

SUBJECT



10 DOWNING STREET

From the Private Secretary

cc: Hunt  
Ch. Sec. O.  
Ld Pres. O.  
DoI

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9 March 1981

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As you know, the Prime Minister held a meeting this morning to discuss the future of ICL. In addition to your Secretary of State, the following were present: Chancellor of the Exchequer, Chancellor of the Duchy, Lord President, Mr. Kenneth Baker, Sir Robert Armstrong, Mr. Ibbs and Mr. Atkinson from your Department. They had before them your Secretary of State's minute of 6 March, the Lord President's minute of 5 March and also Mr. Ibbs' minute of 6 March.

Sir Keith Joseph said that he had concluded, for the reasons set out in his minute, that the Government should provide ICL's clearing bank creditors with a loan guarantee amounting to £100 million. This was the minimum amount that the Bank of England considered necessary to ensure that the banks continued to support the company and to prevent it from going into receivership. The guarantee would require an Affirmative Order under Section 8 of the Industry Act. Its purpose would be to tide ICL over until they were able to complete negotiations for a partnership arrangement with some other company. Mr. Baker added that it was quite clear - and had been for some time - that ICL could not survive without a partner. ICL management had been far too dilatory in seeking a partner. Discussions were now taking place with several companies as indicated in Sir Keith's minute. There had been one further development over the weekend: the US company CDC, had telexed to say that they were very interested in taking a minority stake in ICL's UK business and a majority stake in their overseas business. This would be similar to the proposal put forward by Univac, which had so far looked the most likely prospect.

The Prime Minister said she was appalled that ICL's financial situation had deteriorated so fast without their management apparently being aware of what was happening. If the company were to survive she hoped that their top management would be made publicly to take the blame and be replaced. But she was also dismayed at the lack of financial information on which Ministers were being asked to take a decision. She would have liked to have seen a much fuller analysis of the reasons for ICL's deteriorating position, and it was for this reason that she had asked to see their latest management accounts.

/ The Prime Minister

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The Prime Minister went on to say that she accepted Sir Keith's conclusion that the company could not be allowed to go into receivership. But she questioned whether as much as £100 million in guarantees was necessary; more importantly, she wondered whether providing guarantees was the best option available. The object must be to avoid receivership at minimal damage to the Government. With the guarantee approach, there would be a risk that no acceptable partnership could be negotiated within the few months breathing space which it would provide; and if this happened, it would then be hard for the Government to disengage. It would also have the disadvantage in terms of publicity, and possible difficulty in Parliament, of involving the Affirmative Resolution procedure. She wondered whether a better approach might be for the Government to make advance payments for purchases and possibly maintenance of computers and to make advance payments on R & D. ICL's other customers might also be asked to help.

In discussion, it was generally agreed that the receivership option had to be ruled out. But it was argued that it was highly undesirable that the issue should have reached Ministers at such a late stage and without more thorough preparation. As regards the advance payment approach mentioned by the Prime Minister, it was suggested that payments of between £50 and £75 million might be possible. But it was doubtful whether this would be sufficient to hold off receivership. In any case, there were also substantial disadvantages in making a cash payment at a time when the public expenditure situation overall was so tight; moreover, there might be problems for the Government from the point of view of its role as a purchaser. This would need to be considered before a decision was taken to go down this route. In addition, whereas advance payments would not be require an Affirmative Order, they would still necessarily become public and they would have to be capable of justification to the PAC.

In conclusion, the Prime Minister said that Ministers would need to reconvene at a further meeting later in the day to which Lord Benson, the Bank of England's adviser on ICL, would be invited. Before that meeting, Departments should urgently examine other options for preventing ICL from going into receivership, and in particular the possibility of advance payments for computers and for R & D.

I am sending a copy of this letter to John Wiggins (Treasury), David Heyhoe (Chancellor of the Duchy's Office), Jim Buckley (Lord President's Office), Jonathan Hudson (Mr. Baker's Office, Department of Industry), David Wright (Cabinet Office) and Gerry Spence (CPRS).

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Tim L... ..

Ian Ellison, Esq.,  
Department of Industry.

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