National Audit Office

The closure of MG Rover

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 961 Session 2005-2006 | 10 March 2006

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7 March 2006

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EXECUTIVE SUMMARY

1 MG Rover[1] went into administration on 8 April 2005 when its proposed deal with the Chinese company Shanghai Automotive Industry Corporation (SAIC) collapsed and the Company did not have sufficient cash to continue trading. Phoenix Venture Holdings Limited, who had acquired MG Rover in 2000, considered that the deal had offered the prospect of not only securing the Company's long term future but also stabilising its immediate financial position. The subsequent closure of MG Rover's plant at Longbridge in the West Midlands resulted in the direct loss of almost 6,000 jobs and with potentially serious consequences for the local economy.

2 The negotiations with SAIC, their eventual failure and the subsequent collapse of the Company were primarily a matter for MG Rover management. During MG Rover's final months, the Department of Trade and Industry (the Department) had sought to assist the Company in taking forward its proposed deal with SAIC. The Company had also obtained HM Customs and Excise's (from April 2005 HM Revenue and Customs)[2] agreement to defer payment of the majority of its VAT payments due from the end of November 2004. And from the middle of March 2005 the Department of Trade and Industry had been prepared to make a bridging loan, subject to conditions, to assist the Company overcome its cash flow problem if the deal with SAIC had been delayed awaiting approval from the Chinese Government. In the five year period leading up to this point, MG Rover had received grants from the public sector totalling just under £5 million as part of wider schemes for the automotive industry and the West Midlands region.

3 When the deal with SAIC collapsed, MG Rover went into administration. On 10 April 2005 the Department announced a £6.5 million loan to the administrators to sustain the business for one week while the administrators sought to sell the Company as a going concern; and to reduce the immediate social disruption to the workforce.

4 While the negotiations with SAIC continued, the Department, working with the local regional development agency, Advantage West Midlands, and other public bodies, started in December 2004 to prepare in detail for a potential collapse of MG Rover, to help the transition of the local economy and mitigate the impact on the lives of those directly affected.

1 In this report the terms MG Rover and "the Company" comprises MG Rover Group Limited and Powertrain Limited.

2 In April 2005, HM Customs and Excise merged with Inland Revenue to become HM Revenue and Customs. Until that point HM Customs and Excise's responsibilities included the administration of VAT and Inland Revenue's responsibilities included the administration of PAYE.

5 The Department, Advantage West Midlands and other public bodies allocated over £170 million to cover the one-off costs of the support package for former MG Rover employees, suppliers and dealers and the wider community **(see Figure 1)**. Latest forecasts as at February 2006 indicated that around £146 million of the package is likely to be used, but this may change depending on needs. It is likely that over a third of expenditure on the package will be a direct consequence of former employees' entitlement to state support, compensatory payments and protective awards[3] as a result of the Company's closure. In addition to the support package there are other costs linked to the closure of MG Rover that the Exchequer will have to cover:

- the proportion of the £6.5 million loan to the administrator that has to be written-off. Although £1.3 million of the loan has been repaid by the administrator there will be an irrecoverable element, probably £5.2 million;
- the proportion of the Company's tax liabilities (outstanding at the date of administration) that may prove to be irrecoverable.

Transitional costs will also arise from the Company's closure as benefit payments will be made to former MG Rover employees and there will be a reduction in tax paid by those former employees whilst they remain out of work. It is also likely that the Company's failure will result in a large call on the Government-created, but business-financed, Pension Protection Fund, to cover part of the shortfall in MG Rover's pension schemes. The Fund was established to compensate people whose pensions were threatened by the insolvency of their employers. The Department will also have to meet the cost of the company investigation into the affairs of the MG Rover Group, which stood at £3.1 million at the end of January 2006.

6 This report examines the support provided to MG Rover by the Department and other public bodies in the period leading up to the closure of the Company, and the impact of subsequent support in mitigating the consequences of the Company's closure.

1 The cost of the support package to help transition following MG Rover's closure

	Allocation (£ million)	Forecast of likely spend[1,2] (£ million)
Claims on the National Insurance Fund from statutory payments, compensation awards and protective awards to redundant staff[3]	40	55
Training for workers made redundant[4]	50	25
Support for former suppliers, mainly grants[5]	42	37
Loan fund to support former suppliers and dealers[2]	20	10
Grant support to assist technology and innovation infrastructure[5]	9	9
Measures to address community impact funded by Birmingham City Council	10	10
Total[5]	**171**	**146**

Source: National Audit Office using forecasts provided by public bodies

NOTES

1 Expenditure figures are taken from the most recent forecasts as at January 2006. Forecasts provided by the Redundancy Payments Directorate of the Insolvency Service, the Learning and Skills Council and Advantage West Midlands.

2 For the loan funds, the allocation figure reflects the maximum value of loans that could be made. It does not include £5 million that was set aside to cover any loans that were not repaid. The spend figure is for the value of the loans that are likely to be made. If the loans are repaid in full, total forecast spend falls to £136 million.

3 Allocation excluded the costs of protective awards as these are not statutory payments. Forecast expenditure includes £9 million for protective awards.

4 The Learning and Skills Council forecast expenditure is likely to be less than the initial allocation of up to £50 million as the skills needs of supply chain companies have been less than anticipated (see paragraph 3.29).

5 As some elements of the package run to March 2008 there could be a significant difference between forecast and actual expenditure.

3 Protective awards were made by an Employment Tribunal. See paragraph 3.8.

Overall conclusions

7 The Department made strenuous efforts in the final three months to help MG Rover secure the investment it needed to remain viable through the prospect of a deal with SAIC. Without these efforts, it is likely that the Company would have failed a number of weeks earlier and thus would not have had the time to pursue the possibility of the deal with SAIC until the point when the Chinese Company made it clear to the Department that it was not going to proceed. As this case shows, the costs to the taxpayer when a sizeable company fails can be significant. The events at MG Rover therefore presented a challenge for the Department and the other public bodies involved in handling their relations with an ailing company in need of investment, in anticipating events, scrutinising and reacting to requests for support; and putting in place arrangements to help employees, suppliers and others in the event of a collapse.

8 The following key points arose from our work:

a The cash problems at MG Rover had been recognised well in advance by the Department but the circumstances faced by the Company in early 2005 were unusual and the Department was not able to use its standard support packages to assist the Company. The Department found itself in a position of having to react quickly to MG Rover's circumstances as they evolved in early 2005.

i The Department knew in 2000 that the Company was vulnerable in the longer term without a strategic partner and in April 2004 it foresaw the looming cash problems at the Company. During this period, the focus of work locally was on encouraging suppliers to diversify and reduce their dependence on sales to MG Rover. MG Rover was a private company making its own decisions on how best to secure its future. Up until the end of 2004, the Department reported that the Company was reluctant to share detailed information. This reluctance restricted the Department's ability to gauge MG Rover's progress towards establishing a partnership with another automotive company which might have helped it develop and fund the introduction of the new models it required to secure its future. The Department established, however, an accurate picture of MG Rover's finances based on information largely in the public domain. The Department had determined in April 2004 that there was only limited help that it could give to assist the Company achieve its business strategy short of providing exceptional financial support, for which it could not at the time see any justification given the Department's general policy approach of not shielding uncompetitive companies and because it would bring significant legal and value for money risks.

ii Following an update of its analysis of MG Rover's position at the end of 2004, the Department began to consider in early 2005 whether providing temporary financial assistance might be an appropriate use of public resources if the deal were to be delayed. In deciding in February 2005 that there could be such circumstances the Department took into account on the one hand its general policy of not protecting uncompetitive companies and its view that national productivity goes up if relatively inefficient firms are allowed to close. And, on the other hand, what the Department regarded as this Company's importance for the local economy, the potential inward investment that could arise from the deal with SAIC and critically, the unusual circumstances MG Rover could have found itself in where it could become insolvent whilst waiting for Chinese Government approval for a deal.

iii The need for adequate contingency planning by the Department was significant for the following reasons.

- The Company had a declining but still important position in the economy and society of part of the West Midlands and more generally it had been a matter of great Parliamentary interest and local support when the Phoenix Consortium took control of the Company in 2000. The Department needed to be able to respond rapidly to these interests if difficulties arose.
- The Company would need new models to become a full player in the automotive market and improve its competitive position; it could not finance these itself and, as time went by, the chances of securing a partner with the necessary finance would diminish, thus making MG Rover's closure more likely.
- In the Department's assessment, the Company was not anxious to share detailed information.
- The Department was aware that the assets and loan that Phoenix had received from BMW were being eaten up and that, as a result of the Phoenix group's structure, profitable elements of the business were separate from MG Rover Group Limited, the company which manufactured cars and employed the majority of the group's workforce. The Department was also concerned that the negative publicity about the Directors' remuneration would undermine

confidence in the Company and not help its efforts to find a strategic partner. This could clearly bring the call for Departmental help in the event of failure.

- Purchase of a company in administration is usually cheaper than to buy it as a going concern; the Department needed to recognise that any potential purchaser might prefer to see the Company go down so as to pick up the pieces advantageously, though potential investors would also have to weigh up, for example, the potential re-start costs and impact on brand value.
- Once it became clear that the negotiations with SAIC would be taking place at a critical point in the Company's solvency, this increased the likelihood that the Department might come under pressure to provide assistance, including possibly financial assistance, to the Company.

iv Taken together they constituted a set of risks that justified the preparation of a contingency plan covering a full range of eventualities, scope for assistance, and possible ways forward. The Department responded to these considerations to a degree in April 2004 by identifying a series of scenarios, including a possible request for financial support, the possibility of providing diplomatic support and mitigating the impact of a possible collapse. Its initial contingency planning was mainly concerned with how it and other public agencies might respond if the Company were to collapse, since, at that stage, the Department did not foresee circumstances in which financial support could be justified and the possibility of the SAIC deal was not yet known. In June 2004, the Company announced negotiations with SAIC. The Department reported that diplomatic support was offered in June 2004 and initially declined by the Company's management; support was, however, accepted from November 2004 onwards. The Department did not factor MG Rover's proposed deal with SAIC into its wider contingency arrangements until December 2004 as it considered that it did not have sufficient information to support a full reappraisal of its plans until that point. In November and December 2004 the Department did step up its contingency planning for the Company's failure, as well as moving the focus back to the question of a possible request for financial support. As a result of this the Department had to quickly clarify such issues as how, in early 2005, to collect detailed intelligence on both the key stakeholders in China and the Chinese Government process for approving the proposed deal between SAIC and MG Rover, and how to respond to the position of the Company when MG Rover went into administration in April 2005 with few liquid assets.

v Over the period April 2004 to early 2005, the Department had accurately identified the main scenarios. The Department's planning went through various stages, with different emphases at different points – for example anticipating and drawing up criteria ahead of the Company's request for financial support in February 2005. Overall, the Department could have drawn up a comprehensive set of plans earlier. This could have helped it follow through some potential circumstances, for example the possibility of support to the administrators, although the Department consider that a balance needs to be struck between the value of detailed contingency plans in uncertain circumstances and the clearer focus that can be derived as more information becomes available. The Department considers that it had the information it needed in time to reach key decisions but recognises that some lessons can be learned from this case.

b The Department considered in early 2005 whether the provision of financial assistance to allow MG Rover extra time to conclude a deal might be justified, provided certain conditions were met. The Department decided that making a loan might be consistent with its policy objectives as it could facilitate a deal that could lead to inward investment. Considering such a loan, however, created significant risks for the Department. To help it address these it put in place a multidisciplinary team with appropriate skills.

i Once the Department had decided that it might be appropriate to provide temporary financial support to the Company it had to tread a careful path. Any potential support had to comply with rules governing state aid and the Department needed to ensure that it did not risk encouraging the Directors of MG Rover to act in a way which was inconsistent with their legal responsibilities or obligations to the Company's creditors. In considering whether to offer a bridging loan the Department needed to be sufficiently confident that the deal with SAIC could be completed within a practical timescale and the loan repaid. The position was very unclear and changed frequently. This required it to obtain direct evidence of MG Rover's cash position, by employing professional accountants, and make contact with SAIC to gauge its intentions. But by doing so, the Department risked being drawn in as a party to the negotiations which could confuse its role.

ii Our work showed that when the Department identified the possibility of offering support it acted quickly to obtain the right financial and legal expertise and put in place in February 2005 the multidisciplinary team it needed to help it manage the significant risks it was taking. While some risks would remain, for example there would always be uncertainty until the deal was signed, the Department's actions helped it to reduce risks and manage its exposure, for example to the risk of non-repayment of any loan. It was right for the Department not to go ahead with a loan facility when it became clear that the deal with SAIC would not proceed.

c The Department's £6.5 million loan to MG Rover's administrators was agreed on 10 April 2005. Although the loan would assist the position of the MG Rover workforce to be resolved in an orderly manner, and in the Department's assessment there was conflicting evidence regarding possible purchasers, the prospect of a going concern sale of whole or part of the business within a week was "remote".

i The Department's decision to grant the loan covering a single week's operating costs had to be taken very quickly, in around two days, and took place in the midst of great uncertainty. It saw the loan as providing the administrators with an opportunity to look in more detail at the prospects for a going concern sale which, if achieved, would have benefited the taxpayer and avoided the economic costs of temporarily closing a potentially viable business. The Department considered the prospect of success against the risk of non-repayment of the loan and decided that granting the loan to enable the Company to keep going for a defined period of one week would be a reasonable use of public money as it would also provide some time to enable the administrators to prepare for the Company's closure. During the extra week, the administrators, who had been appointed at short notice, put in place the personnel procedures to process in an organised manner all the workers being made redundant within a week, and linked-up with the various public sector bodies responsible for supporting employees and arranged for the appropriate bodies to be on site when the Company closed.

ii The Department considers that the loan provided sufficient value for money as it both yielded benefits in resolving the position of the workforce and enabled the administrators to explore the prospects of achieving a going concern sale. In our view, allowing some time for the administrators to link up with the various public bodies involved assisted these organisations to manage the transition, however, given the messages coming from SAIC's advisers the prospect of achieving a going concern sale was remote. We therefore doubt whether the Department obtained sufficiently good value for the loan, of which £5.2 million will probably not be repaid.

d When MG Rover requested a deferral of its VAT payments in January 2005, HM Customs and Excise took into account the available information and its assessment of the likelihood that tax liabilities would be paid. This depended on an assessment of the likelihood of the SAIC joint venture proceeding.

i For a viable company in temporary financial difficulty, HM Customs and Excise (from April 2005 HM Revenue and Customs) can grant a tax deferral where this is likely to be in the interest of the Exchequer in maximising tax revenue. The alternative option open to it is to enforce payment of the tax due which may lead to an administration or winding-up. Tax deferrals have helped vulnerable companies survive but risk a possible write-off of tax if companies fail. HM Customs and Excise can therefore face difficult decisions about whether to provide deferrals for VAT. The collection and scrutiny of information on the financial and wider circumstances of companies can greatly aid the decision making process, but companies that need urgent tax deferrals may not be in a position to provide good quality information.

ii In the case of MG Rover, there were weaknesses in the financial information provided by the Company in December 2004. By the end of that month, HM Customs and Excise took, in the circumstances, a pragmatic decision to grant a one month deferral. It expected that MG Rover would request a further deferral at the beginning of the new year to help it continue trading until it could complete the proposed deal with SAIC. We consider that, at that stage, HM Customs and Excise could have done more to point out the weaknesses in the financial information supplied to it, and request improvements. HM Customs and Excise was aware of weaknesses in the financial information supplied by MG Rover but decided against seeking further information. The crux for it in making the debt management decisions was whether or not the joint venture with SAIC would proceed.

iii At the start of February 2005 HM Customs and Excise decided that the interests of the Exchequer would be best served by agreeing to MG Rover's request for a further deferral, rather than seeking to commence debt recovery action which would more than likely have resulted in the Company's immediate closure. This decision was based on information it had obtained from MG Rover and the Department of Trade and Industry by the end of January 2005 which indicated to HM Customs and Excise that it was more likely than not that the joint venture had the potential to proceed. In the light of the information it had received it would have been difficult for HM Customs and Excise not to have extended the deferral in the circumstances, and we note that at the point the decision was taken a later review was planned in May 2005 which would have incorporated more up to date and detailed financial information.

