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10 DOWNING STREET

From the Private Secretary

9 March 1981

The Prime Minister held a further meeting this evening to discuss the future of ICL. In addition to your Secretary of State, the Lord President, the Chief Secretary, Mr. Kenneth Baker, Sir Robert Armstrong, Mr. Ibbs and Lord Benson of the Bank of England were present.

Referring to the discussion that had taken place earlier that day, the Prime Minister said she was afraid that the partnership arrangement which ICL were hoping for would fail to materialise. In that case, if the Government were to provide a loan guarantee on the basis proposed in Sir Keith Joseph's minute of 6 March, there would be the all too likely prospect of it having to provide further support in due course. It was partly for this reason that she had asked that the alternative option of providing advance payments on computer purchases and R&D should be considered. In response, Lord Benson said that the partnership prospects were not altogether bleak. Mr. David Scholey of Warburgs had been negotiating over the weekend with NCR, who had expressed interest in a complete takeover of the company. Univac and CDC also seemed seriously interested in buying a stake in the company.

As regards the £100 million guarantee facility that had been proposed, this had not yet been discussed with any of ICL's creditors. The clearing banks had outstanding loan facilities with the company of £112 million, of which about £70 million was firmly committed; these facilities were secured against the company's assets. In addition, other London banks had provided facilities of £50 million and foreign banks £55 million. ICL's cash deficit was forecast to peak at £175 million at end-August. The proposed guarantee was intended to enable the clearers to increase their facilities in the event of the other London banks and the foreign banks withdrawing their support. If the company subsequently failed, the Government would repay them their loans over and above their existing secured facilities.

As regards the option mentioned by the Prime Minister of providing support by way of advance payments, he did not think the amounts would be large enough; and they would not provide a permanent solution.

/The Lord President

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SUBJECT

2- file RB
cc As below
+ Mr. Duguid

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The Lord President said that the CCTA were expecting to make payments to ICL in 1980/81 and 1981/82 of about £40 million in total. This amount could, in principle, be advanced to the company now. However, it was unlikely that the company would not have already taken into account the receipt of at least some of this money in the near future; consequently, the benefit to the company of advance payments would be less than on the face of it appeared. Furthermore, there were serious objections of principle to this course: first, the CCTA's contracts would require amendment and this would be criticised by the PAC; and secondly, the pressure on ICL to deliver on time would be considerably reduced. In addition, in so far as it might be said that the Government was providing financial assistance to enable the company to continue trading, the Government might feel bound - because of the implications of Section 332 of the Companies' Act - to meet the company's debts in the event of its being wound up.

In discussion it was generally agreed that the advance payment option was not worth pursuing. As for the guarantee proposal, it was argued that - if the guarantee was to be provided - it should be accompanied by conditions. The objective must be to ensure that a partnership was achieved and that the company should be self-supporting once again. Otherwise, the Government would find itself having to provide further support. It was suggested that one condition should be to ensure that the guaranteed funding should not be used to finance unnecessarily generous redundancy terms for the 5-8,000 employees whom the company were apparently planning to make redundant. If generous redundancy payments were to be made, there was a risk that a potential partner would require a "dowry" from the Government. Secondly, the Government should obtain an assurance that there would be changes in ICL's top management.

In further discussion, it was suggested that it would be unwise to tell the ICL Board that the Government was prepared to provide the guarantee until Ministers were quite clear on the terms and conditions that they wished to attach to it. It should be possible to work out a form of words - to the effect that the Government was looking urgently at the ICL problem - which would persuade them not to call in the Receiver the following day. It was further suggested that the Board should be told that the Government would like Mr. David Scholey to undertake all of the negotiations with potential partners. He should be given a free hand to negotiate the best deal available to the company; for rather than lay down conditions in advance, it would be better for the Government to consider the terms of any partnership arrangement when it had been successfully negotiated and before it was implemented. As for changes in ICL's top management, it was argued that it would be unwise to insist on the Chairman's resignation the following day; he was expected to go, but his immediate resignation might cause more problems than it would solve. Furthermore, it might be wiser not to change the Chief Executive until a new partner was found. In both of these cases, and in respect of other management changes, the Government would be in a position to insist on whatever it wished. But in doing so, it should bear in mind not only the question of timing, but also the fact that confidence in the company would be even more damaged if too many changes were made. Sir William Barlow was mentioned as a possible non-executive Chairman in succession to Mr. Philip Chappell, and Mr. Morgan of GEC as a possible new Chief Executive.

/Summing up,

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Summing up, the Prime Minister said that they were agreed that the Government should provide the £100 million guarantee proposed by Sir Keith Joseph. But this would have to be on terms and conditions that would minimise the damage to the Government and offer the best prospect of the company finding a partner. Mr. Baker, in consultation with Treasury Ministers, the Attorney General and Lord Benson, should urgently work out the terms and conditions that should be set. In addition, they should prepare a form of words which, while falling short of offering the guarantee, would ensure that the ICL Board did not call in the Receiver the following day. This would give a little longer for the terms and conditions of the guarantee to be finalised.

I am sending copies of this letter to Jim Buckley (Lord President's Office), Terry Mathews (Chief Secretary's Office, H.M. Treasury), Jonathan Hudson (Mr. Baker's Office, Department of Industry), Gerry Spence (CPRS) and David Wright (Cabinet Office).

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