COPY NO 1 OF 13

3

PRIME MINISTER

ICL

Since we made the £200 million loan guarantee available to ICL on 19 March, the company have been pursuing their partnership negotiations with Univac, NCR and others, while simultaneously the Department, in consultation with the company's merchant bank advisers, main institutional shareholders and bankers, has been exploring possible strengthening of the management.

2 Progress towards partnerships has been disappointing. The position reached with the two front runners, Univac and NCR, is summarised at Annex A. Others (mainly CDC and Burroughs) remain interested, but would still have a great deal of preliminary work to complete before they could formulate specific proposals. There is no sign at present that any prospective partner is prepared to go beyond taking a substantial minority stake in ICL. Both Univac and NCR would expect ICL to carry through and fund substantial redundancies (upwards of 7000) before a partnership took effect. The cost (at least £20 million in addition to sums already set aside by ICL) would further erode the company's net worth and there have been indications that both prospective partners would be looking to the Government to provide a significant strengthening of the balance sheet before they would agree to go ahead. Univac's proposals also envisage a drastic curtailment over a period of ICL's product range, R&D effort and manufacturing operations. The institutional shareholders do not

regard the partnership proposals that have emerged so far as being in their, or other shareholders', interests.

3 Meanwhile, adverse criticism of the present ICL management has greatly increased and is being expressed by the banks, shareholders, customers, trade unions and in the press. There is a growing expectation that the Government must soon take decisive action to replace the present Chairman and, probably, the Managing Director. The Chairman has sought an urgent meeting with me, stressing that continuing press speculation about the company's future can only exacerbate its difficulties, particularly by sapping customer confidence.

4 An alternative top management team prepared to take over ICL has been identified in Mr Christopher Laidlaw, at present Deputy Chairman of BP, who would become executive Chairman of ICL, and Mr Robb Wilmot, Managing Director of Texas Instruments in the UK, who would become Managing Director. Together with the Lord President, the Chief Secretary, the Minister of State, Treasury (Lord Cockfield), the Minister of State, Industry (Mr Baker) and officials, I had a long discussion with Messrs Laidlaw and Wilmot yesterday to explore with them their approach to the company's immediate and longer-term problems. The record of our discussion is at Annex B.

This is worth reading

TL.

5 Mr Laidlaw and Mr Wilmot appear to complement one another well and their diagnosis of ICL's shortcomings is impressive.

Neither would be prepared to be associated with a hasty partnership along the lines currently being discussed with Univac or NCR. Their approach would instead be to institute a programme of urgent economies with the aim of reducing ICL's cash requirements and restoring profitability. At the same time they would change ICL's underlying strategy and seek to build on its strengths in marketing and product support by concluding a series of partnerships with selected companies producing higher technology products. By concluding factoring and licencing arrangements they would seek to make ICL fully competitive in a broad sector of the rapidly expanding information technology market. They have explained that their aim would be to reduce the size of the Government guarantee well before the end of its two year term but that some taper of the guarantee beyond the end of the two year period might be necessary.

6 We have to decide urgently whether we wish to take up the option which the availability of Messrs Laidlaw and Wilmot presents to us. Mr Wilmot in particular has other attractive offers open to him (including further progression in TI) and we must assume that he will not be prepared to wait for a decision from us beyond the middle of next week at the latest. He is not manifesting any blameworthy importance; he has not told his Board of his talks with us over recent weeks; if he is offered and accepts a post and then tells his Board - well and good; but now that the press is on his tail he risks being exposed to his Board without any acceptable post being offered him by us. We owe him therefore a rapid answer to minimise the risk of press identification.

The Options

7 We therefore face a choice between three options, all of which involve large risks and potential costs:

(i) continued search for a partnership by the present, largely discredited, top management of ICL. The costs to the Government of this course are impossible to estimate but could be substantial. There is no certainty that a satisfactory partnership would in the end emerge - at present no prospective partner is prepared to take control of ICL and assume full responsibility for its future. We should continue to be at risk that, if ICL were not restored to viability, a minority partner might threaten to withdraw unless substantial Government financial assistance was provided. Even the kind of unsatisfactory arrangement Univac and NCR are contemplating could probably only be concluded if the Government were to meet the cost of redundancies (upward of £20m) and perhaps strengthen ICL's finances in other ways. We might in addition consider offering a "dowry" to induce a partner to make an outright bid for ICL, but such a course would be difficult to negotiate, could prove expensive and is unattractive politically, especially as any partnership is bound to involve large redundancies. We also have to bear in mind that so long as the present weak and demoralised top management remain in charge our negotiating position with prospective partners will be poor and deteriorating all the time and the value and commercial credit of the company will be dwindling.

(ii) Prepare for early receivership We ruled out receivership earlier, but at a time when we were advised that the prospects for a satisfactory partnership deal were better than they have proved to be. Officials have re-examined what would be involved in safeguarding the Government's user interests if receivership occurred and their report is at Annex C. This confirms that receivership would be an expensive and hazardous course. Much, if not all, of the £200m guarantee would have been called. Conversion costs for systems and software, for the public sector as a whole, would be of the order of £350m over a period of up to ten years. To provide maintenance and services in the meantime for the UK customer base would involve a capital cost of £100m and there would be a substantial additional revenue cost to the public sector. Even then the risk of disruption to Government computing facilities would be considerable. Moreover, having given the loan guarantee, we should face difficulty in finding a pretext for precipitating receivership, at least until there had been a further serious deterioration in the company's position.