9 The large scale and speed of the Company's collapse in April 2005 created a substantial challenge for public bodies. The contingency planning to mitigate the impact on employees, suppliers and the local economy if the Company were to collapse (co-ordinated by the Department, involving HM Treasury, the Government Office for the West Midlands, Advantage West Midlands, Jobcentre Plus and the Learning and Skills Council) enabled a rapid and effective response when the Company closed on 15 April. The agencies on the ground did well to expand their capacity quickly to meet the immediate large increase in demand for advice and services from both the 5,300 people who had been made redundant from MG Rover on 15 April and from companies in MG Rover's supply chain. The prompt processing and payment of statutory redundancy pay and social security benefits helped many employees and their families at a particularly stressful time. There is evidence that some former employees have been frustrated by the time taken, for example to get on to training programmes, although others have been successful and obtained both training and employment. The prompt availability to former MG Rover suppliers of advice, wage support, small loans and VAT deferrals helped mitigate the impact of the sudden loss of liquidity and business. Public bodies should draw on the lessons that have been learnt, and documented, by those involved in the MG Rover Task Force as well as the perspectives of those receiving services. A key issue for public bodies in such situations will be their ability to respond in a cost-effective manner to the need to increase quickly their capacity to offer relevant training and to ensure that the support and information they provide to employees on training and employment opportunities is made available at a time and in a manner which is most beneficial to the recipients.

Our main findings

The Department's relationship with MG Rover until 2004

10 From May 2000, when the Phoenix Consortium acquired MG Rover, the Department recognised that the Company probably had enough cash to keep it going until 2004 or 2005, but in order to have a long-term future it would need to form a partnership with another automotive company to help it develop and fund the introduction of new models. During its ownership of MG Rover the Consortium pursued a number of potential partners agreeing deals with an Indian company (Tata) who produced a small car for MG Rover and another Chinese company, China Brilliance, although the latter agreement later broke down.

11 The Department sought to establish an effective relationship with MG Rover. However, the development of the relationship was, in the Department's view, significantly hampered by the Company's reluctance to engage at a senior level, share the detail of its business plans or inform the Department of the detailed status of negotiations with potential overseas partners. This was not a view shared by the Board of Phoenix Venture Holdings Limited who informed us that they considered MG Rover had a good relationship with the Department in the period 2000 to 2004.

12 From 2000 the Department maintained links with MG Rover, first through meetings with the Company's Directors but when these became less frequent more contact was made with Company staff at levels below Director. This enabled the Department regularly to monitor the situation at MG Rover. During the period to 2004, the Company sought and received assistance from UK Trade & Investment[4] and the Department in developing two of its potential overseas partnerships. And, as mentioned in paragraph 2, the Company received some £5 million in direct financial assistance.

13 At the beginning of 2004, with no strategic partner yet identified, the Department decided it needed to increase its monitoring and undertook an analysis of the Company's prospects. The resulting report concluded, correctly as it was to prove, that MG Rover's need to conclude a commercial partnership was becoming urgent, with a risk that the Company might run out of cash. In response to this analysis the Department ruled out the option of providing rescue or restructuring aid to the Company but the Department decided to step up its efforts to form a constructive relationship with MG Rover. Initially, the Department reported that MG Rover did not want the support of it or the Embassy in China. By the end of 2004 the Company had accepted offers of support via diplomatic channels for its negotiations with SAIC and had provided some limited information on its financial position and the proposed deal with SAIC. This was used by the Department in a second analysis of the prospects of the Company, which was undertaken in November and December 2004. This concluded that without a tie-up with SAIC, MG Rover would run out of cash in Spring 2005.

The support provided to facilitate a deal with SAIC

14 By November 2004, MG Rover's cash position was becoming critical. It approached HM Customs and Excise, seeking a tax deferral ahead of its proposed deal with SAIC. Its initial proposal was rejected by HM Customs and Excise as, amongst other things, it was not in line with proposals accepted from other traders. In December 2004, the Company made a further request and HM Customs and Excise obtained information on MG Rover's cash flow position and the Company's assessment of the timing of a deal. The Company was initially granted a one month deferral at the end of December and this was subsequently extended in February 2005. At the time of the Company's collapse HM Revenue and Customs estimated that the Company's total tax debt, comprising that arising from normal business and from the deferral, was around £18 million. The precise debt, and any necessary write-off of that debt, is unlikely to be finalised for some time and depends on factors such as the sums obtained from the Company's administrators, potential reliefs and liabilities and the tax position of other companies in the Phoenix Venture Holding Limited group. On the other hand, if HM Customs and Excise had initiated winding up action at the start of 2005, it may also have had to write off some of the Company's existing tax debt which had reached in excess of £15 million by the end of January 2005. Furthermore, the potential impact of winding up action on the flow of tax from MG Rover's suppliers, dealers and employees would also have been a relevant consideration for HM Customs and Excise. In documenting its options in early 2005, HM Customs and Excise did not record in one place the benefits and risks to the Exchequer of extending the Company's tax deferral compared to the alternative of initiating recovery action.

4 UK Trade & Investment is a Government organisation that supports UK-based companies doing business internationally through both UK-based staff and staff in the UK's embassies, high commissions and consulates.

15 At the beginning of 2005 the Department of Trade and Industry considered how it might respond if MG Rover requested further financial assistance. In early February when reviewing its contingency plan, it concluded that it might be justifiable to provide a bridging loan to MG Rover, if requested, in order to give the Company the time it needed to complete the deal with SAIC. During February, the Department drawing on external expert assistance therefore established detailed and tight criteria that would need to be fulfilled before it could make a loan to MG Rover, taking account of EU rules on state aid and the need to reduce the risk that the loan would not be repaid. The Department was clear that a loan could only be justified if MG Rover had exhausted all other sources of finance. Thus when MG Rover made a request for a loan facility on 21 February, the Department encouraged the Company to explore other options for obtaining funds. When these proved fruitless, the Department wrote to MG Rover setting out the criteria and sent its accountancy advisers, KPMG, to Longbridge.

16 By the end of March, MG Rover's cash position was very tight and despite an exchange of letters, the Department was uncertain about SAIC's intentions. A senior Departmental delegation therefore went to China to understand in detail the state of negotiations and SAIC's particular concerns. During the first week of April, the Department considered a range of possibilities including making available a loan facility, with a ceiling of up to £110 million, ahead of any agreement between Phoenix Venture Holdings Limited and SAIC. The loan, had it been agreed, would have been made available until the end of May 2005. A proportion of the loan would have been secured against the remaining assets of Phoenix Venture Holdings Limited. The Phoenix Directors were also expected to make a contribution, and in early April they offered to make available £10 million from personal assets and drawings. The Department intended that the loan would have provided the two Companies with the time to resolve outstanding commercial issues and secure the approval of the Chinese Government. But the prospect of a loan was abandoned when SAIC made it clear that it did not wish to go ahead with the deal.

The loan to the administrators

17 The administrators took over control and management of the Company on 8 April and their responsibilities included deciding on bids from prospective purchasers of the business or parts of the business. The decision to grant a £6.5 million loan to the administrator was taken on Sunday 10 April amidst considerable uncertainty regarding the prospect of a going concern sale. The Department's understanding was that the key stumbling block to SAIC proceeding with the original deal – the possible transfer of MG Rover's existing liabilities onto the new UK Joint Venture – had been substantially reduced. And given the extent of SAIC's previous interest, work and investment the Department believed the Chinese Company might be interested in purchasing MG Rover in administration. However, despite efforts by the administrators and the Department to contact SAIC over the weekend of 9 and 10 April, there had been no response from them and soundings from SAIC's advisers were negative. In addition, immediately prior to administration the Department had been informed that SAIC's own internal deal team had been stood down.

18 Whilst the administrators still considered SAIC as the only realistic purchaser for the whole business, a quick sale of part of the business to another purchaser was conceivable. The administrators had received several expressions of interest within the first 36 hours and the Department was aware of a number of other parties that might be interested in parts of the business and there was the possibility that others might come forward in the next few days. But the Department could have missed an opportunity by not brigading its understanding of MG Rover in a way which would have helped the creation of a database to assist those who had expressed an interest in the business develop their proposals. Naturally this would have needed care. The Department was anxious to avoid acting as a commercial broker between MG Rover and potential private sector buyers when it had very incomplete information about MG Rover's assets and liabilities, could be sued in the courts for damages if the information were inaccurate and when there was an administrator whose job it was to secure the most advantageous sale of the MG Rover business. Nevertheless, the Department did play a role in drawing up a list of possible interested parties over the weekend after MG Rover went into administration and handled expressions of interest and ensured that potential bidders were put in touch with the administrators. This recognition of the point could, in our view, have been taken further as noted above.

19 On 10 April the administrators indicated to the Department that in their assessment, the prospects for selling quickly the assets in administration (in part or in whole) to SAIC or another purchaser as a going concern were remote. Although the actual time would depend on the circumstances surrounding the bid, the administrators also estimated that if SAIC, thought to be the most likely bidder, were interested then a deal might take three months to complete. The administrators estimated that £70 million to £100 million could be needed if SAIC wanted to purchase the whole MG Rover operation and keep it going ahead of the sale. Less would have been needed if a bidder wished to keep only part of the MG Rover operation going. Finance to keep the Company going might have been difficult to obtain as the only likely sources were the bidders for the assets, the administrators, who had few liquid assets, and the Department.

20 In reaching its decision on the loan the Department took into account the certainty of substantial one-off financial costs to the Exchequer in the event of closure. The Department decided that, in circumstances of considerable uncertainty, there was a prospect, albeit remote, of a going concern sale of all or part of the business and that, when considered alongside the benefits of the orderly resolution of the position of the workforce, a loan covering one week's costs provided sufficient value to be a valid option.

The support provided to former employees, suppliers and retailers

21 By early 2005, and at the same time as supporting MG Rover to progress the deal with SAIC, the Department was undertaking detailed preparatory work with other public bodies on the type of support they would need to provide to MG Rover's employees and suppliers, as well as the wider West Midlands economy, if the Company collapsed. Building on the experience of support provided after other large-scale lay offs and the work of the Rover Task Force 2000[5] the support schemes were developed and costed, sources of finance identified and delivery mechanisms agreed and in place by the time the Company closed. The decision to commence contingency planning for the closure of MG Rover was not without risk. Wide knowledge of this planning in the public domain could have initiated a further loss of confidence in the Company. The Department and the other bodies involved did well to manage this risk.

On the support provided to employees

22 As a result of the contingency planning, on 15 April the Redundancy Payments Directorate of the Insolvency Service and Jobcentre Plus were able to act quickly to ensure that the 5,000 plus former employees received the statutory redundancy pay and social security benefits that were due to them. The Redundancy Payments Directorate reported that on average it was able to make statutory redundancy payments within two days of applications being received from former MG Rover employees, ahead of the normal targets to pay 70 per cent of claims within three weeks and 92 per cent within six weeks. Likewise, all former MG Rover employees who received redundancy letters were interviewed and able to claim and receive benefits promptly. Jobcentre Plus mobilised a large number of extra staff and took other measures to deal with the extra workload.

23 By early January 2006, Jobcentre Plus had registered 5,270 former MG Rover employees and some 956 other people who it could identify as former supply chain company employees.[6] By early January 2006, Jobcentre Plus had reported that 58 per cent of these people had found new jobs. Advantage West Midlands has commissioned a project to monitor the employment and training destinations of former MG Rover employees and the impact of the services provided in helping them get new jobs.

24 Jobcentre Plus made available a range of information and services to help the 5,000 plus former MG Rover employees to obtain benefits and help them find work. An information pack on Jobcentre Plus and claiming benefits was issued to all workers, the large majority of whom had worked at MG Rover for nine years or more and thus were unlikely to have recent direct experience of using Jobcentre Plus services. It also made available services, such as advice on CVs and job interviews, which are not usually provided until a person has been unemployed for six months. Comments from the 38 former MG Rover employees who attended group discussions run for us by Ipsos MORI suggested that despite Jobcentre Plus enhancing its services they considered it had found difficulties in matching the needs of a sudden influx of skilled and qualified people eager to find work. Some former employees had expected more tailored personal advice on how to sell themselves to meet what potential employers were looking for but did not feel they had

5 The Rover Task Force 2000 was established to mitigate the impact of BMW's decision to dispose of MG Rover and help modernise and diversify the economy of the West Midlands. It comprised representatives from the private sector, unions, the local community, Members of Parliament and various public sector bodies.

6 The actual number of job losses in supply chain companies was higher. Jobcentre Plus figures only capture those ex-employees who make applications for benefits and can be identified as coming from MG Rover suppliers.

received it. Jobcentre Plus reported that although it recognised these individuals' perspectives, some of these expectations were beyond what it considers could realistically have been provided given the volume of former MG Rover employees with whom it had to deal in a very short space of time.

25 The Learning and Skills Council plans post-16 education and training provision to Higher Education level and funds further education colleges and training providers in the private and voluntary sector. When the Company collapsed it was given the additional responsibility of helping former MG Rover employees develop the skills which would assist them in getting jobs. This created a number of immediate and significant challenges for the Council. It had to establish the capacity to provide advice to former MG Rover employees, many of whom had only worked in manufacturing, and often only at MG Rover, but were now expressing a wish to train in a different vocational area. At the same time the Council had to work with colleges – who were in the process of delivering their planned courses for the summer term – and other providers to develop training courses and programmes and acquire the extra staff and other capacity needed to deliver the training. The Council had to put in place new procedures for managing the new courses and programmes, as well as the new streams of funding, that had been secured, for example, from the European Social Fund, to pay for the additional provision.

26 Once the Company had collapsed, the Council responded rapidly to establish the capacity to provide advice to former employees on skills needs and training options. Within the space of a week it had a pool of 120 skills advisers who were seconded, for example, from Further Education colleges. It also established a new facility close to the Longbridge Jobcentre Plus office where it could advise former employees on skills issues. The Council quickly mobilised local Further Education colleges and other local providers, thus co-ordinating for the individuals affected a large expansion in the number and range of training courses including over the summer period. Despite its efforts, the Council found that, as a result of the broad range of training courses chosen by former employees and the large numbers seeking training, it was not always able to set up appropriate courses as quickly as they would have liked. The Council sought to ensure that available training places were well utilised. However, it faced some difficulty in identifying whether former employees had found new employment and therefore no longer required training. Jobcentre Plus investigated whether it could provide details on the employment status of individuals to the Council but found that it could not do so under the Data Protection Act.

27 The Learning and Skills Council sourced and developed some 150 different training courses in response to former employees' training plans which were prepared following one-to-one skills needs assessments with skills advisers. At the end of September 2005, the Council reported that some 3,530 people (58 per cent of the 6,084 known claimants at that point) had training plans identifying courses to help them develop skills. Of the people with training plans, 3,302 (94 per cent) had been booked onto courses and 1,956 (55 per cent) of them had started their courses by early September 2005.[7] Some former MG Rover employees attending our discussion groups perceived that there was a set menu of courses available with a drive to place people on these courses and the list did not always match individuals' profile or skills. The Learning and Skills Council reported that in response to former employees' training plans it had sourced a much wider range of training provision than is normally available to workers made redundant. Some participants reported that communication with them from the Learning and Skills Council was lacking and that they had to chase up progress. Many participants in our discussion groups had not been in the jobs market for a long time and some of these said they would have liked more in-depth one-to-one career counselling to help them adjust and build up their confidence. Intensive careers guidance was made available from September 2005. The Council has reflected on the services it provided, in particular, the one-to-one in-depth skills needs assessments which were undertaken with many people shortly after they were made redundant. The Council considers that for some people the assessment was too early, and the individuals might have benefited from an initial careers counselling session, to help them consider appropriate future occupations, before undertaking a skills assessment.

7 Closure of MG Rover: Economic Impact Assessment Stage 2 Report, November 2005, Regeneris Consulting, paragraph 3.25. The figure for people booked onto training includes some 170 people who were booked onto taster courses or one day assessment courses. Similarly, the figure for people who had started courses included some 170 people who had started taster courses or attended one day assessments.

28 The Council worked effectively with Jobcentre Plus to remove or reduce barriers which otherwise would have curtailed the range and nature of the work based training that former employees could undertake whilst receiving benefits. The two bodies also developed programmes which linked employment and skills opportunities. In particular, a programme was established to support and encourage those former employees who wanted to work in manufacturing jobs, thereby helping to retain manufacturing skills within the West Midlands. The two agencies reported that the scheme, which provides training support and other incentives to new employers, had helped over 700 former MG Rover and supply chain employees find new work by early January 2006.

On the support provided to suppliers and retailers

29 When MG Rover collapsed it owed its UK-based trade creditors £102 million. The regional support package included £41.6 million to provide immediate support for wage costs and consultancy advice on business planning and restructuring, and medium-term assistance with diversification and business improvement. A fund which could provide loans with a total value of up to £20 million was made available for former MG Rover suppliers and retailers. The emergency element of the package was administered by Accelerate, part of the Birmingham Chamber of Commerce, with responsibility for the wider aspects resting with Advantage West Midlands. In addition, HM Revenue and Customs was able on a case by case basis to allow former MG Rover suppliers and dealers which remained viable companies to defer payments of VAT and other taxes due. By September 2005 it had agreed nearly £12 million of VAT deferrals for 106 companies.

