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Econ PA  
PC Mr Watson  
" Haskyns  
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SUBJECT.

10 DOWNING STREET

From the Private Secretary

8 May 1981

Dear Ian,

As you know, the Prime Minister held a meeting this morning to discuss ICL. The following were present in addition to your Secretary of State: the Lord President, the Chief Secretary, Mr. Kenneth Baker, Lord Cockfield, Mr. Reay Atkinson, Sir Peter Carey, Mr. Gerald Watson, Mr. Bill Ryrie, Sir Robert Armstrong, Mr. Robin Ibbs and Mr. David Wolfson. They had before them your Secretary of State's minute of 7 May.

Sir Keith Joseph said that the prospects for an early partnership arrangement had receded. This was partly because the problems of the company were worse than they had earlier seemed, and partly because their exposure in the press was sapping customer confidence and thus having an adverse effect on orders. Neither Univac nor NCR now seemed interested in taking a majority stake in the company as a whole; they were primarily interested in ICL's marketing operations rather than their production and R and D capability, and even a minority stake could well be conditional on substantial Government financial assistance. He had therefore concluded that ICL's current search for a partner under their existing top management was most unlikely to come to anything. The alternative options were to prepare for early receivership; or to appoint Messrs. Laidlaw and Wilmot to run the company with a view to restoring it to viability and finding a satisfactory partnership arrangement in due course. Receivership would be extremely expensive and would be hard to justify so soon after the guarantee had been given. While the Laidlaw/Wilmot option carried with it substantial risks, he had decided that it was the best available.

The Chief Secretary agreed that the Laidlaw/Wilmot option was the best available. None the less, he was concerned about the risks: the Government could all too easily find itself on a new and expensive "escalator". Laidlaw and Wilmot had already said that they would want the Government guarantee to be tapered beyond the two-year period, and there was a clear risk that they would ask for additional money. It was essential, therefore, that the Government's original strategy that the company should enter into a major partnership arrangement should remain intact. It would be unreasonable to ask them to actively

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seek a partnership immediately; but they should be prepared to consider any proposals that might be forthcoming and at a later stage - as soon as they had worked out their strategy for restoring the company to viability - they should actively seek one. When he and other Ministers had seen Messrs. Laidlaw and Wilmot, the latter had indicated that they were interested in seeking relationships with other companies for particular products, but not an overall partnership. This conception needed to be corrected. Given that there was a real risk of failure, even under new management, it would be desirable for the work on the receivership option to be carried forward and completed.

Mr. Ibbs said that he, too, was worried about the risks of what was proposed. It was all too likely that the new management would run into problems that they had not envisaged. For example, the company's underlying balance sheet could well be a good deal worse than appeared at first sight because of off balance sheet financing. It was essential that it should be made clear from the beginning that the £200 million guarantee would not be increased: and that their job was to put the company into such a position that, if it proved necessary, they could raise additional equity finance. The more this was emphasised, at least it was less likely that they would come back for more funds from the Government. Moreover, if there were to be any tapering of the guarantee, the total amount should be reduced below £200 million in advance of the end of the two-year period. One of the main problems with which Laidlaw and Wilmot would be faced was the fact that the company was highly unionised. There was a real risk that the redundancies and short-time working which they were apparently proposing would be resisted. The Government must make it clear that it would not increase the guarantee in the face of union intransigence.

In discussion, the following points were made:

(i) The company at present was in effect bankrupt. It was therefore not surprising that Univac and NCR were unenthusiastic. But it was just possible that under new management the company could be reconstructed and made viable on a smaller basis. Laidlaw and Wilmot should make an excellent partnership: the former had a reputation for toughness that was badly needed at ICL, and the latter combined outstanding competence with a high degree of imagination. However, there were weaknesses in ICL's second tier management. It was understood that Laidlaw and Wilmot had no illusions about this, and intended to make changes.