(iii) Immediate appointment of Mr Laidlaw and Mr Wilmot to run the company. They understand that their remit would be to operate within the limits of the existing guarantee and to avoid any call being made upon it. They consider that this would be possible subject to the proposal for tapering in paragraph 5 above. I fully accept, however, that there can be no certainty that a new management team will prove to be able to restore ICL to viability and that we could find ourselves on a new "escalator" with repeated requests for ever-increasing Government support. I see no means of quantifying this risk. Messrs Laidlaw and Wilmot themselves recognise that they have so far been able to examine ICL's problems only from the outside and that the difficulty of securing effective remedial action could prove to be greater than they expect once they found themselves on the inside. Mr Wilmot's proposed strategy for a gradual withdrawal by ICL from continued development and production of their larger main-frame computers could also carry with it some risks and considerable costs for the Government as user and we should need to reach a clear understanding on this point before the new appointments were confirmed.

8 Nevertheless, in a situation in which none of the options

open to us is attractive, my preference would be to put our support behind Mr Laidlaw and Mr Wilmot. I believe that their appointment as Chairman and Managing Director would be widely welcomed and would halt the dangerous slide in confidence which threatens to undermine the company's position. They would bring to ICL tough professional management of a kind that has been sadly lacking in the recent past.

9 We should need to make it clear to them that the Government's primary objectives remain to secure its customer interest and to avoid any call on the guarantee. They must not expect any form of financial or other support from us beyond what is generally available (eg through our R&D support schemes and our policy on enlightened public purchasing). I should not, however, want to rule out the possibility of negotiating in due course some tapering of the guarantee, along the lines they have suggested. We should also confirm with them our understanding that, while they will not be seeking a partnership or takeover as a matter of urgency, they will maintain an objective attitude towards any proposals of this kind that may be made to the company in the coming months.

10 If we agree to make these changes in the top management, I should want to act quickly but in close co-operation with the institutional shareholders and the banks. This should not only make for a smoother transer, but would also ensure that the company's main potential sources for additional private sector finance were committed to the management changes. In addition,

I should seek to secure, again in co-operation with the shareholders and the banks, a strengthening in the non-executive element on the ICL Board.

11 I am copying this minute to the Chancellor of the Exchequer, the Lord President, the Chief Secretary and the Minister of State (Treasury), to Sir Robert Armstrong and to Robin Ibbs.

KJ

K J
7 May 1981

Department of Industry

ANNEX A

CONFIDENTIAL

COMMERCIAL IN CONFIDENCE

PRESENT STATE OF PARTNERSHIP NEGOTIATIONS

Univac

Univac are not interested in a total acquisition. Their approach has been based on a takeover of ICL's major overseas operations but with a minority holding in the UK company. They would aim to substitute Univac products for most if not all of ICL's 2900 range while perhaps adopting ICL products at the low end of the range. There would be only limited continuation of production and R & D in the UK. They are most unwilling to contemplate any responsibility, financial or moral, for the substantial redundancies they see as essential.

NCR

NCR have moved away from interest in total acquisition in favour of some form of minority shareholding. They have indicated no clear strategy for users of the 2900 series although, following a disappointing review by ICL of NCR developments, they have dropped proposals to replace ICL products at the top end of the range. (At the lower end they believe ICL products could be replaced by new NCR technology with the prospect of productivity gains.) They are interested in continuation of ICL R & D in the UK but are particularly concerned at the effect of an ICL partnership on their own critical financial ratio. Meanwhile, GEC remains interested in the principle of a 25 per cent stake if NCR produce an otherwise acceptable proposal.

ANNEX B

RECORD OF A MEETING TO DISCUSS ICL HELD IN ROOM 11.01 ASHDOWN HOUSE ON WEDNESDAY, 6 MAY at 8.30am.

Present

Secretary of State
Lord President
Chief Secretary
Lord Cockfield
Mr Kenneth Baker
Mr Robin Ibbs
Sir Peter Carey
Mr Ryrie
Mr Croft
Mr Watson
Mr Lovell
Mr Ballard
Miss Youde
Mr Atkinson

Mr Laidlaw
Mr Wilmot

1 The Secretary of State, in welcoming Messrs Laidlaw and Wilmot, said Ministers wished to discuss ICL's needs with them against the background of the Government's triple purpose which was to protect its interest as a client, to avoid the guarantee being called and to ensure long term viability for ICL, either in a partnership, in joint venture or, possibly, as an independent company. A time limit had been set for the guarantee and the Government thought that this meant that ICL should enter into a partnership. Ministers were aware of the visitors' views on a shot-gun marriage.

2 Mr Laidlaw explained that he was not familiar with the computer industry but that he had seen the accountancy documents produced prior to the issue of the guarantee. It seemed plain that ICL was in difficulties particularly in the fourth quarter of 1980-81 ending in September. The company itself was putting forward optimistic projections, anticipating an upturn in the economy and an increase in both the number and value of deliveries at maintained price levels. The Government guarantee created a problem since, if adherence to the two year term was to be a paramount consideration, it would be necessary to get the rubbish in ICL out of the way quickly. This would be costly but the Government did not wish to spend money. Consequently a middle way had to be steered between sorting out ICL's problems quickly and avoiding imposing costs on Government which might exceed £200 million. This made it necessary to proceed gradually which reduced what could be done in the current ICL accounting year; problems would still exist at the end of the guarantee period. This might make it necessary to taper the guarantee. Nevertheless there was a good chance of doing a considerable amount for the company by normal management means, such as reducing the inventory, ceasing over-production and eliminating manufacturing in the United States. A corporate

strategy could be developed by Mr Wilmot, possibly involving a partnership in mainframe computers which would safeguard the Government's interest but with other partnerships dealing with other types of equipment. Mr Laidlaw stressed, however, his need to familiarise himself with ICL first; this could take from 6 months to a year.