30 By early September, the initial take-up of some elements of the package by suppliers and retailers had been less than expected, suggesting that the need for the support was overestimated. Drawing on an economic analysis, the Department and Advantage West Midlands initially considered in February 2005 providing around £35 million over three years to support suppliers. The package was refined. A further £6 million was made available for grants and the loans fund added. By mid January 2006, Advantage West Midlands reported that:

- a total of £5.5 million of the £10.5 million emergency supplier support package had been spent, committed to individual companies or designated to programmes in 2005-06 (with a further £3.4 million designated for programmes in 2006-07). The majority of the expenditure during the first year will be accounted for by the £3.4 million paid to former MG Rover suppliers for the temporary wage support scheme which was concluded at the end of December 2005. The MG Rover Task Force has reported that this support had, by September 2005, saved 1,329 (44 per cent) of the 3,034 jobs assisted. Advantage West Midlands forecast that it might underspend the overall three-year grants budget of £41.6 million by just under £5 million;
- some £4.6 million of the £20 million made available to make loans to suppliers and dealers had been committed to 15 companies, and a further £3 million was in the pipeline. Advantage West Midlands forecast that the total value of loans would be £10 million and thus £10 million of the fund would not be used.

The final spend on the support programme will depend on ongoing need and will be the subject of discussions between Advantage West Midlands and the Department.

31 Accelerate attributed the lower than anticipated take-up of the support measures to date, in part, to the impact of earlier efforts to help the local economy diversify following the sale of MG Rover by BMW in 2000. In 2000, 161 companies in the UK had been dependent on MG Rover for over 20 per cent of their sales. By 2005, this had dropped to 74, of which 57 were in the West Midlands. At the end of September 2005, Advantage West Midlands estimated that just under 10 former suppliers had gone into administration or closed plants.

RECOMMENDATIONS

We make the following recommendations:

On preparing contingency plans:

a The Department can face a difficult decision if it receives a request from a company for direct financial assistance, or is faced with a situation that might lead to such a request. Its policy is not to intervene, except to support essential services. There can however be cases where there may be potential economic or other benefits from providing financial support. Such interventions are rarely without significant financial, reputational or other risks. The Department's approach to deciding on whether to intervene is underpinned by its established policy on intervention, as set out for example in the 2002 Manufacturing Strategy[8], the requirements of European Union state aid rules and precedent. We consider that the Department could build on this foundation and establish a set of high-level principles or criteria which would capture the stringent and general conditions which must exist before it would consider a move away from its general policy of not intervening. Such principles would help the Department manage its response to actual or potential requests for support, aid consistency of decision making over time and help the Department explain its decisions. The principles would cover the economic rationale for intervention which should be tied back to the Department's aim and objectives as set out in their Public Service Agreement and could thus include raising UK productivity or supporting inward investment into the UK. The principles might also include a test of the range of legal risks that might arise from the proposed intervention and a value for money test, which would pick up on the impact of the intervention on the Department's mainstream programmes. Although there could be a risk that such criteria might distort the actions of companies facing financial problems, we believe that by setting the principles at a stringent level, and by making it clear there would be no automatic right for support, this risk would be minimised.

b The Department's risk management arrangements should include adequate contingency plans to manage the Department's response should it anticipate receiving requests for support from companies where there is substantial public interest. Without adequate contingency arrangements prepared in good time the Department may be forced to consider urgent requests for public support without having the opportunity to assess the prospective merits and risks. Contingency plans should address the most likely eventualities, set out the scope for assistance and possible ways forward and, where appropriate, should identify where support may be needed from other departments and agencies.

8 The Government's Manufacturing Strategy 2002, available from www.dti.gov.uk/manufacturing/strategy.htm.

The Department did have contingency plans for MG Rover. They were set out in April 2004 and were mainly, though not exclusively, concerned with how to respond to the Company's closure. This was seen as the major possibility and was rightly covered. But less attention was paid to other possibilities. Contingency planning should not only concentrate on what seems the most likely possibility, important though that is, but work up as well possible responses to at least some of the scenarios that could well – and in this case actually did – take place, such as long periods of negotiation and the Company entering administration with few liquid assets.

c The Department routinely uses a panel of business people to advise it on decisions governing the provision of Selective Finance for Investment (previously known as Regional Selective Assistance) to companies. Building on the in-house expertise available to it in the Shareholders Executive and the Industrial Development Unit, independent business advice would also help the Department assess the merits of assisting a company which was seeking direct support to ease its financial problems. The Department should therefore establish arrangements which would enable it to access, when necessary at short notice, appropriate independent advice from business people.

On providing support to local communities in the event of a collapse:

d Working with HM Treasury, the Department should draw up explicit criteria to help determine the scale and nature of support that should be provided after a company collapses, or closes part of its operation. The criteria should continue to allow local bodies flexibility to tailor their support to suit local circumstances.

e Regional development agencies, working with local task forces, should ensure support packages are designed, and given sufficient financial flexibility, to address the breadth of skills and experience amongst those made redundant. In the case of MG Rover, some of the people made redundant felt that some elements of the financial support available to employers of former MG Rover workers, as well as some of the advice and information available on employment opportunities, had focused on manufacturing and engineering jobs, and were less helpful to those staff who had worked in other occupations within MG Rover.

RECOMMENDATIONS CONTINUED

f In the event of a future company collapse, local task forces should build on the experience gained from MG Rover and capture information on the employment later gained by those made redundant. This will help local service providers to evaluate the effectiveness of their service and help them refine the services they provide and thus improve their support to those seeking a job. Information collected should include whether their clients have started full-time or part-time work, whether they are on permanent or temporary contracts, their starting pay and conditions, the type of job and the economic sector. This information should be compared against their clients' jobs before redundancy.

g To aid joint working and reduce the risk that training places are not taken up, the Learning and Skills Council and the Department for Work and Pensions should explore with the Information Commissioner ways to address the barriers which currently stop the two organisations sharing information on individuals' employment status.

h When planning the support to be provided in the event of a company collapse, the Department and regional development agencies, working with the Learning and Skills Council and other public bodies on the ground, should give sufficient attention to how they can:

- ensure that the support and information they provide to redundant workers on training and employment opportunities is made available at a time and is delivered in a manner which is most beneficial to the recipients;
- promptly increase the supply of an appropriate range and volume of training places and tackle the barriers which can delay former employees from completing work based learning, and returning to work, as quickly as possible. In the case of MG Rover, a local agreement between the Learning and Skills Council and Jobcentre Plus enabled workers to attend a wide range of intensive work-based courses.

On considering requests for tax deferrals:

i Tax deferrals can help vulnerable companies survive but can increase tax losses if companies fail. When taking decisions on whether to grant deferrals, HM Revenue and Customs should therefore explicitly compare and document both the benefits and risks of a deferral to the alternative of taking recovery action. A company that needs an urgent tax deferral may not be in a position to provide good quality information to support its requests. In such circumstances, it can be appropriate to provide a short term agreement, as was the case in December 2004, when MG Rover was initially allowed to defer VAT payments for one month. However, HM Revenue and Customs should make it clear in such cases that an extension of the deferral may depend on the company providing improved information on its financial position and trading circumstances.

PART ONE
Introduction

1.1 MG Rover went into administration on 8 April 2005 when its proposed deal with the Shanghai Automotive Industry Corporation (SAIC) collapsed and the Company did not have sufficient cash to continue trading. The deal had offered, in the view of MG Rover's Directors, the prospect of not only securing the Company's long term future but also stabilising its immediate financial position. The subsequent closure of MG Rover's plant at Longbridge in the West Midlands resulted in the direct loss of almost 6,000 MG Rover jobs and threatened to have serious consequences on the local economy.

1.2 During MG Rover's final months, the Department of Trade and Industry sought to assist the Company in taking forward its proposed deal with SAIC and the Company obtained HM Customs and Excise's (from April 2005 HM Revenue and Customs) approval to defer the majority of its VAT payments. At the same time, the Department of Trade and Industry worked with a wider group of public bodies to mitigate the impact of a possible collapse of MG Rover on the local economy. In total £176 million was allocated to the package of support that was made available to former employees, suppliers, retailers and the local community. This report examines the support provided to MG Rover by the Department of Trade and Industry (the Department) and other public bodies in the period leading up to the closure of the Company and the effectiveness of subsequent support in mitigating the impact of closure.

MG Rover

1.3 MG Rover had originally been part of the British Leyland Group before it was acquired by British Aerospace in 1988 and then by BMW in 1994. By March 2000, BMW had decided to dispose of MG Rover (at that time called Rover Car Operations). It initially entered into negotiations with Alchemy, a venture capital company. The Department understood that Alchemy planned to focus on using the MG marque to develop a sports cars business and would have made significant redundancies at Longbridge. At the end of April 2000 BMW announced however, that it was unable to come to an understanding with Alchemy. As a result the only live bid for MG Rover at the end of April was from the Phoenix Consortium. In May 2000, BMW sold MG Rover Group Limited, including the main Longbridge site, to the Phoenix Consortium for a nominal £10. In return for taking on the heavy loss-making MG Rover Group Limited, and subsequently Powertrain Limited in 2001, Phoenix received around £900 million of assets and loans from BMW between 2000 and 2002. This included cash balances, stocks of cars and an interest free loan of £427 million not repayable until 2049.[9] At around the same time in 2000 BMW sold Land Rover to Ford. BMW, however, retained two of the former Rover Group plants **(Figure 2 overleaf)**.

9 BMW made the loan in three instalments to Techtronic (2000) Limited (see Figure 3) - £200 million in 2000, £150 million in 2001 and £77 million in 2002. The loan contained provisions requiring partial redemption after 12 May 2004 and before 2049 if a profit was made by Techtronic (2000) Limited and its subsidiaries.

2 The break-up of Rover Group

Early 2000

Rover Group under BMW

Employed 28,000 staff mainly at 4 manufacturing sites and a research site

Early 2005

Phoenix	Ford	BMW
Acquisition included the main car production facilities at Longbridge, and in May 2001 the Powertrain engine production facility at Longbridge, and the MG and Rover brands. The 5,900 remaining jobs were lost when MG Rover closed in April 2005.	Acquisition included the Land Rover brand, the production site at Solihull and a research facility in Gaydon, Warwickshire. Land Rover employed around 10,000 staff in 2005.	Retained the body pressing site at Swindon, employing around 2,000 staff in 2005, and the Cowley site in Oxfordshire (4,500 staff) where it produces the MINI.

Source: Rover Task Force 2000: Technical Report, prepared by DTZ Pieda for the Task Force in 2000, Ford Corporate Guide 2005, BMW Group website (www.bmwgroup.com)

NOTE

BMW also own an engine production plant at Hams Hall, Warwickshire which was opened in 2001 and an assembly plant for Rolls Royce Motors at Goodwood, Sussex.

1.4 Following the purchase from BMW, the Phoenix Consortium transferred ownership of MG Rover Group Limited to Phoenix Venture Holdings Limited[10] in December 2000. The four individuals who comprised the Phoenix Consortium became Directors of Phoenix Venture Holdings Limited holding all the voting rights and 40 per cent of the equity of the Company. By the end of 2004, there were some 20 companies within the Phoenix Venture Holdings Limited group (see Appendix 1). Around 90 per cent of the group's turnover and employees, however, was accounted for by MG Rover Group Limited and Powertrain Limited (together referred to as MG Rover or "the Company" in this report). The latter was acquired from BMW in 2001 and manufactured engines for the majority of MG Rover cars **(Figure 3)**.

1.5 By world standards, MG Rover was a small manufacturer **(Figure 4 overleaf)**. At the time of its sale by BMW, some of the Rover models were already ageing and there were gaps in the range of vehicles (Appendix 2). For example, MG Rover did not have a modern small or medium-sized car. Designing and developing a new model range for the volume car market is highly capital intensive and was always likely to be beyond the resources available to MG Rover working alone. Consequently, from 2000 MG Rover sought to develop a strategic partnership with other automotive companies. Their efforts resulted in deals with China Brilliance in 2002, the joint venture subsequently being terminated, and then an Indian Company Tata in 2003.

10 In December 2000, Phoenix Venture Holdings Limited was called MG Rover Holdings Limited. The Company's name was changed to Phoenix Venture Holdings Limited on 30 January 2002.

3 The main companies within the Phoenix Venture Holdings Limited group in 2004

Phoenix Venture Holdings Limited

The ultimate parent Company. The group had a turnover of £1,700 million in 2003 when the group employed some 6,500 staff.

Techtronic (2000) Limited

Non-trading company which held the entire share capital of MG Rover Group Limited and Powertrain Limited.

Techtronic (2000) Limited's accounts did not reflect trading activities of the MG Rover Group Limited or Powertrain Limited. By the end of 2003, Techtronic had lent MG Rover Group Limited £412 million of the £427 million Phoenix had received from BMW.

Other Companies

Including MG Rover Property Holdings, MG Sport and Racing and Phoenix Venture Resourcing.

MG Rover Group Limited

Its principal activity was the manufacture and sale of motor vehicles under the MG and Rover brands.

It was acquired in 2000 from BMW. It employed some 4,600 staff and had a turnover of £1,300 million in 2003.

Powertrain Limited

Its principal activity was the manufacture of engines and gearboxes for the motor vehicle industry, mainly to MG Rover Group. Other customers included Land Rover.

It was acquired in 2001 from BMW. It employed some 1,250 staff and had a turnover of £213 million in 2003.

Source: National Audit Office presentation of information drawn from the Companies' accounts

1.6 In summer 2004, MG Rover announced its intention to enter into a strategic partnership with SAIC **(see Box 1)**. This could have led to substantial inward investment in the UK and might have provided MG Rover with the partner it needed to develop jointly the new models it required. The deal collapsed in April 2005. As a consequence, MG Rover appointed administrators PricewaterhouseCoopers on 8 April. Following their appointment, the administrators took control of the management of the affairs, business and property of the Company. In exercising their functions, administrators are required to advance a hierarchical structure of objectives. The first and overarching objective of the administrators is to rescue the company as a going concern. If the administrators believe that this is not reasonably practicable, or will not achieve the best result for the creditors of the company as a whole, then their primary function will be to manage the business and realise the assets of the company in such a manner as to achieve the best result for creditors.

BOX 1

Shanghai Automotive Industry Corporation (SAIC)

SAIC is wholly owned by the Shanghai Municipal Government. It accounted for 30 per cent of the Chinese domestic market, producing more than 600,000 vehicles per year primarily through joint ventures with Volkswagen and General Motors in China. In 2003, total revenues amounted to US$11 billion. In 2004, as part of a domestic and international growth programme, it acquired a 48 per cent stake in Korea's Ssangyong Motor Company.

4 Percentage share of worldwide and UK passenger car production and the UK passenger car market 2001 for selected vehicle manufacturers

Manufacturer	Worldwide production %	UK production %	UK sales %
Toyota	12.3	11.2	4.0
General Motors	11.4	13.0	12.6
Renault/Nissan	9.9	19.9	11.2
Ford	9.1	22.5	16.4
Honda	6.4	9.5	2.6
Fiat	4.7	0.0	4.0
MG Rover[1]	**0.4**	**10.4**	**4.0**
Proton[2]	0.4	0.0	0.1

Source: International Organisation of Motor Vehicle Manufacturers and the Society of Motor Manufacturers and Traders

NOTE

1 2001 was MG Rover's most successful year under Phoenix. By 2004, MG Rover's production had fallen and accounted for 0.2 per cent of worldwide production and 6.4 per cent of UK production. Its sales were also lower, accounting for 3.0 per cent of UK sales in 2004.

2 Worldwide production figure for Proton is based on its worldwide passenger car sales in 2001.

1.7 In July 2005, MG Rover's administrators announced the sale of the car and engine production assets of MG Rover, including plant, machinery, tooling and stock, to the Chinese Company Nanjing Automobile (Group) Corporation.[11] At the time of the sale, the administrators reported that Nanjing intended to relocate the Powertrain engine plant and some car production plant to China, to retain some car production in the UK and to develop a Research and Development and Technical facility in the UK. By October 2005, the administrators reported that Nanjing had commenced the process of de-commissioning some plant and equipment to ship it to China. In early 2006, Nanjing announced that it was going ahead with plans to start production of former MG Rover models in China and the UK in 2007.

The support provided by the Department of Trade and Industry and other public bodies

The Department's policy towards company support

1.8 The Government believes that wealth is primarily created by the actions of firms operating in free markets, and it is not the role of government to either duplicate or substitute for such private sector activity. The Department's principal aim is to narrow the productivity gap between the United Kingdom and other main industrialised countries. The Department also seeks to reduce the disparity in productivity across English regions and to promote inward investment.

