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Sir Peter Carey KCB
Permanent Secretary

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14 March 1981

Mr C Whitmore
10 Downing Street
London SW1

Dear Sir,

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



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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

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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.



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.