3 Mr Wilmot stressed that ICL had to be managed so as to make a profit. It had had problems for a long time. Its turnover was £6-700 million per annum but it was resourced for a turnover of some £900 million, an over-provision of 25%. This led to a cash outflow. It would be necessary to look at the company closely to see how its activities could be turned round; at present it was marketing-led and for example the marketing organisation had spent £25 million more in the most recent year than had been provided, but at the same time had under-performed its sales target. Another problem was that the company had accepted a pre-tax profit of only 7% on sales for several years. Current assets were consuming an excessive proportion of revenue and budgeted capital expenditure was 2% over retained earnings. The company as a whole was structured so as to consume £50 million of cash a year when functioning well with the result that considerably more cash had been consumed in the previous year following the turndown. Mr Wilmot thought ICL had poor production and management systems;
it took the company up to 6 months to respond to changes in the market with purchasing, production etc continuing at previously arranged levels for some months without responding.This was another cause of problems.

4 Mr Wilmot said ICL carried out its research activities thoroughly but in consequence was late in development where it needed to catch up with developments in the United States. He thought this problem soluble. The company was also secretive which was one of the causes of its recent problems, but it was also secretive with its own people which led to another set of problems. Management had been carried out on a contingency basis; central management had merely totted-up the bids from the various parts of the organisation and had added in generous contingency margins on top. Planning operations were essentially short-term with concentration on year one and not year two. This resulted in problems in year two which had been demonstrated by the increase in payroll costs from 20% to 28% in one year following the ending of the 1978 pay policy.

5 Mr Wilmot thought that on product strategy ICL had attempted to cover the whole waterfront but had failed to distinguish in which businesses the company was intended to operate. Other major firms apart from IBM had specialised. Also ICL had not done sufficient to anticipate the merger of data communications and data processing activities, or the future merger of data communications with telecommunications.

6 Turning to his prescription for the future, Mr Wilmot said there were immediate problems and long-term problems. So far as the immediate difficulties were concerned ICL was in a box. The Government had defined through its guarantee the maximum cash outflow which could be tolerated.The profit position was disastrous and this was of particular interest to any potential partner. Customer confidence was very low and had been low even before the Annual General Meeting. Overall the company had from 5,000 to 6,000 people too many for carrying out its current level of business and in a shotgun merger with a similar computer company ICL might find itself with 10-12,000 people too many. This excess manpower should have started to be shed 18 months previously. Now, however, to move out 5-6,000 people would cost £40-50 million. His own experience of moving out numbers of people was that this disrupted operations and had an adverse effect on the customers, leading to an added negative cash flow and a loss of customer confidence. His prescription for dealing with the cash problem was to place most of the workforce on a short work week so as to avoid disruption and to save money. Nevertheless there were 2,000 people surplus to requirements, many of whom would be poor performers who should be moved out at once. The remainder of the surplus manpower was skilled and it was desirable that they should not be lost to the country or to the computer industry. He thought therefore he could make a 5% reduction in manpower at once both on the shopfloor but more particularly amongst management. He thought that he could prolong short-time working for between 6 and 9 months. He thought he could also achieve significant economies in the £350-400 million spent on customer support and marketing. He expected to win a high degree of union co-operation for these measures but he did not have direct experience of labour relations within ICL.

7 Mr Wilmot expected to introduce a monthly cycle of management reporting with weekly updatings in place of the existing quarterly reporting arrangements with monthly updates. He thought this would help squeeze out excess inventory which now amounted to 6 months requirements. With a shorter production cycle there would be greater responsiveness to the market. Apart from this, ICL had been lax in ensuring payment by its customers.

This was partly the result of the company being marketing-led but extended credit also had the effect of relieving the company of surplus production. At present receivables amounted to 65 days and could be reduced to 50 days even at the cost of some loss of customers, thereby saving about £50 million.

8 Mr Wilmot thought that ICL was also soft with its suppliers, having over-intimate relationships with many, resulting in the company paying too much. He though that vendors needed to share in ICL's cash flow problems and he thought that ICL could extend the credit it took from its suppliers from 45 days at present to between 60 and 90 days.

9 Mr Wilmot expected to reduce capital expenditure by £4-5 million and expected that progress could be made with selling surplus production assets. He also expected to increase the prices charged by ICL for servicing and to convert many of the leased computers to outright sales. These various programmes would help stem ICL's cash flow crisis.

10 As far as strategy was concerned Mr Wilmot's goal was to conclude short-time working and minimise the cost of redundancies. This required a clear product strategy both in the short and medium term as well as for 10 - 20 years ahead. The immediate strategic need was to place the company on a profitable basis which was a precondition for partnerships. In the short term, however, partnerships did not seem to be available on terms which were reasonable to the Government or to ICL. ICL had many resources, particularly in marketing and customer support, which were lacked by many other companies which had high technology. He thought ICL could offer its marketing and customer support strengths to companies producing high technology products but it could not do this at present because of its liabilities, in particular its losses and the risk of the return of leased computers. By selling other people's technology ICL would have less need for expensive R&D.

11 Mr Wilmot hoped that the combination of measures he had outlined would permit ICL to negotiate with partners from a position of strength starting at the beginning of the second year. The intention was that negotiations would bear fruit at the end of the guarantee period. A main purpose would be to persuade the banks to pick up their credit lines again at the end of the existing guarantee period. There was the problem, however, that as at present envisaged the guarantee expired after two years and one day. It was obviously necessary for the company to begin to wind down the loans which were backed by the guarantee well before the end of the two-year period - he thought this should start at the end of year one - but he envisaged that a taper on the guarantee would be necessary beyond two years.

