Prime Minister

Qa 05360

To: MR LANKESTER

From: J R IBBS 7 May 1981

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ICL

1. In March ICL was in serious financial difficulty and the Board were about to put the Company into liquidation. Because of the risk to the Government's computer operations if ICL went into liquidation, Ministers decided to make a guarantee of £200m. available for two years. This guarantee was intended to generate sufficient confidence, particularly among customers, to enable the Company to continue in business while negotiations with possible partners took place with the aim of reaching preliminary agreement with a suitable partner by the end of April. It was thought that ICL on its own with its existing management did not have a future. The guarantee was designed to place a strict limit on the Government's financial responsibility for the Company (in both amount and time), while safeguarding its interest as a user of ICL equipment.

2. Negotiations with potential partners have continued but it seems that no agreement is likely to be reached for some months. Furthermore, the two front runners, UNIVAC and NCR, after learning about the Company in depth, are interested only in taking a minority holding; the main potential financial burden in practice would remain therefore with Government and the difficulties of disengagement would probably increase. Both companies would require 2 to 3 thousand redundancies to take place, additional to those already planned, and a direct cash injection before they took any stake. In the meantime, the morale of ICL has deteriorated and confidence in the present management has further reduced. In brief, a solution through partnership looks much less likely than it did a few weeks ago.

3. The CPRS believes that there are four options to Ministers today:

(i) Receivership

(ii) Seek a minority partner

(iii) Seek a majority partner by offering a "dowry"

(iv) Appoint new management whose aim would be to make ICL viable and more attractive to potential partners.

(i) <u>Receivership</u>.

The Receiver would probably have to put the Company into liquidation immediately. To ensure maintenance of its ICL computers the Government would have to set up a maintenance and service company. There would be considerable risks attached to staffing and operating this company satisfactorily and a particular danger from industrial action. Provision of a full range of spares would be difficult as would the maintenance of software to present standards. Any problems in running the maintenance and service company could lead to serious dislocation of Government computing facilities. Satisfactory maintenance for ICL equipment overseas would be even more difficult to achieve and failure would lead to serious loss of confidence in UK products, for example in the Gulf States. Work by the Department of Industry has not reached the point where this option can be specifically costed, indeed the inevitable uncertainties make this very difficult, but it is certainly extremely unattractive. (The £200m. guarantee probably makes receivership difficult to contrive.)

(ii) <u>Seek a minority partner</u>.

Present indications are that loss of confidence in the present management will result in ICL being in further serious difficulties, and in a worse cash position than previously forecast, before a minority partnership can be concluded, since this is likely to take several months. Even with such a partnership the main financial risk is likely to remain with Government, and some direct cash injection and 2 to 3 thousand additional redundancies are likely to be necessary before a partner will come.

(iii) <u>Seek a majority partner by offering a "dowry"</u>.

There must be a level of dowry at which some major computer company would 'take ICL away' and give an undertaking to maintain for a period ICL equipment. There is no indication what this figure may be, but it could be large (greater than £200m?). A further complication is that the main candidates for doing this are US companies who could face anti-Trust difficulties. Although the option has the merit of eliminating the risk of any further calls on government funds, the initial cost of achieving this could well prove unacceptably high. In view of the growing lack of confidence in the present management, exploration of the option is probably ruled out at this stage by shortage of time.

(iv) Appoint new management whose aim would be to make ICL viable and more attractive to potential partners.

The Chairman and Managing Director now proposed by the Secretary of State are probably as good as could be found in present circumstances. I believe they under-estimate the difficulties that they will face and that there is a serious likelihood that the Government's financial investment will not be limited to the £200m. guarantee. In particular, the plan to change the emphasis of ICL's operations from mainframe computers to 'distributed systems' will take time and could prove expensive; the intention to operate prolonged short-time working could make practical management of the business extremely difficult and the continuing threat of ultimate redundancies could cause serious labour problems.

4. My own view is that all options entail the likelihood that the Government's financial involvement cannot be limited to an uncalled £200m. guarantee. With options (i), (ii) and (iii) I regard this as certain. Option (iv), new management, offers a chance of getting away without any direct injection of cash (although I think this unlikely) and certainly it should be made clear to the new management that they have to bring the company round without any help beyond the existing guarantee. Indeed, a key feature of their task is to generate sufficient confidence for share-holders to become willing to come forward with further funding when this is needed. In the circumstances, I believe therefore that Option (iv) has to be taken. But if the Government

decide on this course it should do so recognising that some additional financial assistance may ultimately be unavoidable.

5. I am sending a copy of this minute to Sir Robert Armstrong.