1.9 The Department's approach assumes that the efficient use of resources is best left to independent decisions taken by businesses operating in the market. As set out in the Manufacturing Strategy[12], the Department believes that firms whose output is in relative decline tend to have lower productivity than firms that are expanding or entering a new market. It therefore considers that UK productivity goes up if relatively inefficient firms are allowed to close and this process is not inhibited by government action. It recognises that this reallocation of resources from one firm to another comes with a social and economic cost to the local community; particularly if the impact is highly concentrated in one area. It therefore considers that its role is to help affected communities make the economic adjustment needed and support individuals affected by rationalisations and redundancy.

1.10 In supporting UK-based business and enterprise, the Department maintains contact with key companies. The Government seeks strong relationships with business so that it can understand the likely consequences of its actions before it intervenes. By 2005, the Department had regular links with over 230 large companies. The Department uses the information gained to help develop its business support and innovation schemes, and improve Whitehall's overall understanding of issues for UK business, identifying and pursuing issues regarding the regulatory and policy framework as necessary. The Department also uses these contacts to make companies aware of what government support is available. In 2002, the Department created a new Business Relations Division specifically to improve

11 Early in 2005, Nanjing became a minority partner of SAIC in its efforts to establish joint ventures with MG Rover.
12 The Government's Manufacturing Strategy 2002, available from www.dti.gov.uk/manufacturing/strategy.htm.

its existing contacts with nationally significant companies in those sectors where the Department believed it could add most value, which included the automotive sector. The Department regularly commissions independently run surveys of companies with which it has a relationship. These surveys show that the large majority of companies, particularly those in the automotive sector, are satisfied with the quality of the dialogue with them.[13]

The role of the Department and other public bodies between 2000 and 2005

1.11 In response to BMW's decision to dispose of MG Rover in early 2000 the Department stated that it wanted a viable car manufacturer at Longbridge in order to maximise the number of jobs. It therefore sought to establish whether there were alternative options to the Alchemy deal and ensured that BMW was aware of the Phoenix Consortium's proposals **(see Box 2)**.

1.12 Over the period from May 2000 to the start of April 2005, MG Rover benefited from the following UK Government-funded support:

- £9 million grant for employee training and development of which the Company had drawn down £4.6 million by April 2005. Some £4 million of the grant was allocated from the £129 million provided by the Department to the Rover Task Force[14] in 2000, with the remaining £5 million coming from the European funds. The large majority of the Task Force's expenditure was committed to wider efforts to support, develop and diversify the business of MG Rover's suppliers and the West Midlands economy;
- £1.1 million in grant funding, of which £1 million was to be provided through the Department for Transport's Ultra Low Carbon Car challenge to a partnership including MG Rover. By April 2005, £0.1 million of the grants had been drawn down.

The Company would have also received some benefit from assistance given to its suppliers. In particular, £8 million was paid by the Rover Task Force 2000 to suppliers to help them during the three month period in 2000 when MG Rover transferred production of the Rover 75 from Cowley to Longbridge and, as a consequence, had to reconfigure the Rover 25 and Rover 45 production lines.

BOX 2

The Department's actions in 2000 to facilitate a deal which would safeguard jobs at Longbridge

The Department was active from the middle of March when it first became aware of BMW's plans to dispose of MG Rover until the sale of the Company to the Phoenix Consortium in May. Its role included:

- **Seeking to establish whether other vehicle manufacturers were interested in acquiring MG Rover.** With assistance from the UK's embassies and high commissions, the Department contacted at least eight other automotive companies.
- **Encouraging BMW to consider alternatives to Alchemy's proposal.** In particular, the Department met a representative of the Phoenix Consortium, BMW, the unions and other interested parties in April to consider whether there was an alternative to Alchemy. The Department also asked BMW to look at the Phoenix bid.
- **Liaising with Alchemy.** The Department had a number of discussions with Alchemy, for example, about their plans for MG Rover and the implications for the Longbridge workforce.
- **Liaising with the Phoenix Consortium.** The Department had a number of contacts with members of the Phoenix Consortium in April 2000 and early May 2000.

1.13 MG Rover also agreed a VAT deferral with HM Customs and Excise in 2000. In the event, MG Rover's VAT liabilities were far lower than forecast by the Company and were settled by December 2001.

1.14 During the final months before MG Rover went into administration, the Department sought to support the Company in taking forward the proposed SAIC deal. In doing so, the Department believed there was an opportunity to help the Company increase its productivity, primarily as a result of the investment that a deal with SAIC was expected to bring. This support included:

- assistance in negotiating with the Chinese Company and Government, for example, using diplomatic channels (including ministerial letters) to help encourage a deal; and
- considering the basis on which it would be justifiable for the Department to provide a "bridging loan" to MG Rover to enable it to continue to trade until the deal with SAIC could be concluded.

13 Eighty three per cent of companies responded to the 2005 survey. Some 77 per cent of these said they were satisfied with the quality of the dialogue. For automotive companies 87 per cent said they were satisfied with the quality of dialogue.

14 The Rover Task Force 2000 was established to mitigate the impact of BMW's decision to dispose of MG Rover and help modernise and diversify the economy of the West Midlands. It comprised representatives from the private sector, unions, the local community, Members of Parliament and various public sector bodies.

From the end of November 2004, the Company also benefited with the agreement of HM Customs and Excise from a deferral of most of its VAT payments.

1.15 On 10 April, following the collapse of MG Rover, the Department announced a £6.5 million loan to the administrators to keep the Company open a further week. This allowed the administrators time to examine the prospect of quickly selling the assets in administration as a going concern and, in the event that no buyer emerged, enable the position of the workforce to be resolved in an orderly manner. The administrators subsequently returned £1.3 million of the loan.

1.16 From their appointment on the 8 April, responsibility for assessing potential buyers and selling the Company, or parts of the Company, lay solely with the administrators. In July 2005, the administrators announced the sale of the majority of MG Rover's assets to Nanjing Automobile (Group) Corporation. In the period from mid April 2005, when the Company closed, and July 2005, the Department had meetings with a number of bidders and potential bidders for the assets of MG Rover. These included a partner of Nanjing Automobile (Group) Corporation, Magma, which was working with SAIC, and Kimber Consortium (headed by David James). During these meetings the Department sought to understand the bidders proposals for MG Rover and Longbridge. The Department also discussed the financial assistance that might be available through its standard support packages to a successful bidder.

1.17 Once the administrator had issued redundancy notices, Advantage West Midlands - the local regional development agency – took the lead in implementing contingency plans that had been drawn up in collaboration with the Department and local partners. The delivery of the support package was overseen by the MG Rover Task Force, comprising representatives from the private sector, unions, the local community and various public sector bodies to help deal with the consequences of MG Rover's closure.[15] **Figure 5** shows some of the organisations involved and Appendix 3 provides the Terms of Reference set for the MG Rover Task Force in April 2005.

1.18 The Department's Automotive Unit, which took the lead in managing the Department's relationship with the Company, was supplemented with staff with legal, financial and insolvency expertise. In February 2005, the Department appointed KPMG and placed it on call to go through MG Rover's books at short notice. In addition, it engaged Slaughter and May in February to supplement the Department's own legal advisers. The total cost of external advice was around £750,000.

1.19 Appendix 4 outlines from December 2004 the evolution of public sector support for MG Rover and the preparation of contingency plans for the West Midlands economy.

1.20 **Figure 6 overleaf** summarises the costs that have been incurred, or are likely to be incurred, by the Department, Advantage West Midlands, other public bodies and the National Insurance Fund[16] in seeking to support MG Rover and dealing with the consequences of the Company's decline and eventual closure. Expenditure over the eight years from BMW's decision to dispose of MG Rover in early 2000 to March 2008 is likely to be in the region of £250 million. The large majority of expenditure will be accounted for by support to the West Midlands economy, MG Rover suppliers and MG Rover employees. The figures do not include the increase in benefit payments arising from the Company's restructuring and closure, the loss of the tax that would normally be paid on employees' earnings and any write-off that is necessary of the tax the Company owed HM Customs and Excise when it went into administration. It also excludes the cost to the Department of Trade and Industry of an on-going company investigation into the affairs of the MG Rover Group which by the end of January 2006 had cost some £3.1 million.

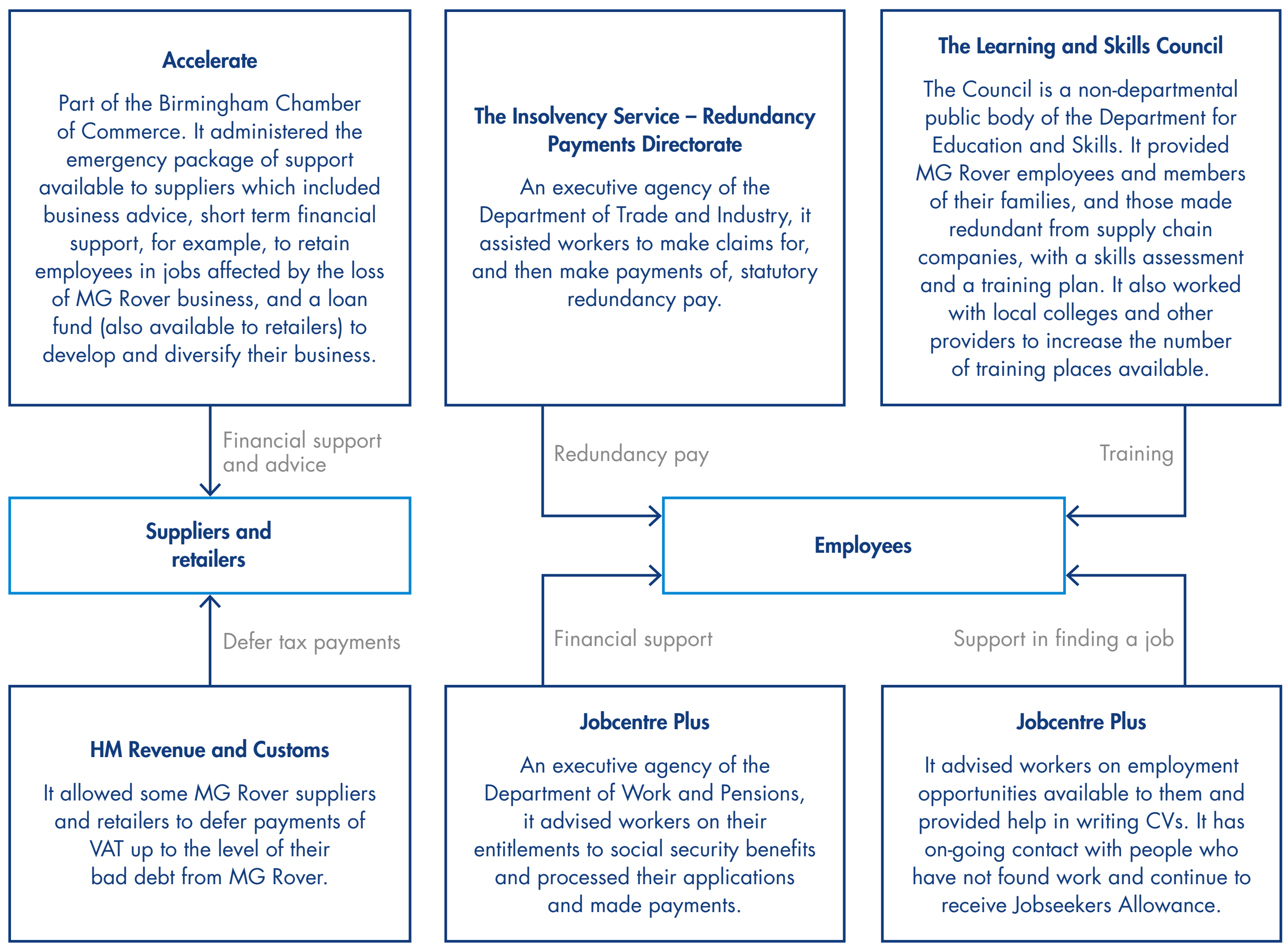
The scope of this and other examinations into MG Rover

1.21 This examination considers the role played by the Department and the other public bodies in the period leading up to and in the aftermath of the closure of MG Rover. It considers, in particular, the support provided to MG Rover in the period leading up to and shortly after the Company went into administration in April 2005 (Part 2); and the planning and implementation of the Department and other bodies' response to help address the consequences for employees, suppliers, dealers and the local community (Part 3). The study methods are detailed in Appendix 5.

15 The MG Rover Task Force oversaw £166 million of the support package, with Birmingham City Council delivering a complimentary £10 million package of measures to address community impact.

16 The National Insurance Fund has met the cost of statutory payments, compensation awards and protective awards to staff made redundant by MG Rover, see paragraph 3.12.

5 Support available to former employees, suppliers and retailers



Source: National Audit Office

NOTE

Other elements of support, for example, debt counselling were provided by Birmingham City Council and neighbouring local authorities.

1.22 The Department has appointed company inspectors to investigate and report on the affairs of the MG Rover Group, including Phoenix Venture Holdings Limited and MG Rover Capital Limited (the latter is jointly owned by Directors of Phoenix Venture Holdings Limited and Uberior Investments PLC, whose ultimate parent company is Halifax Bank of Scotland). The inspectors have been asked to examine issues raised in a private report completed by the Financial Reporting Review Panel in May 2005 which looked at whether MG Rover's accounts and those of its associated companies had complied with the Companies Act 1985. The inspectors have also been asked to look at the events leading up to the appointment of administrators on 8 April 2005. If the company inspection raises issues concerning the Department's stewardship, and they are of relevance to the Committee of Public Accounts, the Comptroller and Auditor General will report on them.

1.23 In August 2005 the Accountancy Investigation and Discipline Board decided to investigate the conduct of Deloitte & Touche LLP as auditors and advisers to the MG Rover Group.[17] This investigation was on-going in February 2006.

17 Both the Financial Reporting Review Panel and the Accountancy Investigation and Discipline Board are part of the Financial Reporting Council which is an independent regulator which aims to promote confidence in corporate reporting and governance.

6 The cost to the public sector of supporting MG Rover and dealing with the consequences of its decline and collapse, April 2000 to March 2008

	Cost, or forecast cost, at current prices (£ million)
Expenditure to mitigate the impact of BMW's decision to dispose of MG Rover in 2000 by modernising and diversifying the West Midlands economy. Expenditure has been incurred throughout the period since April 2000.[1]	90.0
Direct financial support to MG Rover between May 2000 and the start of April 2005 (see paragraph 1.12).[1,2]	4.7
Cost of external advisers used by the Department during February 2005 to April 2005 (see paragraph 1.18).	0.7
Cost of writing off a portion of the £6.5 million loan made to the administrators in April 2005 (see paragraph 2.46).[3]	5.2
Estimated cost of the support package to mitigate the consequences of the closure of MG Rover in 2005. Package runs from April 2005 to March 2008. Cost includes £47 million for assisting MG Rover suppliers and dealers, and £80 million to cover redundancy related payments and training for former MG Rover employees (see Figure 1 on page 2).[4]	146.0
Total[5]	**246.6**

Source: National Audit Office

NOTES

1 The Department originally allocated £129 million to the Rover Task Force in 2000 to help modernise and diversify the West Midlands economy. The cost of £90 million excludes some £4 million which was used to assist MG Rover. The £4 million has been included under the cost of direct financial support to MG Rover.

2 MG Rover was the only company in the Phoenix Venture Holdings Limited group which received financial support. The cost of £4.7 million includes amounts MG Rover received from European funds (see paragraph 1.12). Box 3 on page 29 provides an analysis of Phoenix Venture Holdings Limited group's cash flow between May 2000 and December 2003.

3 As at February 2006 it looked likely that £5.2 million would be written-off although the figure had not been finalised.

4 The forecast cost figure of £146.0 million includes loans of £10 million. If the loans are repaid in full, forecast expenditure on the support package will fall to £136.0 million and total forecast expenditure across all items to £236.6 million. As some of the package runs to March 2008 there could be a significant difference between forecast and actual expenditure.

5 The total figure does not reflect the cost of the time spent by officials from the Department and other public bodies on MG Rover and related issues.


ROVER

PART TWO
The support provided to MG Rover

2.1 This part examines whether the Department:

i) had been aware of MG Rover's financial position following the sale by BMW;

ii) had taken appropriate action to assist the Company during the period 2000 to 2004; and

iii) from 2004, the Department and other public bodies had acted effectively to provide support to MG Rover, whilst protecting the interests of the taxpayer.