12 Describing his strategic approach in more detail Mr Wilmot said that ICL's biggest cost was its marketing operation; so he intended to increase volume by factoring other manufacturers' products. He thought factoring could be arranged in conjunction with some of ICL's present product range, with data-communications equipment and with office technology systems. The arrangements would not involve ICL making the equipment but there would be some development expense. Factoring arrangements could be set up with those overseas companies with which ICL wanted longer term collaborative ventures. He envisaged collaboration with up to 8 - 10 concerns and slow working towards mutual arrangements. He thought factoring agreements could be reached in between 6 and 12 months time.

13 Mr Wilmot said that ICL, like many of the US computer manufacturers, had considerable surplus manufacturing capacity because the market had stabilised and also because the new technology used less labour. He had it in mind to seek the disposal of one or two manufacturing plants as going concerns. (He expressed disappointment that Mitel had been given assistance for a new factory in Wales since they would have been ideal candidates to take over the Winsford plant).

14 Mr Wilmot said that a third strategic area would be for ICL to produce more products under licence from future partners. One example was discs where ICL already acted as a factor. Similar arrangements should be made for printers. He pointed out that most other computer companies built their own discs and printers which meant that ICL's claims about the value of sales per employee did not involve comparisons of like with like.

15 On the marketing side Mr Wilmot wanted to explore bringing in more data communication products. Many United States companies had excellent technological products but poor marketing arrangements. He quoted the example of word processing and Logica. Mr Wilmot thought that when data communications merged with telecommunications in a few years time there would be considable scope for collaboration between ICL and companies like Mitel. He also mentioned the scope for collaboration on laser printers and thought that ICL should become active in personal computers (which he described as personal work stations).

16 Finally, Mr Wilmot discussed the scope for disposals or spinning-off activity. He thought that ICL was involved in some activities, for example its expensive printed circuit board manufacturing operations which it could not afford and which operated at only 40% of capacity. He thought that the manufacturing capability for silicon duplicated the work done by other companies, for example, Ferranti which did not have the computer-aided design facility which ICL did. ICL's computer testing and quality assessment activities were under-used and it would be possible he thought to arrange collaborations on a going concern basis.

17 In reply to the Chief Secretary who asked about the timescale for these proposals, Mr Wilmot hoped to make substantial progress in a year. He expected that short-time working could be arranged for only about 9 months but that all staff, including the marketing team, would be on short time arrangements. The company should take immediate steps to remove those who were not pulling their weight. The establishment of factoring arrangements was not straightforward and would take some time.

18 Lord Cockfield thought that Mr Wilmot's proposals involved changing the emphasis of ICL's activity from a company which manufactured and sold its own products to a company which factored and which manufactured under licence. ICL was already buying 50% of its hardware. He thought that Mr Wilmot's strategy was crucially dependent on ICL's ability to find companies which

had products which were suitable for factoring or for manufacture under licence. He wondered whether suitable companies existed for the forms of co-operation which Mr Wilmot envisaged. Mr Wilmot replied that there were and that, despite its heavy R&D expenditure, which it could not afford, ICL was not keeping up with its competitors. He thought that in future computer companies would have to offer complete distributed computing systems. ICL did not have the resources to supply all the parts of such networks and so had no choice but to buy in technology. What he envisaged was a development of what had already been done by ICL which discs. He thought that suitable partner companies were available since it was expensive for companies to build up marketing arrangements. Even IBM were factoring in. He considered that any company which manufactured mainframes would be in difficulties, since none of them could afford to spend enough to keep up with IBM, except the Japanese companies. ICL had to wqork out how to use Japanese technology so as to satisfy IBM users. However, Japanese mainframe manufacturers could not sell their machines; the Japanese companies had invested heavily and could not get their products to the market.

19 The Chief Secretary believed that many of ICL's problems stemmed from its mainframe activities. He wanted to know how Mr Wilmot saw the future of the 2900 series. Mr Wilmot replied that ICL could not afford to spend many millions of pounds on developing new mainframes. The whole computer world was moving towards compatibility with IBM machines. He did not know the answers about ICL's mainframes but it needed to maintain the 2966s and he wished to explore the use of Japanese micro coding techniques to emulate ICL mainframes. This could help to achieve compability with IBM equipment and utilise the power of Japanese computers in a way which supported ICL's existing customers whilst permitting them to make a slow transition to IBM-compatible equipment. He did not think that there was any alternative to a policy under which ICL would not make a successor of its own to the 2966 machines.

20 The Chief Secretary enquired about Mr Wilmot's proposals on the development of the 2966. Mr Wilmot replied that there were two avenues to development: one involving cost reduction etc and here the introduction of LSI should not be done because it was too expensive. But he did think that work should be done on multi-processors for the 2966 but he did not know their cost. In reply to the Chief Secretary he added that he did not know how precisely he could ensure collaboration with the Japanese. Mr Baker said that Fujitsu wanted to get into Europe and had gone down the IBM compatibility route.

21 The Chief Secretary enquired about the Government guarantee and Mr Laidlaw and Mr Wilmot's ideas about tapering. Did they envisage that the Government's sole financial interest would be in the guarantee? Would the guarantee be reduced before 2 years expired but would it also be extended beyond the two-year period? Mr Wilmot replied that the aim was to meet the guarantee and in any case, if the two year term was to be met, there would be a need to reduce dependence on the guarantee early in its term. He could not say how much beyond the two-year period the guarantee would need to extend but he added that, if ICL could not succed

in beginning to taper off its dependence on the guarantee as early as the end of year one, then the Government would be entitled to consider folding up ICL. Mr Laidlaw thought it unwise to dwell too much on the details of the guarantee since he and Mr Wilmot had not yet got within the company. It would not be easy to start early on reducing the guarantee because the banks had to a great extent been anaesthetised by their dependence on it. Mr Wilmot stressed, however, that ICL could not afford a hiatus at the end of the two year guarantee period.

