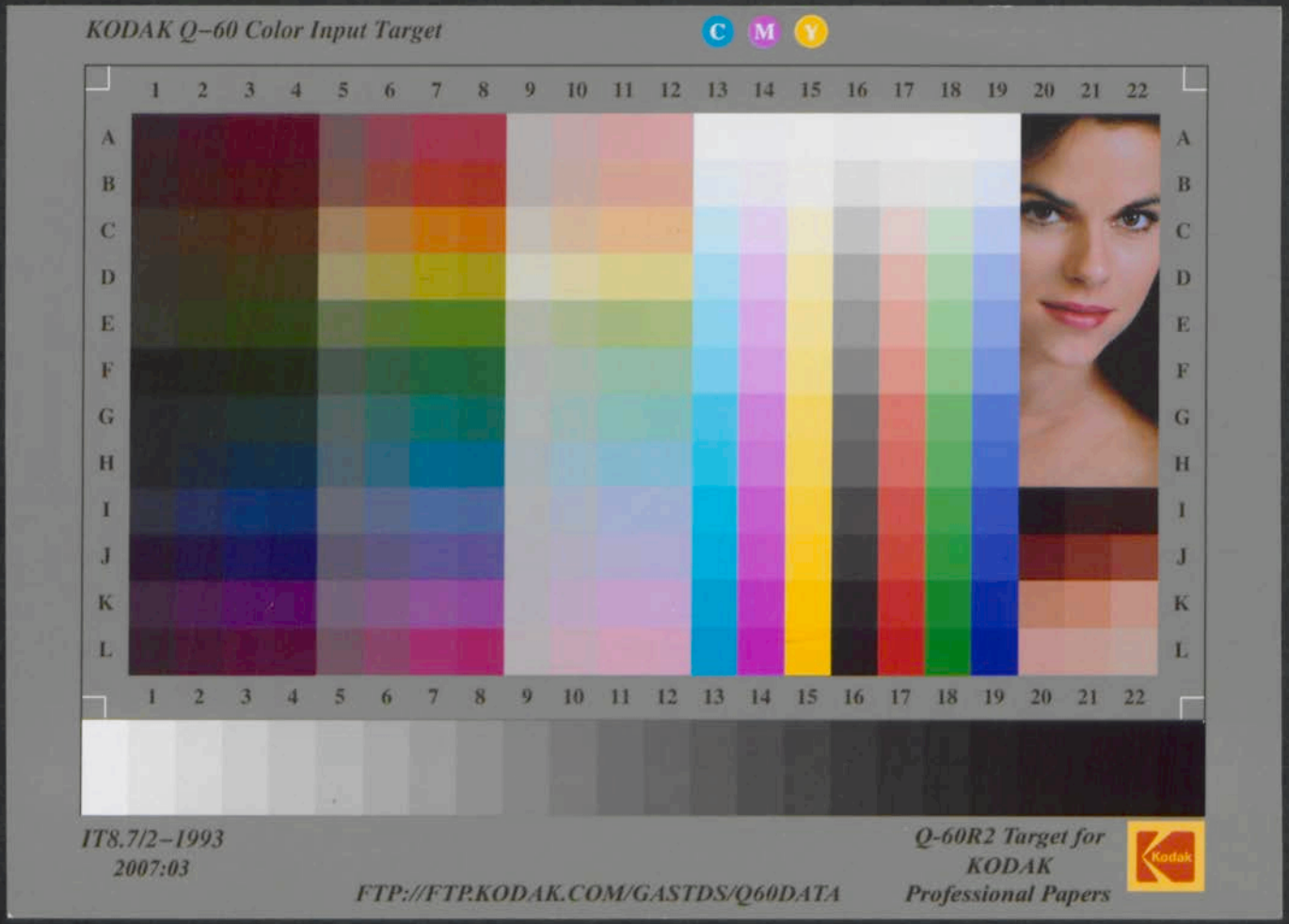
10/3

PART 1 ends:-

9.3.81

PART 2 begins:-

10.3.81


KODAK Q-60 Color Input Target
C M Y
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22
A B C D E F G H I J K L
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