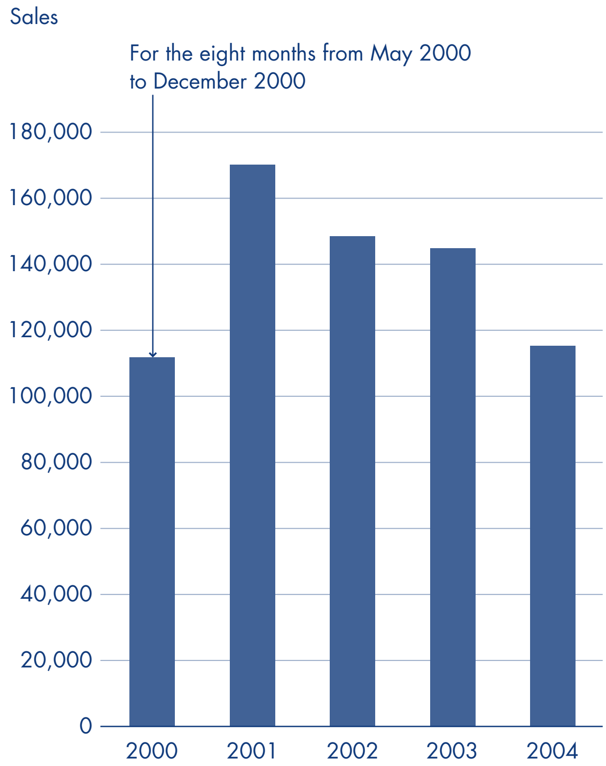
i) The Department's assessment of MG Rover's financial position following the sale by BMW

2.2 As early as May 2000, the Department was aware that although MG Rover might be financially secure in the short-term it needed an industrial partner if it was to survive in the long-term. Prior to the Phoenix Consortium's purchase of MG Rover in May 2000, the Consortium had outlined its initial business plan for the new Company to the Department. The Department's own assessment of the plan, not communicated to the Phoenix Consortium, doubted the realism of the Consortium's sales assumptions for MG Rover during the first two to three years of the plan. It also highlighted the reliance placed by the Consortium on identifying an industrial partner who could help develop and fund the new models needed to secure the future of Longbridge and its workforce. The Department's analysis estimated that MG Rover had enough cash to keep it going until 2004 or 2005. After it had acquired MG Rover, Phoenix revisited its initial business plan and in the second half of 2000 prepared a revised plan. The Board of Phoenix Venture Holdings Limited informed us that this plan, including the sales and profit targets, was subject to review by advisers it had employed and by advisers employed by one of its commercial partners.

2.3 From 2000, the Department tracked the progress of MG Rover against its understanding of the main milestones in the Company's business plan which included increasing sales, cutting costs and establishing collaborative links with an appropriate partner to help develop new models. It used information provided by the Company and other sources, including discussions with analysts and other experts in the automotive sector. An assessment made by the Department in 2001 concluded that MG Rover was secure until 2004 or 2005, because of the loan it had received from BMW. MG Rover's trading losses, however, were eating into the assets acquired from BMW. The Department was, therefore, concerned about MG Rover's viability in the longer term as it considered that the Company needed to cut costs substantially and find a partner.

2.4 The Department's initial assessments were largely borne out by subsequent events. Sales figures for MG Rover peaked at 170,000 units in 2001 and then declined in each of the years to 2004, partly because the Company did not launch a new medium-sized car to replace the Rover 45 **(Figure 7)**. During the period total registrations of new cars in the UK, MG Rover's dominant market, grew and then plateaued from 2002 onwards which made it more difficult for MG Rover to grow its business. From 2001, the Company introduced a number of new products, mainly under the MG badge. Sales from these products, which were largely designed and developed in-house, went some way to offsetting the declining sales of the Rover models.

7 Under Phoenix Venture Holdings Limited sales of MG Rover cars declined after 2001



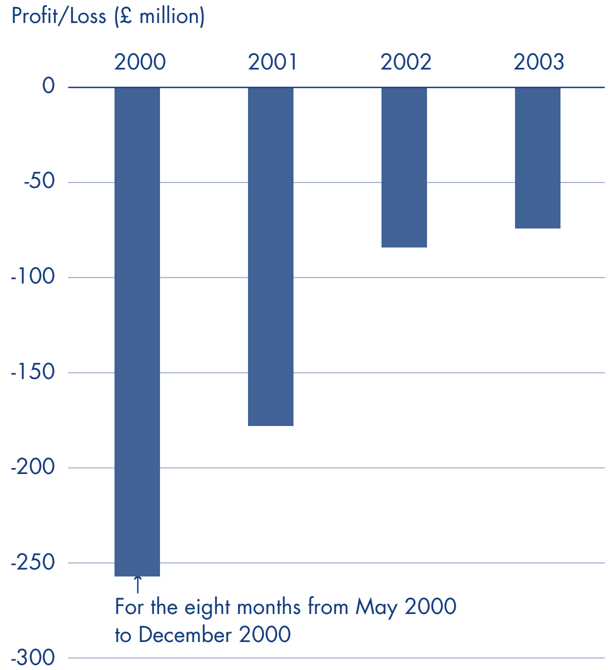
Source: Techtronic (2000) Limited's accounts for 2000, Phoenix Venture Holdings Limited accounts for 2001 to 2003, Phoenix Venture Holdings Limited business plan for 2005

NOTE

Figures for 2000 are for the period May to December. Phoenix acquired MG Rover in May 2000

2.5 Over the period 2000 to 2003, Phoenix Venture Holdings Limited reduced its losses year on year but it did not breakeven **(Figure 8)**. The group cash flow statements showed that operating activities resulted in £379 million flowing out of the business in the period to December 2003, whilst capital items accounted for a net cash outflow of £190 million. These outflows were mainly financed by the £580 million of cash balances, short-term deposits and loans that Phoenix received from BMW as part of the acquisition of MG Rover Group Limited and Powertrain Limited **(Box 3)**.

8 Phoenix Venture Holdings Limited reduced its losses between 2000 and 2003



Source: Phoenix Venture Holdings Limited's accounts for 2001 to 2003. The Company's accounts for year end December 2004 were not available as at the end of February 2006

NOTES

1 Figures are for operating profit and loss and include net interest receivable but are before tax, exceptional items and the writing off of negative goodwill. Negative goodwill arose because the price Phoenix paid for MG Rover was less than the aggregate fair value of the Company's identifiable assets and liabilities. The low price reflected the losses that MG Rover had been making, and were expected to continue to make, for some time. The negative goodwill was largely written-off over the period 2000 to 2003.

2 Figures for 2000 are for the period May to December. Phoenix acquired MG Rover in May 2000.

BOX 3

Phoenix Venture Holdings Limited: Analysis of group cash flow between May 2000 and December 2003

This box shows that the net cash flows arising from operating activities and capital items accounted for the majority of the cash that flowed out of the business from when it began in May 2000 to the end of December 2003[1]. These outflows were mainly financed by the cash balances, short term deposits and loans that Phoenix received from BMW when it acquired MG Rover Group Limited and Powertrain Limited.

	£ million	£ million
Net cash outflows		
Operating activities	(379)	
Capital items[2]	(190)	
Acquisitions and disposals[3]	(46)	
Taxation	(9)	
Total net cash outflows for the above items		(624)
Net cash inflows		
Dividends received from group undertaking	34	
Returns on investments, servicing of finance and exchange gains	44	
Total net cash inflows from the above items		78
Net cash flows before financing and before cash, short term deposits and loan arising from acquisitions from BMW		**(546)**
Financing[4]		
Sale and leaseback of land and buildings	43	
Increase in vehicle funding	124	
Other	12	
Total for the above items		179
Net cash flow before cash, short term deposits and loan arising from acquisitions from BMW		**(367)**
BMW		
Cash[5]	119	
Short term deposits[6]	34	
Loan[7]	427	
Total for cash, short term deposits and loan arising from acquisitions from BMW		580
Cash and cash held on deposit as at December 2003[8]		**213**

Source: National Audit Office analysis of Phoenix Venture Holdings Limited's accounts for 2001 to 2003. The Company's accounts for year end December 2004 were not available as at the end of February 2006.

NOTES

1 The 2003 Phoenix Venture Holdings Limited accounts included a restated cash flow statement for 2002. The restated statement has been used in the above analysis. The £4.7 million of financial support which MG Rover received from UK Government (see paragraph 1.12) is included in the above figures but is not separately identifiable.

2 Includes both purchases of tangible fixed assets and proceeds from sales of tangible fixed assets.

3 Mainly purchase of group undertaking and subsidiary undertaking. Excludes cash received from BMW when Phoenix acquired MG Rover Group Limited and Powertrain Limited (see note 5).

4 Excludes loan provided by BMW to Phoenix (see note 6).

5 £112 million of cash was received by Phoenix in 2000 and a further £7 million in 2001.

6 £9 million of short term deposits was received by Phoenix in 2000 and £25 million in 2001.

7 Loan was made in three instalments in 2000, 2001 and 2002 to Techtronic (2000) Limited.

8 Cash held on deposit covers deposits with terms in excess of 24 hours.

ii) The Department's actions to assist the Company between 2000 and 2004

2.6 The Department seeks a close relationship with business, in particular, so that it can understand how companies are likely to behave and respond to Government's action. Independently run surveys commissioned by the Department show that most automotive companies value their relationship with the Department. However, in interviews with us, officials characterised the relationship between the Department and MG Rover Directors between 2000 and 2004 as "distant", due to what officials regarded as reluctance on the part of the Company to engage at a senior level and provide strategic insight. This was not a view shared by the Board of Phoenix Venture Holdings Limited who informed us that they considered MG Rover had a good relationship with the Department during this four year period.

2.7 Initially, following the sale of MG Rover to the Phoenix Consortium, Departmental officials met with the Company's Directors and officials each month before quickly moving to the quarterly meetings which are more typical of the Department's contact with automotive companies with large UK operations. By the end of 2001, meetings with the Company's Directors had become less frequent and this remained the case until 2004. However, there was more frequent contact between the Department and the Company at lower levels, with discussions focused on specific issues such as the possible purchase by MG Rover of a factory in Poland and the End-of-life Vehicles Directive.

2.8 During its meetings with the Company's Directors the Department sought information on MG Rover's business strategy and its progress in finding an industrial partner. In response, the Company chose not to provide detailed business plans, although it did provide updates on general performance during meetings with the Department. The Company also provided the Department with previews of its proposed Shareholders Report and financial results shortly ahead of publication.

2.9 The Board of Phoenix Venture Holdings Limited informed us that from the outset in May 2000 they had identified the need to secure a long-term business partner and consequently they had talks with other automotive companies. In taking forward its negotiations with overseas companies MG Rover requested only limited support from the Department and UK Trade & Investment, with the exceptions being efforts to purchase a plant in Poland and its alliance with China Brilliance. **Box 4** summarises the Department and UK Trade & Investment involvement in what we understand to be MG Rover's main efforts to establish a long-term overseas business partner between 2000 and 2004. These include the deal it agreed in 2003 with Tata who produced a small car for MG Rover.

2.10 In determining the amount of effort it should devote to MG Rover, in the period up to 2004, the Department told us that it sought to balance the Company's long term vulnerability, the concentration of employment in the West Midlands area and its high public profile against what it considered to be the Directors' reluctance to engage with the Department, and the Company's small size relative to the rest of the UK automotive industry. The Department concluded that although it would have preferred a closer working relationship with the Company, in its view the amount of time Departmental officials could usefully spend on seeking senior level meetings with MG Rover was limited and that instead where possible they should seek opportunities to engage informally with the Company's Directors and officials, and build trust by providing support when requested. As with other companies, officials continued to monitor publicly available information on the Company's progress.

iii) Support given to MG Rover from 2004 and the cost to the taxpayer

MG Rover's cash position and prospects in 2004

2.11 The publication of MG Rover's 2002 accounts, in October 2003, prompted significant comment in the press, which focused on the Phoenix Directors' remuneration, in particular, their decision to transfer £13 million to a trust fund which had been established for the benefit of the five Phoenix Venture Holdings Limited Directors and their families.[18] The accounts of the four main companies in the group – Phoenix Venture Holdings Limited, Techtronic (2000) Limited, MG Rover Group Limited and Powertrain Limited (see Figure 3 on page 19) – show that in the four years to 2003 the Directors received around £40 million from the business.

18 The five Directors included the four original members of Phoenix Consortium and the Chief Executive of the Phoenix Venture Holdings Limited group.

BOX 4

Involvement of the Department and UK Trade & Investment in MG Rover's main efforts to establish a long-term overseas business partner, 2000 to 2004

Nature of deal or proposed deal	Period	Involvement of the Department and UK Trade & Investment
Proposed deal with Proton (Malaysia)	Up to 2004	The Department, UK Trade & Investment and the British High Commission in Kuala Lumpur were not approached by the Company and did not get involved.
Joint venture with the Chinese state owned China Brilliance	2001-2003	After MG Rover publicly announced that it was working with China Brilliance, UK Trade & Investment in China and the Department contacted MG Rover offering assistance. UK Trade & Investment and the Department subsequently provided information and advice to MG Rover, for example, on the structure of the Chinese Company. MG Rover was advised to clear lines for the deal with the Chinese Government and in December 2002 UK Trade & Investment facilitated contact between MG Rover and four Chinese Government organisations who would have been involved or had an interest in the deal. The accounts of Phoenix Venture Holdings Limited for year ending December 2002 (finalised October 2003) record that China Brilliance made some payments but the joint venture was terminated as a result of the non-receipt of other payments due to MG Rover from the Chinese Partner.
Deals with Indian based company Tata resulted in: 1 Tata manufacturing a new small car for MG Rover – the City Rover. 2 MG Rover distributing a Tata Sports Utility Vehicle	2002-2003	The Department, UK Trade & Investment and the High Commission or Deputy High Commissions in India were not asked for assistance and were therefore not involved.
MG Rover considered acquiring a former Daewoo plant in Poland and alternatives in Slovakia	2002-2004	The UK Trade & Investment team in the Embassy in Warsaw was active in providing advice to MG Rover to help the Company progress a particular deal centred on the acquisition of a former Daewoo plant in Poland. The Slovak Government arranged for MG Rover to visit potential sites in Slovakia. There was informal contact between the Embassy and MG Rover although MG Rover did not seek UK Trade & Investment support in Slovakia.

Source: National Audit Office

NOTE

In addition to the deals or proposed deals listed above, the Board of Phoenix Venture Holdings Limited informed us that they had discussions with other automotive companies. They also informed us that these included an approach to one major automotive company within weeks of Phoenix acquiring MG Rover and then commenced strategic collaborative talks.

2.12 The Department was concerned that the negative publicity surrounding the Directors' remuneration would undermine confidence in the Company and any negative public comment by the Department could have increased this risk and would not have helped MG Rover's efforts to find a strategic partner. In early 2004 the Department commissioned its own review of the financial and commercial viability of the business. This was completed in April 2004 and was led by the Department's Industrial Development Unit, whose role includes advising on major commercial and financial issues. The review relied primarily on information about the Company in the public domain, supplemented by insights from officials who had had contact with the Company and statistical evidence from the Department's economists.

2.13 The review found that the bulk of the £427 million loan from BMW to Techtronic (2000) Limited had been passed onto MG Rover with interest being paid to Techtronic.[19] It also confirmed the Automotive Unit's understanding that, as a result of the Phoenix group's structure, profitable elements, such as the parts business

19 By the end of December 2003, Techtronic (2000) Limited had lent MG Rover £412 million.

and property holdings, were separate from MG Rover Group Limited. The review, however, recognised that the structure of the Phoenix group could be seen as a sensible commercial approach to organising the business.

2.14 The Department's April 2004 review predicted that MG Rover would need to finalise an agreement with a partner in the "following few months" if it was to develop, and get to market, a new medium-sized car. MG Rover's trading operations were using up significant amounts of cash and the Company had already disposed of some of its key assets, such as the Longbridge site on a lease back arrangement, to raise finance. The review identified that the Company might run out of cash as early as autumn 2004 but if it was able to cut back the rate of cash consumption it could have sufficient cash to last until autumn 2006.

2.15 As part of the review the Department considered the actions it could take to assist MG Rover under a number of scenarios, including assisting the Company in its negotiations with the various potential partners, providing reactive support from existing schemes, continuing its existing relationship with the Company, and planning to mitigate a potential collapse. The Department concluded that it would commence planning to mitigate the impact of a potential collapse on the local community, although such planning would need to be discreet. Given the conditions at that time, it judged that assisting the local community to cope with a collapse of the Company was likely to offer better value for money than providing rescue aid to MG Rover.

2.16 Following the review in April 2004, the Department decided to renew its efforts to forge closer links with the Company's management, and consequently it increased the amount of time staff devoted to MG Rover. In June 2004, MG Rover announced publicly that it had signed a co-operation agreement with SAIC, China's largest car maker. The Department publicly welcomed the negotiatons and offered to assist MG Rover in progressing the deal with SAIC. The Department reported that, initially MG Rover did not want the support of the Department or the Embassy in China and had neither sought nor obtained any assistance in reaching its agreement with SAIC in June 2004. Between June and November 2004, the Department was not asked and did not seek further to play any part in assisting the Company in its negotiations with SAIC. Although it closely monitored the progress of the deal and the performance of MG Rover, the Department did not formally revisit the scenarios it had considered in April 2004.