22 The Chief Secretary enquired about the extent to which Mr Laidlaw and Mr Wilmot expected money from the Government. Mr Wilmot replied that one of ICL's major problems had been its poor management of machine transitions. A large proportion of the machines it had produced were on lease and could be returned from lease. He thought one possibility was that he would not want money but a sensible programme for Government computer users making use of returned ICL machines. There followed a brief discussion about what precisely Mr Wilmot meant by this suggestion. Mr Wilmot said that when computer systems were upgraded many other users were willing to accept used equipment but he was not suggesting that the Government should accept unreliable equipment. He was not in the company and so could not go into detail but he understood that there were a number of returned machines which were an embarrassment to the company and he hoped that the Government would look sympathetically on new transition arrangements. Mr Watson found it difficult to follow the proposals; much would depend on what machines Mr Wilmot had in mind but many of ICL's 1900 range machines were not reliable. Lord Soames drew an analogy with the Government accepting the previous year's model of motor car when the latest model could go faster. Lord Cockfield thought that the idea which Mr Wilmot had suggested was not applicable to the Inland Revenue contract. He was not willing to believe that the arrangement could be implemented without firm evidence.

23 The Chief Secretary enquired about any other areas where Government policy decisions would be required. Mr Wilmot mentioned the Inland Revenue computer as an area where continued support would be important and he hoped that the Government would support ICL through enlightened public purchasing. He had in mind in particular assistance with the development of distributed processing systems and drew attention to the French Government's recent contract with Honeywell for a distributed system for museums. This contract meant that in 18 months time the French industry would be able to offer the world market a developed computer system for museums.

24 Mr Baker asked, assuming that Mr Laidlaw and Mr Wilmot joined ICL, the nature of any statement they would want on the search for a long-term partner. Mr Laidlaw stressed that because of low morale within ICL it would be necessary for the Government to make a reassuring statement.

25 The Lord President enquired about Government involvement in ICL's R&D. Mr Wilmot said that ICL's management assumed a DOI contribution for R&D support. He himself would prefer enlightened public purchasing arrangements to expenditure on direct R&D support. Mr Laidlaw said that ICL had between £12 and £14 million for Government support in their budget. Mr Atkinson said the figure in the DOI budget for 1981/82 was only £4 million at the moment.

26 Mr Wilmot stressed that the Government's confidence as a customer was vital to ICL. The Government had to appear 150% behind the company. The Secretary of State thought that Mr Wilmot's approach was that the company should solve its own problems by normal management means. If it took these actions ICL might attract a bid from another company on reasonable national terms. He wanted to know Mr Wilmot's reactions to such an approach and in particular whether he had contemplated working for another company. Mr Laidlaw replied that he had contemplated the issue He did not envisage the issue arising in the short term but he thought that the ICL management should establish a team to keep under assessment the possibility of partnerships including takeovers. He thought there were two parts to the business which might be subject to separate merger arrangements. He thought it unlikely that there would be a bid for the whole company but there might be bids for the mainframe business or the system operations. Mr Wilmot did not envisage a reasonable bid from any of the computer companies now considering offers for ICL He thought, however, that Xerox was a much more likely takeover possibility. He would, however, recommend to the shareholders a takeover bid which made sense in its totality and would not be prevented by pride in his achievements from accepting such a bid.

27 At this point, Mr Laidlaw and Mr Wilmot left the meeting.

28 Mr Ibbs said that the original proposition had been for the Government to secure a new majority owner for ICL but this proposition had disappeared. It was difficult even to get a minority shareholder on reasonable terms. The Government may now need to consider the "dowry" concept for attracting a majority shareholder. If the Government needed support for the computer equipment it already used he thought that Messrs Laidlaw and Wilmot represented as good a chance as there was. But risks were large. The team was outside ICL but could say things from that position in good faith which could be disappointed by reality. There could also be serious marketing disappointments. The costs to the Government might well go above £200 million.

28 Lord Cockfield thought that the Government were considering a totally different proposition from that put forward in March. There were a great number of liabilities off the ICL balance sheet. If the Government went down the proposed route there could be substantial additional claims. Mr Atkinson pointed out that all the overseas prospective partners had spotted the off balance sheet liabilities and their impact on the net worth of the company.

29 Lord Cockfield enquired about the scope for cutting out the servicing parts of ICL's activities. Mr Atkinson said that this was covered in the exercise of the cost of liquidation which he expected to be completed in 2 to 3 weeks time.

30 Mr Brittan thought that the Government needed to have answers on the costs of liquidation and a separate servicing company before reaching decisions. The Government could not decide on the present option whilst it was the only option put forward.

31 Mr Watson stressed the need for market confidence and the difficulty of turning round market confidence at the present time. So far as mainframe activities were concerned Messrs Laidlaw and Wilmot appeared to envisage no development of software, for the existing machines to run on for a few years and for a transfer to Japanese machines at the end of the day. It was necessary to look at the problem from within the company. Sir Peter Carey thought that some confidence would be generated by setting up a credible management.

32 The Chief Secretary thought there was a need to consider alternatives and in particular liquidation. Mr Watson said there could not be a viable servicing organisation for the Government in isolation.

33 Lord Soames wondered if the Government could do any better than to go down the road proposed. He thought there was a great number of unknowns both from the Laidlaw/Wilmot proposals and from the proposal to liquidate. It would not be possible to compare the costs of two unknowns. It was agreed that a meeting would be sought with the Prime Minister before the end of the week and that discussion at that meeting should take place on the basis of a paper to be prepared by officials outlining the various options open in the present situation.