(ii) It should be made clear to the new management that the Government's position as a customer of ICL equipment would have to be protected. At the same time, the decision to award the PAYE contract to ICL would have to be reopened. Sir Peter Carey explained that the new management intended to set up a working party, which would include the CCTA, to consider the whole question of protecting the Government's interest as user.

(iii) It was argued that the new management should be pressed hard to enter into a major partnership as soon as possible. Against this, it was suggested that it was impractical to ask them to find a partner while at the same time expecting them to take action to turn the company around. Sir Peter Carey said that Laidlaw and Wilmot would be setting up a top management group to look at the prospects for partnership. In his view, they accepted that partnership was an important objective; but they wanted three months or so to consider what kind of arrangement or arrangements they should best go for. It was suggested that, when they had completed this review, the Government should itself carry out a review of the company's overall position and prospects.

(iv) There should be no presumption that the Government would agree to a tapering of the guarantee. If Laidlaw and Wilmot pressed for this, they should be told that we would have to consider. If in the event it were decided that some tapering were reasonable, it would be right to reduce the amount of the guarantee in the way suggested by Mr. Ibbs.

(v) It had to be recognised that the Laidlaw/Wilmot option would involve substantial redundancies and short-time working. But in their absence, there was little prospect of viability and the Government should insist on the redundancies they had in mind. Against this, it was pointed out that the Government's locus in this matter was limited. The Government could lay down certain financial conditions: it was up to management to decide on the redundancies, etc., that would be required.

Summing up, the Prime Minister said that, while there were considerable risks in Sir Keith's proposals, the alternatives looked worse. Accordingly, the Government should lend its immediate support to the appointment of Messrs. Laidlaw and Wilmot. It should be made clear to them that the Government's primary objectives remained to secure its customer interest and to avoid any call on the guarantee. It should be emphasised that they should not expect any additional financial support; and if they pressed for a tapering of the guarantee, they should merely be told that the Government would have to consider the possibility. They should be pressed as far as possible to actively seek a major partnership arrangement, although it had to be recognised that they could not be expected to look for a partner immediately and that they would need to carry out their own review of the possibilities. After they had completed their review in three or four months' time, the Government would need to consider their findings with them. In the meantime, as a contingency measure, work on the receivership option should be completed as suggested by the Chief Secretary. The PAYE contract decision would also have to be reviewed.

I am sending a copy of this letter to Terry Mathews (HM Treasury), Jim Buckley (Lord President's Office), David Wright (Cabinet Office) and Gerry Spence (CPRS).

Ian Ellison, Esq.,  
Department of Industry.

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From the Private Secretary

8/5/87.

Cricke said that in principle for  
 a- early partnership arrangement had needed.  
~~As the prospective~~  
 This was partly because the problems of the  
 company were more than <sup>they</sup> had earlier seemed,  
 and partly because ~~as a result of~~ their  
 exposure in the past <sup>x</sup> was sapping customer  
 confidence in ~~the company~~ and thus attention  
 having an adverse effect on orders. <sup>within</sup> ~~above~~  
 Unirac now with  
~~the prospective partners~~ now seemed  
 interested in taking a majority stake in  
 the company ~~as~~ as a whole; they were  
 primarily interested in taking over ICL's marketing



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operations ~~rather than~~ their production and R and  
 D capabilities, and even if ~~they~~ to ~~prepare~~  
 if ~~they~~ ~~were~~ ~~to~~ ~~come~~  
 a minority stake could well be conditional on  
 substantial government financial assistance. He had therefore  
 considered that ICC's cannot search for a  
 partner ~~where~~ <sup>their</sup> ~~than~~ existing top management was most  
 unlikely to come to anything. The alternative  
 options were to prepare for early receivership;  
 or to appoint Messrs Laidlaw and Partners  
 to run the company with a view to restoring  
 its viability and finding a satisfactory  
 partnership arrangement in due course. Receivership



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would be extremely ~~and~~ expensive and would

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guarantee had been given. While in London /

commitment of this nature with its substantial

risks, he has decided that it was the

best available.