2.17 In November 2004, the Department commissioned a second detailed assessment of MG Rover's prospects, including the commercial logic of the deal and MG Rover's cash position. The Department drew on Phoenix Venture Holdings Limited's recently finalised 2003 group accounts in which the auditors – Deloitte & Touche LLP – drew attention both to the importance of the SAIC deal if Phoenix Venture Holdings Limited was to remain a going concern and the uncertainty over whether the deal would be completed **(see Box 5)**. The accounts were supplemented by some limited additional information that MG Rover had provided to the Department on the Company's financial position and the possible structure of the deal. However, the Department had not at this stage been allowed access to MG Rover's detailed financial information or cash flow projections. By the end of November 2004, the Company had accepted the Department's offer of assistance for the proposed deal, for example, following a meeting with Company officials in November the Secretary of State wrote to SAIC encouraging its bid.

2.18 The second review was completed by the Department in December 2004. It found that the terms MG Rover had obtained from some suppliers had worsened during 2004 as a result of uncertainty around the business. It also found that at the time of the review short term actions to improve the Company's cash flow, such as creditor payment delays, were being pursued and that there was little scope for raising cash from further asset sales, as MG Rover's main disposable assets were part of the proposed deal with SAIC. The review concluded that without any additional external funding MG Rover would run out of cash early in 2005 and go into administration. Even if the deal with SAIC was completed, it considered it likely that 2,000 to 3,000 of the 5,900 jobs at MG Rover were likely to be lost, and there was a very real possibility that large parts of the residual Phoenix Venture Holdings Limited group would fail as the joint venture might not help the profitability or cash position of the business in the short-term. As a result of the review's recommendations the Department established a planning group to evaluate each of the scenarios identified in the contingency planning and to prepare an appropriate response to each.

BOX 5

Extract from Phoenix Venture Holdings Limited audited financial statements for 2003 (finalised on 26 October 2004)

i) Extract from Note 1 to the Accounts: Accounting Policies

"Going Concern

In June 2004 the Group announced that an agreement had been signed with Shanghai Automotive Industry Corporation (SAIC). This initiated an exclusivity relationship to enable the Group and SAIC to develop a far reaching strategic relationship.

Since this date, discussions have proceeded at a great pace, which has lead (sic) to the signing of more detailed agreements and this has resulted in an initial tranche of funds being received by the Group. Final negotiations on these arrangements and the necessary legal documentation are in progress and it is anticipated that in the next few months an overall joint venture agreement will be signed resulting in substantial additional funds being received by the Group. These negotiations are not yet complete and require final regulatory approval. However, given the financial and other major commitments already made by SAIC, the Directors have a very high level of confidence that the overall transaction will be completed successfully.

This cooperation will fund the development of the new model programme and will facilitate the exploitation of the global car market for the MG and Rover brands, including the very important Chinese market.

The Directors have assumed the necessary additional funding will be received in the profit and cash flow forecasts they have approved. Consequently, the Directors continue to believe that the going concern basis is appropriate in the preparation of these accounts.

If adoption of the going concern basis was inappropriate, adjustments would be required to write down assets to their recoverable value, to reclassify fixed assets as current assets and to provide any further liabilities that may arise."

ii) Extract from the Independent Auditor's Report to the Members of Phoenix Venture Holdings Limited

"Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made in Note 1 to the accounts. These relate to the satisfactory completion of the negotiations with Shanghai Automotive Industry Corporation, who may provide additional sources of finance to the Group, and the necessary regulatory approvals. In view of the significance of this uncertainty we consider it should be drawn to your attention. However, our opinion is not qualified in this respect."

HM Customs and Excise granted a tax deferral to ease MG Rover's financial position

2.19 To help alleviate its cash flow difficulties, MG Rover sought permission to defer its VAT payments to HM Customs and Excise (from April 2005 HM Revenue and Customs). In deciding whether to approve the Company's request, HM Customs and Excise used their national policy standard on Time-to-Pay Agreements. Such agreements enable HM Customs and Excise to recover debt through the rescheduling of a trader's payments, and also provide tax authorities with the opportunity to address future compliance. The agreements allow traders to settle existing debt by means of instalment payments over a given period and have thus helped a range of businesses to survive periods of temporary financial difficulty. The agreements require approval by an official of appropriate seniority, depending on the level of debt involved, and the length of time an agreement will be in place. Agreements are granted when HM Customs and Excise believes that a business is fundamentally viable and a deferral is likely to be to the benefit of the Exchequer in maximising tax revenue. To make this assessment, HM Customs and Excise reviews the company's repayment proposals and tests the underlying assumptions. This often involves reviewing a company's cash flow forecasts. At the end of 2004-05, the HM Customs and Excise's Large Payers Unit (VAT) was managing 62 Time-to-Pay cases, of which MG Rover's was the largest.

2.20 On 26 November 2004, three days before MG Rover was due to settle its October 2004 VAT return, Deloitte & Touche LLP, MG Rover's tax advisers, contacted HM Customs and Excise proposing that, pending the conclusion of the SAIC deal, MG Rover should delay this payment, and all future VAT liabilities falling due up to the conclusion of the SAIC deal. Subsequently the Company requested a tax deferral throughout 2005 and stated that it was only asking for such a facility "as a matter of last resort". Such an extended agreement, during which the Company was proposing to make only minimal instalment payments, was not in-line with proposals HM Customs and Excise had accepted in recent cases from other traders. It was therefore rejected. HM Customs and Excise insisted that any agreement had to feature a suitable level of instalment payments towards the Company's debt and MG Rover should continue to make advance payments – known as Payments on Account[20] – for future VAT liabilities. To inform its discussions with MG Rover, HM Customs and Excise obtained in December the Company's forecast cashflow for 2005 and 2006.

2.21 On 22 December MG Rover offered to make substantially higher monthly instalments towards the Company's debt which would start in January 2005, but with no instalment being made in December 2004. The next day, at MG Rover's request, the Department of Trade and Industry informed HM Customs and Excise that MG Rover would be unable to make a Payment on Account towards the next quarters return, due on 31 December 2004, without jeopardising their cash position and the chances of concluding the deal with SAIC. In the circumstances HM Customs and Excise concluded that there was no realistic prospect of the Company making any VAT payments in December. It decided that the option which was most likely to be in the interests of the Exchequer was to agree for the December Payment on Account to be reduced to nil, but that Payments on Account should resume in January 2005, along with the monthly instalments MG Rover were proposing to make towards the outstanding debt starting on 31 January 2005. This gave the Company one month to resolve their financial problems, and HM Customs and Excise anticipated further contact with MG Rover in January.

2.22 Normally, representations regarding tax matters are made by a company or its advisers. In this instance, the Department of Trade and Industry saw its response to MG Rover's request for assistance as facilitating the Company's access to government services and ensuring that HM Customs and Excise was aware of the Department's assessment of the Company's financial position and possible implications if a deferral was not secured. The Department of Trade and Industry was not present during face-to-face negotiations between the Company and HM Customs and Excise.

2.23 On 28 January, MG Rover reported to HM Customs and Excise that the Company was unable to pay the money due at the end of that month as per the previous agreement. HM Customs and Excise was therefore faced with the decision of whether to extend the deferral period or seek payment as agreed, with the possible consequence of having to begin winding up proceedings to recover the money due. A key factor in the judgement of whether to grant an extension lay with the likelihood of the SAIC deal going ahead as this would provide MG Rover with a cash injection, and possibly access to other funds, which it could use to settle its tax liabilities. On 24 and 26 January, officials from the Department of Trade and Industry had met HM Customs and Excise to explain the difficulties MG Rover was facing. The Department informed HM Customs and Excise, based on information it had received from MG Rover and SAIC, that a deal with SAIC was well advanced. MG Rover believed that Chinese Government approval for the deal would be given by the end of March but the Department believed it could slip because of the complexities of the deal. HM Customs and Excise understood from the Department of Trade and Industry's officials that they were not negotiating on the Company's behalf but they expressed their hope that HM Customs and Excise could maximise assistance to MG Rover until the joint venture agreement was ratified. The Department told HM Customs and Excise that the Company had stated that SAIC had already paid MG Rover £67 million, which had been used to settle current liabilities. The Department further understood from the Company that the next injection of £55 million was due when the Chinese Government approved the joint venture. In a letter dated 31 January, MG Rover informed HM Customs and Excise of an "anticipated completion date [for the deal with SAIC] at the end of March".

20 A company with a net UK and import VAT liability in excess of £2 million per annum is classified as a 'Payment on Account' trader and is required to make fixed advance payments towards its quarterly VAT liability in the first two months of every quarter. This is followed by a balancing payment (or, if necessary, a refund) once the trader has declared its liability in its quarterly VAT return.

2.24 The information received from MG Rover and the Department of Trade and Industry by the end of January 2005 suggested to HM Customs and Excise that it was more likely than not that the joint venture would proceed and that MG Rover was a viable business which could be supported through a deferral agreement. Other than taking winding up action, which would have been very likely to result in the Company's closure and would have impacted on the flow of tax from MG Rover's suppliers, dealers and employees, HM Customs and Excise had no other means available to it to recover the tax due. HM Customs and Excise therefore accepted a proposal from MG Rover to pay a specific amount in February and then from March further agreed amounts each month. The agreement was considered at the most senior levels within HM Customs and Excise and approved on 11 February. Its effect was to allow a gradual increase in MG Rover's tax liabilities, and thus HM Customs and Excise insisted that the Company would have to provide a lump sum to settle arrears on completion of the SAIC deal. The agreement also resulted in a shortfall in MG Rover's monthly PAYE payments, as the Company needed that cash to make its monthly VAT instalments. In documenting its options in early 2005, HM Customs and Excise did not record in one place the benefits and risks to the Exchequer of extending the Company's tax deferral compared to the alternative of initiating recovery action.

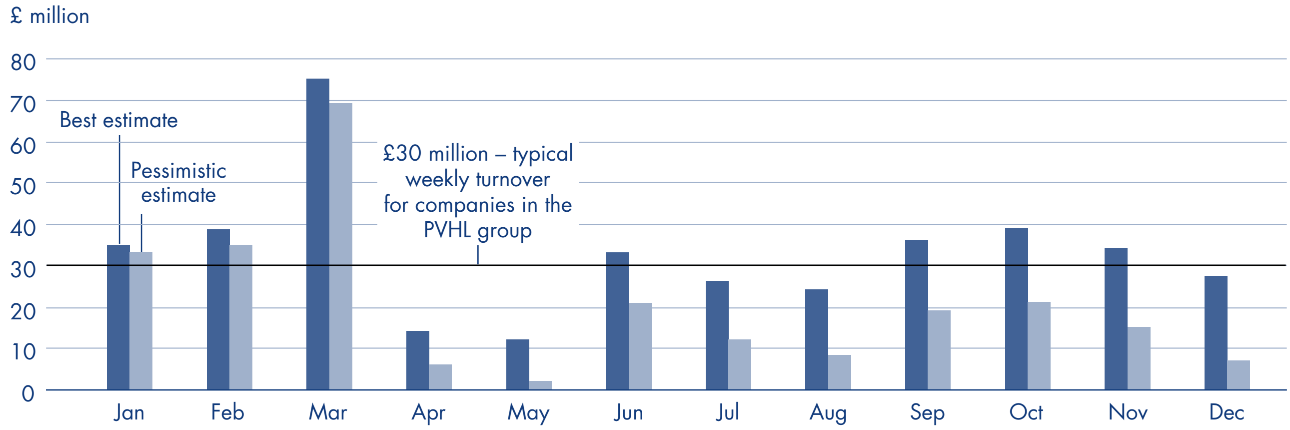
2.25 As a consequence of MG Rover's collapse a proportion of the Company's total VAT and PAYE debt, estimated at around £18 million at the time of the Company's collapse, may be irrecoverable. The precise debt and the size of any write-off is unlikely to be settled for some time and depends on factors such as the sums obtained from the Company's administrators, potential reliefs and liabilities and the tax position of other companies in the Phoenix Venture Holding Limited group.[21] If HM Customs and Excise had decided not to provide a deferral, it would have been forced to initiate winding-up procedures to recover what it could of the Company's existing tax debt. Such a course of action may have resulted in the writing-off of a significant amount of unpaid tax. By the time HM Customs and Excise had become aware of the Company's financial problems in December its tax debt was already significant and by the end of January debts exceeded £15 million.

2.26 In deciding whether to provide a second tax deferral, HM Customs and Excise drew on the financial information it had obtained in December 2004 from the Company, and MG Rover's and the Department of Trade and Industry's views of the progress of the deal with SAIC. HM Customs and Excise's work and our own analysis suggests that there were weaknesses in some of the assumptions underpinning MG Rover's financial information.

- **The Company's financial projections appeared optimistic**. In December, MG Rover provided extracts from Phoenix Venture Holdings Limited's business plan which included predicted monthly free cash balances during 2005 and 2006 **(Figure 9 overleaf)**. HM Customs and Excise had concerns about the Company's projections, in particular, both the forecast increase in sales volumes in 2005 and the substantial increase in margins in 2006 that were required for MG Rover's recovery. Our analysis, which included examining publicly available monthly data on the number of new MG Rover cars registered, indicated that the forecast sales figures for 2005 were optimistic. The Company's pessimistic scenario for 2005 assumed a 21 per cent increase on the level of sales MG Rover predicted it would achieve for 2004. This would have required the Company to have reversed the general downward trend in sales which had seen worldwide sales decline by 30 per cent since their peak in 2001 (see earlier Figure 7 on page 28). In particular, the Company would have needed to halt its decline in the UK market which accounted for around two thirds of its total sales. In the final six months of 2004 UK registrations were some 29 per cent down on the levels achieved in the same period in 2003.

21 The Enterprise Act 2003 removed HM Revenue and Custom's priority creditor status in company liquidations.

9 Phoenix Venture Holdings Limited forecasted that for much of 2005 it could have low balances of free cash



Source: Phoenix Venture Holdings Limited Business Plan for 2005 and 2006

NOTE

All balances assume that the Company would pay no VAT from December 2004 to December 2005. Balances for March 2005 onwards assumed the deal with SAIC would be completed in March and the Chinese Company would make a payment of £55 million on completion.

- **By the end of January 2005 several of the key assumptions underpinning the Company's projections had begun to look out of date.** The information assumed that the Company would not make any payments of VAT during 2005 and that SAIC would inject £55 million in March when the deal was completed. By the end of December HM Customs and Excise had made it clear that any Time-to-Pay Agreement would require some ongoing VAT payments. And by late January, both HM Customs and Excise and the Department of Trade and Industry were having doubts about the likely timetable for the deal. Both believed that a deal was more likely to be in April or May 2005 and the Department did not rule out the deal slipping until June. A delay of two months, combined with higher than forecast tax payments, would have a serious impact on MG Rover's cash balances, particularly in April, when the Company was projecting that with a completed deal its free cash balances would be less than £15 million.

2.27 We consider that at the end of December 2004 or start of January 2005, HM Customs and Excise could have done more to point out the weaknesses in the information supplied to it and request improvements. HM Customs and Excise was aware of the weaknesses in the financial information provided by the Company, but decided against seeking further information. The crux for it making the decision about whether to extend the deferral was whether or not the joint venture with SAIC would proceed. In early February 2005, HM Customs and Excise decided to extend the deferral as it assessed that it was more likely than not that the joint venture had the potential to proceed. Were the venture to succeed, as it expected, the Company would then be in a better position to access the resources necessary to settle its tax liabilities. However, as a consequence of its concerns about the quality of the information, and to protect itself against a further increase in tax debt, HM Customs and Excise made it clear to the Company that the Time-to-Pay Agreement would need to be reviewed in May. For this meeting HM Customs and Excise were intending to obtain the Company's first-quarter 2005 profit and loss account, detailed sales and cash flow forecasts, and information on planned changes in the SAIC investment.

The Department's consideration of providing a bridging loan to MG Rover

2.28 By 31 January 2005, the Department of Trade and Industry had begun to consider how it would respond if MG Rover requested further financial assistance, in addition to the tax deferral. The Department concluded that if the deal was delayed, because of the time required for SAIC to obtain Chinese Government approval, it might be able to use powers under Section 7 of the Industrial Development Act 1982 to provide a bridging loan to assist MG Rover to overcome a short term cash flow problem until the deal was complete. The Department judged that the European Commission might approve such a loan as rescue aid if the Department could assure itself that MG Rover's deal with SAIC would go ahead and that the parties would then repay the loan, with interest, within six months of it being provided. The Department ruled out providing any aid to keep MG Rover trading in the event that the deal with SAIC collapsed.