I. Ellison

I K C ELLISON
PS/Secretary of State for Industry
Rm 11.01 Ashdown Ext 3301

7 May 1981

Circulation

PS/Chancellor of the Exchequer
PS/Lord President
PS/Chief Secretary
PS/Lord Cockfield
PS/Mr Baker
Sir Peter Carey
Mr Ryrie
Mr Croft
Mr Lovell
Mr Watson
Mr Atkinson

COMMERCIAL IN CONFIDENCE

Econ Pol

MINISTER OF STATE (LORDS)
TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

I K C Ellison Esq
Private Secretary to the
 Secretary of State for Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

8 May 1981

Dear Ian

ICL

Paragraph 29 of your minutes of the meeting on 6 May records:

"Lord Cockfield enquired about the scope for cutting out the servicing parts of ICL's activities."

On reading the minutes Lord Cockfield has requested that in order to get the record absolutely right he would be grateful if this could be amended as follows:

"Lord Cockfield enquired about the scope for making an independant operation of the servicing parts of ICL's activities ie by setting up a service company."

I am copying this letter to the recipients of the minutes of the meeting and the recipients of your Secretary of State's minute of 7 May to the Prime Minister (to which the minutes of the meeting was attached).

Yours sincerely

Jim Milner

J C MILNER

Assistant Private Secretary

ICL: CONTINGENCY PLANNING ON RECEIVERSHIP

(Note by Department of Industry in consultation with HM Treasury and CCTA)

Introduction

As part of the contingency planning commissioned by the Prime Minister in the course of the earlier ICL negotiations officials have been working urgently on the practical implications of Receivership (and probably almost simultaneous liquidation) of the Company. The object has been to establish how precisely it might be possible to make realistic contingency plans to protect Government's computing operations by the provision of adequate maintenance and services for upwards of six years following Receivership. This work involves detailed consideration of technical, financial and legal implications and the preparation of a form of 'warbook' which would enable action to be taken effectively and as a matter of urgency. It is not yet completed but this paper includes the agreed views of officials in all three Departments on the basic issues.

Costs of Receivership

2. If, in consequence of Receivership, ICL equipment currently installed in Government installations has to be replaced at an

earlier date than would be necessary if the Company was able to continue manufacture and maintenance of its 2900 range (or if a prospective partner was able to provide a gradual 'migration path' to its own equipment) then the additional cost to Government for conversion of existing systems and software will be at least £200m (£350m for the total UK public sector). To this cost of conversion has to be added the cost of additional equipment and the cost of additional computer accommodation (since it will not be possible to house the replacement equipment in existing accommodation for the essential period of parallel operation). These costs cannot at present be quantified.

3. The considered professional advice of CCTA (reinforced by the views as reported to officials by prospective US partners) is that the resource implications of conversion in terms of staff requirement are such that it would be totally impracticable within a period of 4-6 years of receivership. This makes it imperative in the event of Receivership to provide maintenance and services for between 6-10 years. The capital cost of this maintenance/service facility (ie. for securing an essential stockpile of spares and components) would be upwards of £100m for the UK customer base alone and (on the assumption that any service for customers outside the public sector would be self-financing) the annual revenue costs are of the order of £40m per annum, not all of which would be additional cost. This excludes liability for redundancy payments which would have to be made to the staff retained from ICL to undertake the maintenance

service: some 1400 would be necessary for central Government alone and the redundancy costs would be of the order of £20m (and double if a service was to be provided for all UK customers).

4. It must be assumed that, by the time of Receivership, much if not all of the £200m loan guarantee would have been utilised. There could be a further cost of indemnifying the Receiver but (see below) we believe that, by following the Rolls Royce (1971) precedent, this could be avoided.

Funding and relevant powers

5. In the event of Receivership it would be essential, in order to continue maintenance/service facilities, to have power either to indemnify the Receiver or (and this would be the preferred course) to acquire assets from him. The Industry Act could most probably be used for this purpose (if it could be established that one of the purposes of Section 7 (2) was met); but this would mean stretching the interpretation to be placed on the purposes of the Act and it could prove highly controversial in the circumstances in which Receivership would take place. There are no other powers available to the Department of Industry.

Essential mechanics

6. If maintenance etc services are to be available almost immediately on Receivership then, at that time, it means having an organisation in place, with management appointed, which could negotiate with the Receiver on:

a. extracting from ICL's Customer Engineering Division and Software Maintenance Centre - with their associated administrations - the people who would be required to provide essential services. Individuals would have to be identified and brought together in one location from the several places where they are presently serving. For central Government alone this involves 1000 engineers, 150 software staff and 200 support staff (many of whom might not wish to work in a purely maintenance organisation with an apparently limited life);

b. purchasing stocks of spares and components sufficient to minimise dependence upon any new manufacture (which may not be possible) during the potential run-down period;

c. provision of manufacturing facilities by the Company for certain limited hardware requirements necessary to maintain Departmental services and for limited expansion of these;

d. acquiring equipment from various Company plants necessary for testing facilities and the repair or refurbishment of particular parts of equipment.

These negotiations would include acquisition of documentation and other 'know how' from ICL's purchasing organisation.

7. The Government does not have a locus to appoint a Receiver nor to determine his choice. But, under the terms of the loan guarantee, the banks are obliged to give the Government five days' notice of their intention to appoint a Receiver and this would clearly give scope for consultation on the person to be appointed and, possibly, on discussing the provision of maintenance etc services. But, having regard to what would actually have to be done in practice, the only realistic course (following the Rolls Royce precedent) would be for the Government, simultaneous with the appointment of the Receiver, to announce its intentions to negotiate to acquire assets to ensure continuation of certain activities. This would mean setting-up a Companies Act company (with the Government as sole shareholder) and with officers who, hopefully, would have been earmarked beforehand. In the event of receivership this company would take over from the Receiver as soon as possible and run the continuing maintenance etc operations. Funds of the order of £100,000 would

be necessary for initial administration expenses.

