

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

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SUBJECT.

cf. Master sek.

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 ^{to enable agreement to be reached with one of} and subsequently for such further period as would be ^{to enable agreement to be reached with one of} 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 in the U.K.} 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 ^{lending 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

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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;

amount of bank facilities

(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~~ ^{maintain} 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~~ ^{reduced to} £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

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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

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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. ³

(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 ^{arranging with} ~~a~~ ^{guarantee} ~~to~~ ^{for} 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

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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

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