2.29 The Department identified that the value to the taxpayer of any loan was open to doubt. The loan would assist MG Rover to keep trading and in the Department's view potentially preserve some 3,000 or so jobs at Longbridge and others in the Company's suppliers, although this was by no means certain. The Department considered that MG Rover's cash flow position was so difficult that even if a deal with SAIC was completed, the future of Longbridge would be far from guaranteed. Although SAIC stated its intention to continue car production at Longbridge, the scale of such production would not be known for some time. The Department also recognised that a bridging loan could generate accusations of inappropriate use of the Department's resources for supporting a failing company. Even taking account of what it regarded to be the exceptional circumstances of this case – the risk apparently posed to the deal by the time required for Chinese Government approval – the Department appreciated that making a loan would entail some risk to its reputation with business.

2.30 During February 2005 the Department, working with HM Treasury and their lawyers Slaughter and May, established criteria which would need to be met before a loan could be made. The Department sought to develop criteria (which are set out in full in Appendix 6) that would both ensure value for money from the loan by minimising the chances that the loan would not be repaid and reduce the risks that the loan would not be approved by the European Commission. The criteria required the Department to obtain satisfaction that: MG Rover's deal with SAIC was effectively done as evidenced by a copy of signed joint venture documentation; the Chinese Government favoured the deal; and SAIC acknowledged that its contribution to the UK joint venture would be used to repay the loan. The criteria also required the Company's Directors to contribute a proportion of their personal assets to funding the loan.

2.31 The Department was conscious that the provision of a bridging loan would be an exceptional step and was concerned that it should only provide a bridging loan to MG Rover as a last resort. When the Company made a request for a loan facility on the 21 February, the Department therefore encouraged it to explore other options for obtaining funds. The Department had been aware from the Company that there had been discussion with SAIC regarding the possibility of a further pre-payment in exchange for the MG brand, but these discussions proved fruitless. Thus, when the Company made a second request for assistance, the Department responded on the 17 March by setting out the criteria that would need to be satisfied before a loan could be offered. Its advisers, KPMG, went into MG Rover on the same day to evaluate the Company's financial position, including the Company's immediate cash position and needs, and to identify the Company's assets which could be taken as security for any loan. KPMG were also asked to alert the Department if they came across evidence that the Directors had behaved in a manner inconsistent with their responsibilities under insolvency law. Appendix 7 summarises the key events during the Department's deliberations on whether to provide a bridging loan.

2.32 Departmental papers record that discussions with one of the Company's Directors on 22 March revealed that MG Rover's cashflow position was extremely tight and there was a need to rely on significant goodwill from creditors. The papers also record that the Director assessed that the Company could struggle on until Friday 8 April. The Department therefore informed both MG Rover and SAIC that it would work towards a final decision on the substance of the loan request by 1 April. The Department had been informed by the Company, for example on 14 March, that the Directors had been consulting their lawyers about their legal responsibilities to creditors and whether they were able to carry on trading. The Department's records state that they encouraged the Company to continue to take such advice.

2.33 On 29 March, SAIC wrote to the Department identifying hurdles to achieving the signing and successful implementation of the proposed deal with MG Rover. SAIC was concerned that the residual Phoenix Venture Holdings Limited business could become insolvent post completion and, if this happened within two years, the new UK joint venture could be responsible for the liabilities of Phoenix Venture Holdings Limited. SAIC was prepared to continue discussions but it did not envisage that it would have gained sufficient additional comfort by the 1 April deadline to assure the Department that the deal would be completed and any loan would be repaid. On 31 March two key members of the Department's team travelled to China to understand in detail the state of negotiations and SAIC's particular concerns. The Department reported that through the following weekend in Shanghai, SAIC continued to refer to the commercial opportunities that the proposed investment would provide whilst stating their very substantial reservations about the wisdom of proceeding with the deal. In the Department's assessment, they did so without at any point giving a clear signal that they no longer wished to complete the proposed transaction. At the same time, Phoenix Directors (some of whom were also present in Shanghai) were expressing to the Department their confidence that the deal would proceed.

2.34 During the first week of April, the Department considered relaxing some of its loan criteria, in particular whether to make available a loan facility ahead of any agreement between the two Companies and without any concrete assurance from the Chinese Government that it favoured the proposed joint venture and would approve it. The Department considered securing part of the loan against the remaining assets of Phoenix Venture Holdings Limited. On 5 April the Department showed a draft letter to SAIC stating that it was in a position to extend to MG Rover a bridging loan facility of up to £110 million to the end of May 2005. At the same time there was contact between the Department and the Directors over the size and terms of their contribution to the loan. On 5 April, the Directors wrote to the Department offering to make available from personal assets and personal borrowings a cash sum of £10 million. The amount and terms of the personal guarantees were never finalised.

2.35 If the Department had made a loan, it would have done so to provide the Companies with the opportunity to resolve outstanding commercial issues and secure the approval of the Chinese Government. On the evening of that day, however, SAIC's advisers Rothschild and Sons reported to the Department that SAIC did not wish to go ahead with the deal. The Phoenix Directors, however, disagreed with Rothschild's interpretation of SAIC's intentions and a series of further contacts between the parties ensued to confirm the position, culminating in confirmation from the Rothschild's team on 7 April that SAIC were not going to proceed. The Department therefore concluded that without a deal there was no possibility of a bridging loan and notified MG Rover accordingly.

The Department's handling of the bridging loan request

2.36 The Department had to tread a careful path in response to the Company's request for a loan facility. The potential financial exposure entailed by a loan was very substantial and any potential support had to comply with rules governing state aid. Throughout its dealings with MG Rover, the Department also needed to ensure that its actions did not inadvertently induce the Company to continue trading when it should not otherwise have done.

2.37 As MG Rover began to run short of cash, its Directors needed to ensure that the Company did not engage in wrongful trading or become vulnerable to any other challenges available under insolvency legislation in the event the Company subsequently failed. Whereas it may not have been illegal for the Directors to continue to trade in circumstances where the Company was insolvent or verging on insolvent, they needed to take every step with a view to minimising the potential loss to the Company's creditors. The Insolvency Act 1986 recognises the concept of a shadow director, being a person who is not holding himself out as a director but on whose directions and instructions the directors are accustomed to act. Although it is not an offence to be a shadow director, it does attract certain duties and responsibilities that fall upon directors in the context of insolvency, including the wrongful trading provisions. It was therefore important that the Department did not place itself in the position of shadow director or, through its actions, facilitate the Directors of MG Rover engaging in wrongful trading.

2.38 Having received the initial request for a loan at a meeting on 21 February, the Department was conscious of the risk that MG Rover might begin to rely on their request for rescue aid to keep trading. The Department's note of its discussions with MG Rover on 11 March records that a senior official stressed to the Company that any request for a loan facility would be a non-starter as long as there were any doubts as to SAIC's commitment to the proposed deal. The same note records that the Company conceded that it should be able to negotiate the release of prepayments from SAIC of £56 million by the end of March. The note also records that the Company said that "with a fair wind" and so long as the £56 million was paid in March, there was a way of seeing how, on a cash basis, the Company could keep going until mid/end April.

2.39 On 21 March the Department became aware that there was no longer any realistic prospect of a further prepayment from SAIC to MG Rover before the end of April. The Department concluded that the Directors were now relying on there being a reasonable prospect of both the deal going ahead and a loan from the Department in order to keep trading. It therefore decided to keep the position under daily review and to inform the Directors of MG Rover if the prospect of the loan had ceased. These reviews were informed by updates it was receiving from its advisers KPMG on the Company's cash position. On 1 April KPMG confirmed the Department's understanding that the Directors were taking weekly legal advice on the issue of wrongful trading. KPMG also informed the Department that they were not aware of any evidence that the Directors had failed to observe their obligations under the Insolvency Act 1986. On 7 April the Department had received confirmation that the prospect of a deal going ahead had disappeared and therefore the prospect of offering a loan had ceased.

The Department's £6.5 million loan to MG Rover's administrators

2.40 On Friday 8 April the Board of MG Rover appointed administrators to take control of the management of the affairs, business and property of the Company. In exercising the functions of an insolvent company, administrators are required to advance a hierarchical structure of objectives. The first and overarching objective of the administrators is to rescue the company as a going concern. If the administrators believe that this is not reasonably practicable, or will not achieve the best result for the creditors of the company as a whole, then their primary function will be to manage the business and realise the assets of the company in such a manner as to achieve the best result for creditors.

2.41 On the afternoon of the 8 April the administrators, PricewaterhouseCoopers, requested a meeting with the Department. At the meeting, which took place on Saturday 9 April, the administrators stated that without some form of funding there would be large scale redundancies at Longbridge on Monday, 11 April. On the evening of Sunday, 10 April, following discussions with the administrators and trade unions, the Department obtained HM Treasury's consent to use powers under Section 7 of the Industrial Development Act 1982 to provide a loan of £6.5 million to the administrators. The loan was intended to cover the operating costs of MG Rover for one week.[22]

22 The Department made two separate loans: £5.3 million for MG Rover Group Limited and £1.2 million for Powertrain Limited.

2.42 In advising their Minister on the afternoon of 10 April, the Department's officials recommended that HM Opposition should be consulted about the loan in keeping with Cabinet Office guidance governing the conduct of Government business during the 2005 General Election Campaign. The Department maintained a list of Ministers' contacts with various groups and individuals with an interest in MG Rover. This records that the Secretary of State's private office spoke to HM Opposition at lunchtime on 10 April. A separate note states that HM Opposition was informed that there would be further talks on MG Rover taking place through the rest of the day and the Secretary of State would call back before the end of the day with an update. The note also recorded that a similar message was left on the answer phone of the Liberal Democrats front bench spokesman on Trade and Industry. The list of Ministers' contacts states that the Secretary of State tried unsuccessfully to contact HM Opposition on the evening of 10 April and that the Secretary of State spoke to the Liberal Democrats front bench spokesman shortly after the Department had announced the loan. No further details of the Secretary of State's conversations were maintained.

2.43 In reaching its decision on 10 April, the Department weighed up the following factors:

- **The chances of achieving a going concern sale for the whole of the MG Rover business to SAIC and thus avoiding the potentially unnecessary economic costs of a temporary closure of the business.** The following factors were relevant:

  a The Department had reason to believe, for example, from statements made by SAIC, that the Chinese Company had drawn back from discussions with MG Rover for fear that liabilities taken on by Phoenix Venture Holdings Limited under the proposed deal, notably pension liabilities, could lead to its insolvency and then rebound on the proposed UK joint venture. The administration of MG Rover substantially reduced this risk, and therefore the Department considered that SAIC might re-engage quickly.

  b The Department took into account SAIC's interest in a deal with MG Rover before it went into administration, including the long period of negotiation between the two Companies which had started in the first half of 2004 and their purchase of intellectual property rights.

  c Immediately prior to administration the Department had, however, understood that SAIC's internal deal team had been stood down. Neither the Government nor the administrators had been able to make direct contact with SAIC, or clarify the position of the Chinese Government, in the short period since MG Rover went into administration. Diplomatic sources suggested that the Chinese Government had recently been positive about a deal. However, soundings taken by the administrators through SAIC's advisers Rothschilds on 10 April were negative and there had been no communication from the National Development and Reform Commission, the central Chinese Government body which reviews the business proposals of Chinese companies wishing to enter into joint ventures with overseas companies.

- **The chances of achieving a going concern sale to another party.** Within 36 hours of their appointment the administrators had received a number of other expressions of interest, and the Department was aware of a number of other parties that might be interested in parts of the business and there was the possibility that others might come forward in the next few days. Whilst the administrators still considered SAIC as the only realistic purchaser for the whole business, a quick sale of part of the business to another purchaser was conceivable. A loan would allow time for diplomatic contacts to be pursued and other indications of interest to be followed up. However, the Department's discussions with the administrators on 10 April suggested that at that point the prospects for selling quickly the assets in administration (in part or in whole) to SAIC or another purchaser as a going concern were "remote". The Department could have missed an opportunity by not brigading its understanding of MG Rover in a way which would have helped the creation of a database to assist those who had expressed an interest in the business develop their proposals. Naturally this would have needed care. The Department was anxious to avoid acting as a commercial broker between MG Rover and potential private sector buyers when it had very incomplete information about MG Rover's assets and liabilities, could be sued in the courts for damages if the information were inaccurate and when there was an administrator whose job it was to secure the most advantageous sale of the MG Rover business.

- **If the sale could not be achieved, the benefits of reducing the immediate economic and social impact of large scale redundancies by enabling the position of the workforce to be resolved in an orderly manner.** Our work suggests that all the key public bodies would have been ready individually to provide the support needed by 8th April. However, the Department's loan provided more time to coordinate that support. The administrators had been appointed by MG Rover at very short notice and needed some time to arrange orderly contact with individual workers at Longbridge. The administrators used the time provided by the loan to put in place the personnel procedures necessary to process all the workers being made redundant within a week and to link up effectively with the various public bodies. As a result of the extra week, for example, Jobcentre Plus were present at the Longbridge site from Monday 18 April and the administrators were able to send out information on how to claim redundancy pay and social security benefits with redundancy letters. The administrators also contacted organisations which they considered might be interested in employing MG Rover workers. As a consequence some of these organisations were represented at Longbridge during the week beginning 18 April.
- **The impact on the public purse.** The Department recognised that if there was no going concern sale it was highly likely that the loan would not be repaid. The Department set against this the benefits to the Exchequer of achieving a going concern sale, which would reduce the number of job losses and thus cut the costs to the Exchequer of retraining and redundancy payments – the Department estimated upwards of £10,000 per job saved.
- **The risk that the loan to MG Rover's administrators might set an undesirable precedent.** Departmental loans to administrators have been rare and have, in the past, been provided when there were potentially exceptional social or economic consequences if a company had stopped trading, as in the case of Railtrack.

2.44 If a potential purchaser had come forward, a going concern sale would either have had to be completed within the week or additional cash injected to keep the Company, or that bit that was to be sold, going until the deal was done. The administrators had informed the Department on 10 April that any deal with SAIC might take three months to complete. The administrators estimated that around £70 million to £100 million could be required to keep MG Rover fully running and afloat over this period. The administrators could have considered other options which would have reduced funding requirements and preserved the possibility of a partial going concern sale such as shutting down part of the business. Funding, particularly of the order initially estimated by the administrator, might have been difficult to obtain as the only likely sources of finance were the purchasers, and any backers they had, the administrators, who had few liquid assets and could only have used them if they considered the potential sale was in the interests of creditors, and the Department. The Department recognised that if it made any further payments ahead of an agreed sale this would have brought a risk of non-repayment and would have required approval as Rescue Aid from the European Commission, as did the £6.5 million loan that was made.[23]

2.45 On 15 April the Department received a letter from SAIC in which it said explicitly that it was not willing to acquire either the whole or part of the MG Rover business as a going concern. In the absence of other credible offers, the administrators concluded that that the Company could not recommence car production in the short-term and consequently they issued redundancy notices over the next two days to the large majority of the workforce.

2.46 The £6.5 million provided by the Department was used to cover £3.0 million for the salary and wage cost of employees for the week ending 17 April, general operating costs of £0.6 million, legal and other fees of £0.4 million and £1.2 million for the administrators' fees. The Department has since recovered £1.3 million of the loan. Some or all of the remaining £5.2 million will not be repaid.

23 In June 2005 the European Commission decided the £6.5 million loan fulfilled the conditions to be considered compatible with the EU Single Market Rules and thus decided not to raise objections against the aid.

PART THREE

Dealing with the consequences of MG Rover's collapse

3.1 This part reviews the action taken by the Department, Advantage West Midlands and a range of public bodies to deal with the consequences of MG Rover's collapse. It examines, in particular:

i) whether the Department and Advantage West Midlands had put in place adequate plans to deal with the consequences of collapse; and

ii) whether the plans were effective in mitigating the impact on former employees, suppliers and retailers.

i) The plans of the Department and Advantage West Midlands to deal with the consequences of collapse

3.2 On 15 April 2005, 5,300 of MG Rover's 5,900 workforce were sent letters from the administrators notifying them that they were being made redundant with immediate effect. More of the workforce received redundancy letters in the following weeks. For many, this was their first experience of being unemployed. The MG Rover workforce was long serving - 95 per cent of the employees had worked at MG Rover for nine or more years - and many people had known no other employer. We asked Ipsos MORI to undertake group discussions to obtain the perspectives of former employees about the support and information they received from central government funded public bodies following the closure of MG Rover. The results are not based on statistical evidence and do not claim to be statistically reliable. It is also important to keep in mind the context in which public agencies were operating. The large scale and the speed of the Company's closure created a substantial challenge for public agencies who had to expand their capacity quickly to deliver support and advice to former employees. The research nevertheless provides an insight into the reactions of 38 people who have had to deal with the wide ranging financial and social implications of being made redundant at very short notice. At the group discussions, former employees spoke of the shock of hearing of the collapse of the Company's deal with SAIC and the deep anxiety that the Company's resulting closure had created for them and their families **(Figure 10)**.