8. Provided the nucleus of a management team is selected and preliminary discussions with a Receiver satisfactorily concluded before the date of his appointment Government has, in theory at least, the basis upon which to establish a maintenance facility within a short period of time and certainly before installations begin to degrade seriously. This seems the only realistic course at the outset though it would be for subsequent consideration whether the operation might not subsequently be assigned to one of the third party computer maintenance companies which exist (though none of them on a scale which would match that of this proposed operation) or to a major company like GEC. Nevertheless, the risk of interruption of Government computer operations before the new organisation becomes effective is real, particularly should it occur while Government staff themselves were not fully co-operative. But, whatever the arrangements, the success of the operation both initially and in the longer term would depend critically on the ability of the organisation to attract and retain staff many of whom will be in great demand and might not wish to serve in an organisation of this kind. Furthermore, in order to do the job effectively, these staff would depend on the ability of the organisation to bring together and operate successfully the equipment required for essential software maintenance and development. The risks would increase over time and it must be kept in mind that the maintenance support organisation would have to exist for at least six years in order to spread the costs and resources requirements for

converting to replacement systems (paragraph 7).

Risks

9. Three points to be taken into account are:

a. CCTA believe that, in the event of this organisation being set up on Receivership, there would be serious risk of industrial action affecting its operations. This would be precipitated by the unions responsible - in particular customer engineers and software staff as a reaction against the massive redundancies elsewhere in ICL. The possibility of strike action was mentioned by union representatives at their recent meeting with the Minister of State in the Department of Industry;

b. in the event of Receivership there is a strong possibility that current orders for essential equipment would not be delivered (eg equipment essential for DHSS unemployment benefit, Inland Revenue collection and other replacements) and this would seriously impair Government operations;

c. the organisation to be set up under these proposals would be responsible for the provision of services to UK users. It is difficult to see how, in the event of ICL going into receivership, it would be possible to maintain comparable facilities for users overseas. As the figures in the table bring out, many foreign Governments use ICL equipment. Recent intelligence from BP is that ICL users in the oil states (eg Abu Dhabi) are extremely conerned about how they will maintain essential facilities if ICL falls. They are major users of ICL equipment.

Conclusion

10. In terms of Government powers and organisation it should be possible to set-up a basic maintenance and service organisation which would keep existing ICL systems in the UK going for several years; nevertheless there is a significant risk of an interruption to Government computer operations whilst the new organisation becomes effective. Some equipment to allow for modest expansion or enhancement of existing systems could be provided out of the present inventory of £70m and secondhand equipment coming on the market. Spares would have to be procured from a variety of sources - and this could be difficult; even so there would be high risk of having particular installations out of action for extended periods of time because of difficulties over spares. Major Departments using advanced systems would not be able to maintain their software to present standards and would need to depend more on the co-operation of their own staff. If, for any reason (eg industrial action) efforts to put this service in place within a short period of time were frustrated then the considered view of the CCTA (which officials in both the

Treasury and DOI would endorse) is that Government computing facilities generally would be at immediate and serious risk.

Department of Industry

6 May 1981

TABLE

X UK AND OVERSEAS USERS OVER £1m

UK USERS OVER £5m

PUBLIC SECTOR	£m	PRIVATE SECTOR	£m
HMG : Civil, Finance,	70	Building Societies	12
DHSS, Health Auth.	74	Bank of England	6
Defence	93	Bankers Automated Clearing Services	7
Universities, Polytechnics, Colleges	75	British Aerospace	16
Local Government	130	CWS	9
Metropolitan Police	5	Imperial Tobacco Group	7
BBC	4	Glaxo/Vestric	7
Water	22	Plessey	12
Gas	25	J. Sainsbury	5
Electricity	26	Thorn Group	10
Coal	5	F. W. Woolworth	6
British Steel Corp.	20		
Transport (British Rail, Sealink, BA)	23		
Post Office (incl. Girobank)	38		
BNOC	1		
UKAEA	18		
Trustee Savings Bank	4		

PRIVATE SECTOR £1m - £5m

Associated British Foods
Automobile Association
Albright & Wilson
BICC
Booker Belmont
BP
Burmah Oil Group
Buxton Group
Computel
Chloride Group
Debenhams
Data Sciences
Dowty Group
Ferranti
Fisons
GKN
House of Fraser
Hambros Bank
Hawker Siddeley
Heinz
Hoskyns
Hunting Engineering
IPC
Marks & Spencer
Marley Tiles
Metal Box
NMW Computers(Nth Stock Exchange)
Norwich Union Assurance
Performing Rights Society
Philips/Mullard
Rank Hovis
Ransomes
Rolls Royce
Swiss Bank Corporation
W.H.Smith & Son
Smith's Industries
J.H.Sankey
Tootal
Vickers
Unilever
VDS Group

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Re *

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DW.

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With the Compliments of the

Private Secretary to the
Secretary of State for
Industry

K Benson
for R. Riley.

