

Ref: A04409

PRIME MINISTERFuture of ICL

At your meeting at 11.15 am on Monday 9 March you are to discuss the minutes to you of 6 March from the Secretary of State for Industry and of 5 March from the Lord President of the Council. The Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, Mr Kenneth Baker and Mr Ibbs will also be attending.

2. The immediate issue is set out in paragraphs 5 and 6 of the Secretary of State for Industry's minute. The Bank of England - Lord Benson is leading for them on this - judge that the clearing banks are on the point of withdrawing support from the company: their exposure is likely to rise from £20 million currently to peaks of £175 million in May and August. The ICL Board will meet on 10 March to consider their position under Section 332 of the Companies Act and whether to appoint a receiver, if by then there is no indication that support is available to tide them over until their discussions with prospective partners are completed - see, in particular, the last two paragraphs of the letter of 5 March from the Chairman of the Company which is annexed to the Secretary of State's minute.

3. The main case for Government action to avert collapse and break up of the Company rests on the fact that public sector bodies are major customers, dependent on ICL for maintenance of systems and for new systems now on order. Quite apart from the 200 ICL computers in Central Government, the National Health Service, the nationalised industries and the local authorities are all major users. The problems are set out more fully in the minute to you of 9 February from the Lord President, in the letter from DHSS to Mr Lankester of 3 February and in Annex B of the Secretary of State for Industry's present minute. The Lord President has estimated that conversion costs alone could cost Central Government £150-200 million quite apart from the costs of delays in new systems and of maintenance problems.

4. The other main reasons why it is in the Government's interests to avoid disorderly collapse of ICL are -

- i. overseas users, who were encouraged by the Government to buy from ICL, would also be hit at cost to the general reputation of United Kingdom exporters;

ii. failure to support ICL could undermine current efforts to promote information technology (paragraph 10 of the Secretary of State's minute of 5 March);

iii. when the NEB sold their shareholding in December 1979 the price was equivalent to 120p compared with 39p today and those who bought the shares could well be critical of the Government if it now stood back.

5. Against this background the Secretary of State for Industry reluctantly recommends (his paragraph 13) that the Government should guarantee an "identified term loan facility" of £100 million by the clearing banks. In effect this would be a Government guaranteed bridging loan available until a long term partnership could be negotiated. It would be designed to make clear that the Government's guarantee was limited to a specific loan facility and did not extend to underwriting the liabilities of the company as a whole. It would be given under Section 8 of the Industry Act and, therefore, would need to be preceded by the formal advice of the Industrial Development Advisory Board, an Affirmative Resolution, and the approval of the European Commission. No public expenditure would be involved unless the guarantee, or part of it, were called. It is possible that the amount for which the Government was obligated could be reduced if other major customers and suppliers could be persuaded to join the Government in making the guarantee (paragraph 14 of the minute).

6. In return for the guarantee the intention would be to ensure -

i. the replacement of the Chairman and possibly the Managing Director (paragraph 16);

ii. a positive role for the Government in ensuring that ICL's negotiations for a partnership recognised the public sector's interest as customer (paragraph 17).

Paragraphs 2 and 3 explain that so far there has not been any substantial progress in negotiations for partnership and that it would take from three to six months to clinch a deal.

7. The Lord President of the Council strongly advises in his minute of 5 March that, to avoid a collapse of many of the Government's computer systems, the Secretary of State's proposals should be accepted. He warns, however, that it will now be necessary to look very carefully at any proposals to place new orders with ICL.

8. Since the Government would not be taking a stake in the ownership of the company or itself lending the company money, and the guarantee would be made under existing legislation, I think that you could justify the proposed guarantee in relation to what you said to Brian Walden in your Weekend World interview on 1 February (see the attached extract from the transcript). But I suppose we cannot exclude the possibility that part of the price of any partnership deal will be that the new owner should be relieved of some part of ICL's liability.

## HANDLING

9. After the Secretary of State for Industry has introduced his paper you will wish to hear the advice of the Lord President of the Council who is, in effect, representing the public sector customers. The Chancellor of the Exchequer will want to comment on the financial aspects and the Chancellor of the Duchy of Lancaster on the timing and tactics of the Affirmative Resolution.

10. If you accept that it is essential to avoid the costs and disruption to public sector services of an abrupt break up of ICL, you will then wish to consider what action the Government should take. It might be argued that receivership could be justified on the grounds that the receiver might well be able to safeguard the interests of customers and, moreover, would wish to do so in the longer term interests of the company. The Secretary of State for Industry, however, advises in his paragraph 8 that receivership would lead to the break up of the company; and this appears to be the view of the Bank of England too. You might well conclude, therefore, that while receivership might preserve customer interests, it is just not worth the risk.

11. If so, you will wish to turn to the proposals for the guaranteed loan in paragraph 13. A possible difficulty is that it should not be taken for granted that the clearing banks will co-operate by making the proposed loan facility available, even under guarantee. Their attitude might be influenced by the Budget. If you decide in principle that the Government should be willing to give some bridging support, it will be prudent, therefore, not to rule out the need to look at alternative methods if necessary.

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12. You will also wish to decide whether you want the Secretary of State for Industry to pursue the idea in his paragraph 14 of involving other major customers and suppliers in the guarantee. While this is attractive in principle, you will wish to be satisfied that it would not run the risk of leaks which would further sap customer confidence.

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## CONCLUSIONS

13. In the light of the discussion you will wish to give the Secretary of State for Industry authority for the action which he may take before the ICL Board meeting on 10 March. If the proposed guarantee of a bridging loan is acceptable, you will wish to record any qualifications to the Secretary of State's approach and, perhaps, to leave open the possibility that the proposal might have to be modified in the light of the clearing banks' reactions. You will also wish to reach a provisional view on the timing of the Affirmative Resolution although this will turn in part on the outcome of the Board meeting and of the banks' reaction to the proposals.

14. Finally you may wish to ask the Secretary of State for Industry to inform the Cabinet or the Ministerial Committee on Economic Strategy, in a brief oral statement, on 12 March of the position then reached.



ROBERT ARMSTRONG

6 March 1981