CS 248

NOTE OF A MEETING TO DISCUSS ICL HELD IN ROOM 11.01 ASHDOWN HOUSE ON 28 APRIL AT 11.00AM

Present:

Secretary of State for Industry
Lord President
Chief Secretary
Sir Peter Carey
Mr Ibbs
Mr Croft
Mr Ryrie
Mr Watson
Mr Lovell
Mr Ballard
Miss Youde
Mr Atkinson
Mr Lingard

cc Mr Duguid
Wolfson
Ingham

TL
9/5

1 Mr Atkinson described the latest position on discussions about possible partners for ICL. Two front runners had emerged, UNIVAC and NCR. Both these companies believed they could offer protection to ICL's customer base but CCTA had not evaluated the realism of such claims. Both also believed that substantial redundancies within ICL would be necessary (probably in the region of 2,000 more than those being planned by ICL itself). UNIVAC envisaged taking a 49% share of ICL's UK business and a complete takeover of its overseas operations. It was understood that NCR also had a substantial minority shareholding in the UK operation in mind but no specific figure had been mentioned. Univac believed that ICL would require a cash injection of some £200 million towards which they would be prepared to put their existing UK computer operations (excluding Sperry). NCR thought that some £100 million would be needed of which they might consider providing some £20 - £50 million. On timing, it seemed likely that NCR would not initiate further talks but would await a further approach by ICL. The Univac people who had been looking at ICL intended to put proposals to their corporate head quarters in June.

2 The meeting then considered the question of ICL's management. Sir Peter Carey said that, in Mr Scholey's view, there had been a marked deterioration in morale within the company, partly explained by uncertainty about the position of top management. Customers and employees were also understood to be expecting changes at the top of the Company. The Department of Industry had identified possible replacements for Mr Chappell and Dr Wilson - Mr Christopher Laidlaw of BP and Mr Robb Wilmott of Texas Instruments - who might be willing to move to ICL. The Chief Secretary considered that the choice of new management might depend on the Government's priorities for the future of ICL. It should be made clear to incoming management that the Government considered ICL needed a partner urgently. Sir Peter Carey said that Mr Laidlaw and Mr Wilmott understood the

Government's position and recognised that the company could not continue alone. He believed that they would hope for a year in which to develop their plans although they understood that the position might change within that time. Mr Atkinson said that they also accepted the protection of the customer base as a priority. The Chief Secretary said that ministers should obtain a clearer idea of what Mr Laidlaw and Mr Wilmott had in mind for the company. It was agreed that ministers should meet Mr Laidlaw and Mr Wilmott (if possible, next week) and that, in advance of this meeting, officials would talk to them about the areas on which their view would be sought. These would include their thoughts about the future of the ICL 2,400 series of computers.

3 Mr Ibbs said that, on the basis of the figures available, he did not think that new management could pull the business round without more money. He considered that detailed cashflow forecasts for at least one year ahead were necessary before judging the case for brining in new management now. The Secretary of State asked about the position of GEC and Plessey. Sir Peter Carey said that GEC would consider a 25% share in ICL if NCR took a substantial (and probably majority) stake. Plessey were also interested but would only consider a minority share.

4 The Secretary of State asked whether the Government should consider purging the company. Mr Atkinson said that this would probably be what new management would do. The Lord President said that regardless of whether a partner was found, it was essential that the company should be got on a sound commercial footing. The Chief Secretary said that the Government should have contingency plans in the event of a Receivership operation being necessary. The Lord President considered that the receivership route could prove extremely expensive for Government and dangerous from the users point of view. In a hurried receivership (which was likely in view of ICL's circumstances) it was not certain that even adequate maintenance arrangements could be made. Liquidation might follow hard on the heels of receivership because of the nature of ICL's business.

5 The Secretary of State enquired why there had been relatively little interest in taking over ICL. Mr Ibbs considered this was because a large amount of cash was required to make the company sound and that the prospective return was insufficient. He said he was beginning to conclude that the Government should consider paying someone to take a majority share in the company in order to get it off the Government's hands. In return for a "dowry" a buyer should be asked for a guarantee of the customer base. It seemed that NCR was the most likely buyer and this would have the additional advantage of bringing in GEC. The Ministers present agreed that this approach should be examined as one of the options. It would also be necessary to ensure, as far as possible, that any buyer was itself commercially sound. Mr Lingard said that the Department of Industry had already commissioned some work in this area.

6 The Secretary of State asked whether it might be possible to establish a regency of new management while a new majority shareholder was found. Sir Peter Carey said that there was a dilemma. It might not be possible to arrange for a takeover while the present management were in office. On the other hand, new management of suitable calibre would probably not be willing to take on the task on the understanding that there could be a "shotgun wedding". The Chief Secretary said that it was essential to find out more about what Mr Laidlaw and Mr Wilmott would propose. The Lord President agreed and said that they were clearly very able men and it was fortunate that they were willing to take on this task.

7 The Secretary of State asked whether the Department should obtain the advice of a Merchant Banker about an approach to NCR. Sir Peter Carey said that the Department was ready to engage Lazards provided that Ministers agreed. The Secretary of State said that it would be important to ensure that the Department's advisers did not cross wires with Mr Scholey. It was agreed that the Department of Industry would appoint Lazards who would advise ministers on what Mr Scholey might be authorised to offer a new majority partner. Mr Ibbs suggested that Lazards' terms of reference should be:

> "To advise on the terms on which a majority stake in ICL could be aquired by a computer manufacturer of good standing".

8 Mr Ibbs identified four options for the future of ICL. They were:

(a) for ICL to continue with new management which would attempt to turn the company round before explaining the partnership option further;

(b) the early introduction of a partner with a substantial minority interest;

(c) a takeover;

(d) receivership/liquidation.

9 Mr Ibbs said that these four options should be assessed in terms of their implications for Government expanditure.

10 Finally, the Chief Secretary agreed that the general ban on new orders should be lifted and that CCTA should place orders with ICL for Strike Command and JARIC. He thought that further orders for ICL equipment shold be considered individually.

Richard Riley

RICHARD RILEY
PS/Secretary of State for Industry
Rm 11.01 Ashdown Ext 3301

28 April

cc PS/Lord President
PS/Chief Secretary
PS/SoS Defence
PS/Mr Baker
PS/Secretary
Officials present at meeting
PS/ CHANCELLOR.