10 Reaction to the collapse of MG Rover's deal with SAIC and the impact of redundancy on the former MG Rover employees

"Thursday night, probably about half ten I was watching the news, and it said Rover collapse, it was just a total shock, didn't expect it at all."

"One of the managers said 'don't bother coming in, just watch the TV', and obviously then I put the TV on, and I see what happened, and it just totally shocked me."

The participants at the group discussions reported that the financial effect of redundancy had been the most immediate and visible impact they had felt. Most people had made purchases or had financial commitments to creditors and relied on a steady income to meet these obligations. A number of people had mortgages and bank debts which they were unable to pay off now that they had been made redundant.

Source: Ipsos MORI

3.3 The closure would also cause major problems for MG Rover's suppliers and retailers, as well as other businesses in the local area and the community more generally, reliant upon the custom of the MG Rover employees. The Company's accounts showed that in 2003 it had paid out £160 million in wages and salaries and had a turnover of around £1.5 billion. The Company bought in goods and services of around £835 million in the United Kingdom in 2004.[24] An economic impact assessment undertaken for the MG Rover Task Force identified that up to the end of September 2005 there had been a minimum of 7,500 redundancies in the West Midlands and the overall impact of MG Rover's closure was more likely to be 9,000 jobs lost, the equivalent to 0.4 per cent of all employment in the region.[25] The assessment predicted that the economic output of the region was likely to initially fall by 0.2 per cent before recovering.

Planning for a potential closure

3.4 The Department and Advantage West Midlands took timely action to prepare for a potential collapse of MG Rover. In December 2004, the Department established a joint planning group to carry out an economic analysis of the impact of a potential closure of the Longbridge factory and undertake detailed contingency planning. The group included representatives from HM Treasury, the Government Office for the West Midlands, the Department for Work and Pensions and the Learning and Skills Council. The group took initial responsibility for drawing up the package of support and invited Advantage West Midlands to provide advice on what practical support measures would be needed. Advantage West Midlands also assumed responsibility for coordinating the delivery of the package and, after the collapse, it was advised by the MG Rover Task Force on the progress made by regional and local partners in delivering the support package.

3.5 The Department's decision to initiate detailed contingency planning in late 2004 was not without risk. Its key concern was that the existence of such planning might become much more widely known, leading to media speculation about the Company's future when negotiations with SAIC were at a delicate stage, and thereby risk undermining the Company's position. In the event, the Department and its partners effectively managed this risk.

Economic analysis of the likely support required

3.6 The support available in the aftermath of a company collapse can comprise a mix of statutory and discretionary elements, for example additional support for training. There are no pre-set criteria amongst Whitehall departments determining when discretionary support might be appropriate. The factors often determining the economic impact of the collapse and thus the amount and nature of discretionary funding include the number of job losses; whether the losses are in one region or dispersed; whether or not the company concerned is still in business and able to provide financial support to the redundant workers; and the ability of the regional development agency and local authorities to fund support services. Appendix 8 provides examples of some of the support packages following other recent closures or large job losses.

3.7 In February 2005, the Department and Advantage West Midlands initially considered providing around £84 million to support former MG Rover suppliers and the wider West Midlands economy. This included £35.5 million of funding from the Department and £49.3 million of funding from Advantage West Midlands. The latter included unspent Rover Task Force 2000 funds. If statutory payments to employees had been included the total value of the initial package would have been £124.8 million.

3.8 Following a review and consultation with relevant public bodies, on 15 April 2005 the Secretary of State for Trade and Industry announced a £156 million package of support for former employees of MG Rover, their families, suppliers and the wider community around Longbridge.[26] This was subsequently increased to £176 million by a further £10 million contribution from Advantage West Midlands and a £10 million package of support from Birmingham City Council. Compared to the initial estimate in February, the largest elements of growth were the inclusion of funding to cover the cost of retraining Rover workers and the creation of a Transition Bridge Fund through which loans could be made to former MG Rover suppliers and retailers. This Fund had been recommended by Accelerate (part of the Birmingham Chamber of Commerce) through Advantage West Midlands and had not featured in the Department's economic assessment of need in February. Around a quarter of the overall package (£40 million) was accounted for by statutory payments to

24 *Closure of MG Rover: Economic Impact Assessment Stage 2 Report*, November 2005, Regeneris Consulting, key messages page 1.

25 *Closure of MG Rover: Economic Impact Assessment Stage 2 Report*, November 2005, Regeneris Consulting, paragraphs 1.1 and key messages page 8. In addition to jobs lost in the West Midlands other jobs will have been lost in supply chain companies located elsewhere in the UK.

26 The £156 million included a contribution of £15 million from the European Social Fund.

the former employees[27], the remainder by the discretionary package. Just over half of the package was targeted at the former employees, although in terms of direct payments they received no more than they were statutorily entitled to or were subsequently awarded by Employment Tribunals. **Figure 11** summarises the key features of the final package. Appendix 9 details the main sources of funding.

ii) The impact on former employees, suppliers and retailers

Former employees

3.9 When MG Rover went into administration, the employees who had lost their jobs received no redundancy payments from the Company, no period of notice, and no payment in lieu of notice. The immediate priority of the MG Rover Task Force was therefore to ensure that former employees claimed and received whatever statutory redundancy pay that was due to them as quickly as possible; claimed and received the benefits to which they were entitled; and that help was on hand to identify new employment opportunities, career paths and relevant training needs and programmes.

3.10 Our work suggested that efforts made by Advantage West Midlands and its partners to develop and maintain communications with the former employees assisted in delivering elements of the support package. Advantage West Midlands used support package funding of around £300,000 to keep the Human Resources team at MG Rover in place from the time of the collapse of the Company until December 2005. This, for example, enabled the team to issue redundancy notices from the administrators, along with a claim form for statutory redundancy payments from the Redundancy Payments Service and information on how to claim benefits. It also enabled the Redundancy Payments Service to obtain a record of employment for the staff made redundant. Other measures aimed at keeping former employees and others up to date included telephone hotlines for employees, suppliers, and the media, operated by different agencies, such as Jobcentre Plus and Birmingham City Council; communication via the news media; and a dedicated website (www.rover-response.info) with links to the websites of other agencies. Birmingham City Council also introduced a dedicated website (http://www.birmingham.gov.uk/longbridge.bcc) as did Wolverhampton City Council.

11 The regional support package

Nature of support	£ million
Support to former employees	
Statutory Redundancy payments and compensation awards[1]	40
Training for workers made redundant at MG Rover and suppliers	50
Support to businesses	
Grant support available to former MG Rover suppliers[2]	42
Loan support for businesses. The 'Advantage Transition Bridge Fund' was made available to former MG Rover suppliers and retailers facing financial difficulty and having a viable recovery plan but insufficient finance from normal sources to implement it[3]	25
Technology and innovation infrastructure to assist investment in new business structure in the three High Tech Corridors in the West Midlands	9
Support for the community	
Measures to address community impact funded by Birmingham City Council	10
Total[3]	**176**

Source: National Audit Office analysis of Department of Trade and Industry data

NOTE

1 The package as announced did not include protective awards as these are not statutory payments (see paragraph 3.12).

2 A small element will be used to cover support costs.

3 Of the £25 million allocated to the Advantage Transition Bridge Fund some £5 million was set aside to cover any loans that were not repaid. The maximum value of loans that could be made was therefore £20 million. And the total value of payments and loans that could be made to former employees, businesses and the community was £171 million (see figure 1 page 2).

Redundancy pay

3.11 The Redundancy Payments Directorate reported that on average it was able to make statutory redundancy payments within 2 days, and compensatory notice pay within 4 days, of applications being received from former MG Rover employees. Overall, these measures resulted in around 99 per cent of MG Rover claims being paid in 21 days. This was well ahead of the normal targets to pay 70 per cent of claims within three weeks and 92 per cent within six weeks.[28] The redundancies at

27 The sum actually paid to employees was £55 million and included awards made by an Employment Tribunal (see paragraph 3.12).

28 The NAO has not validated these figures.

MG Rover represented by far the largest number of applications for redundancy payments experienced by the Redundancy Payments Directorate from a single employer. From 18 April the Directorate's staff were present at the drop-in centre at Longbridge. They took claims on the spot, cleared the claims with the administrators and sent them to the Redundancy Payments Office for immediate processing. To deal with this number, the Directorate diverted all work not related to MG Rover from its two offices based in Birmingham to its two other offices in Edinburgh and Watford for a four week period. This allowed the 40 staff in Birmingham to focus on the claims from MG Rover. It also brought in six additional staff for two weeks to input data onto its systems while key staff were on site at Longbridge. Former MG Rover employees attending group discussions organised by Ipsos MORI on our behalf commented on how quickly they had received their redundancy pay and its importance in providing a financial buffer while they sought new employment.

3.12 By early December, the Directorate had paid nearly £55 million to the former employees made up of £30 million in statutory redundancy pay, £14 million in compensatory notice pay[29], £9 million in protective awards and £2 million in holiday pay. This compares to the original estimate in April 2005 of £40 million which excluded the costs of protective awards as these are not statutory payments. The protective awards were made by Employment Tribunals in recognition of the Company's failure to meet the statutory requirement to inform and consult employees' representatives on proposals to issue redundancies. All the payments were made from the National Insurance Fund, which has thus become a creditor of the collapsed Company.

Processing benefit payments

3.13 The closure of MG Rover also created an immediate and unprecedented level of demand for Jobcentre Plus services. The agency had to process applications for benefits from the 5,300 former MG Rover employees who received redundancy letters on 15 April 2005. It did this quickly. Jobcentre Plus reported that employees were interviewed and able to make their claims for the benefits to which they were entitled within seven days and, those that did claim, received benefit payments within 10 days of their claim.[30] This exceeded Jobcentre Plus's normal customer service standard to pay individuals within 12 days of making a claim. To provide a fast service, Jobcentre Plus, amongst a range of measures, brought in 160 staff from other Jobcentre Plus regions and used over 2,000 staff from the West Midlands region – a third of the region's workforce – to process the cases of former MG Rover employees during the first two weeks after the Company's closure. It also worked a double shift each day over a seven day period at the Jobcentre Plus office next to the Longbridge site; and distributed the applications for benefits to other offices across the country to minimise delays in processing.

3.14 The 38 former MG Rover employees attending group discussions organised by Ipsos MORI on our behalf reported that the process of 'signing on' was completed quickly and that significant efforts were made to process claims promptly, in particular keeping the Centres open longer hours. For most of the participants in the group discussions, coping with unemployment and job seeking has been a new and daunting experience. Some participants had expected to receive better information when their employment was terminated, for example the procedures involved in signing up for Jobseekers Allowance, the other benefits that might be available, the personal and financial information likely to be needed to fill in forms at the Jobcentre, information on when benefits can be deducted and stopped, and how Jobcentre Plus operated.

3.15 Jobcentre Plus had made available a range of information to former employees. For example, a pack on the services provided by Jobcentre Plus, including the process for claiming benefits, was issued to all workers with their redundancy notices, and one Jobcentre opened over the weekend of 16 and 17 April to handle immediate enquires and others were opened for extended hours from Monday, 18 April. However, in the initial aftermath of the collapse, and the anxiety this had caused, some of the applicants may not have read or been aware of some of the information provided.

Obtaining new employment

3.16 Jobcentre Plus also has responsibility for helping the former MG Rover and supply chain employees into paid employment or self employment. Working with the Learning and Skills Council, it took action to facilitate the large number of companies, that wanted to offer vacancies to former MG Rover workers, find individuals with appropriate skills. This action included a large jobs fair in May 2005, which was attended by 140 employers and an employer hotline for all companies interested in taking on former MG Rover employees.

29 If a person finds another job during all or part of their notice period, their wages are deducted from their compensation payments. State benefits are also deducted from compensation payments if a person remains unemployed.

30 The NAO has not independently validated this figure.

3.17 Jobcentre Plus established a database to monitor the flow of former MG Rover employees and those people who they could identify as former supply chain company employees[31] onto benefits, into training and employment. By early January 2006, 5,270 MG Rover employees had signed on for Jobseeker's Allowance and Jobcentre Plus had registered some 956 people from former suppliers. Of these people, 3,587 (or 58 per cent) had subsequently found jobs by early January.[32]

3.18 The economic impact assessment undertaken for the MG Rover Task Force looked at the rate at which former workers were finding new jobs. It concluded[33] that:

"although a significant proportion of the redundant workers had gained employment by the end of September (45%), this was slightly less than the re-employment rate which might be expected for an "average group" of unemployed claimants. This is not entirely unexpected in that some redundant workers will have delayed their job search, possibly as a consequence of pursuing training. However, the re-employment rate for the redundant workers has increased sharply between June and August (nearly doubling from 22% to 41%), as their job search and training activities have helped them to gain work."

Advantage West Midlands has commissioned a study to monitor the employment and training destinations of MG Rover employees, and the impact of the services provided in helping them to secure new jobs. The study will monitor outcomes for one year following the MG Rover closure, with a report later in 2006.

3.19 Many of the former MG Rover employees attending our group discussions had prided themselves on never being unemployed or claiming benefits and, as they put it, had regarded a period claiming benefits as a demoralising prospect. Jobcentre Plus had made available at its Jobcentres from 18 April appropriate services such as advice on preparing CVs and attending job interviews in recognition of the fact that many of those made redundant would not have recent experience of looking for jobs. Jobcentre Plus reported that such services were not usually provided until a person has been unemployed for six months. However, several participants at our group discussions identified areas where they had expected greater support from Jobcentre Plus in searching for new employment. These included better advice on how to use the job search facilities available, the process of applying for a job via Jobcentre Plus and what they could expect, in particular the services that could and could not be provided. Some participants had expected more tailored personal advice on how to sell themselves to meet what potential employers were looking for in the local job market but did not feel that they had received this. Others were concerned that the jobs on offer were often minimum wage jobs. Those formerly in management positions felt that the service made little provision to meet their needs and had left them to make their own job-search. Comments from participants suggested that Jobcentre Plus had found difficulties in matching the needs of a sudden influx of skilled and qualified people eager to find employment.

3.20 During Autumn 2005, Jobcentre Plus, the Learning and Skills Council and other local agencies involved with the MG Rover Task Force have been considering what could be done in the medium term to both assist former MG Rover employees who had remained unemployed and to support the community located around the Longbridge site which had been badly affected by MG Rover's closure. The public bodies are looking at ways in which their services could best be re-packaged in 2006 to help those still unemployed gain sustainable employment.

Access to training programmes

3.21 The Learning and Skills Council plans post 16 education and training provision to Higher Education level and funds further education colleges and training providers in the private and voluntary sector. When the Company collapsed it was given the additional responsibility of helping former MG Rover employees develop the skills which would assist them in getting jobs. It has also made available training support to assist the partners of former MG Rover employees. The Learning and Skills Council's principal challenge was to work with providers to increase the overall number of training places available on the courses employees wanted to attend without creating lengthy waiting lists. The Council made preparations to deal with the collapse, but could only approach Further Education colleges and other potential

31 The actual number of job losses in the supply chain companies was higher. Jobcentre Plus figures only capture those ex-employees who make applications for benefits and can be identified as coming from MG Rover suppliers.

32 The NAO has not independently validated this figure. It would include any former employee who subsequently lost their job and had by early January returned to claiming Jobseekers Allowance. However, research by Jobcentre Plus indicates that the large majority of people who have found work have not made new claims for benefit. Jobcentre Plus reported that of the 3,500 people it knew had returned to work in the period April 2005 to early January 2006 only 5 per cent had subsequently made a new claim for benefit.

33 *Closure of MG Rover: Economic Impact Assessment Stage 2 Report*, November 2005, Regeneris Consulting, paragraph 4.13.

providers of training once MG Rover had collapsed. One option used by the Council to expand the number of places available was to fund local colleges so they could substantially increase their provision during the summer. South Birmingham College, for example, 'bought out' the holiday of some of its staff to enable it to operate throughout Summer 2005. The college also recruited and trained new lecturers. Birmingham City College brought in trainers from other colleges as secondees to increase its capacity for providing training courses.

3.22 The Council used the flexibility provided by the European Social Fund to source and make available to former MG Rover and supply chain employees a wider range of courses than can normally be accessed by redundant workers. It also provided "taster" courses which did not lead to formal qualifications, but were intended to provide a short introduction so that former MG Rover employees – the majority of whom had not worked for another employer for many years – could take a better informed view about the suitability of a new area or type of work. **Figure 12** shows the first choice expressed by the former employees for the type of training they preferred. In response to requests from former employees, the Council had supported places on over 150 different training courses by November 2005. These ranged from academic courses, such as A-level maths, through to vocational courses such as carpentry, as well as courses on starting a new business.

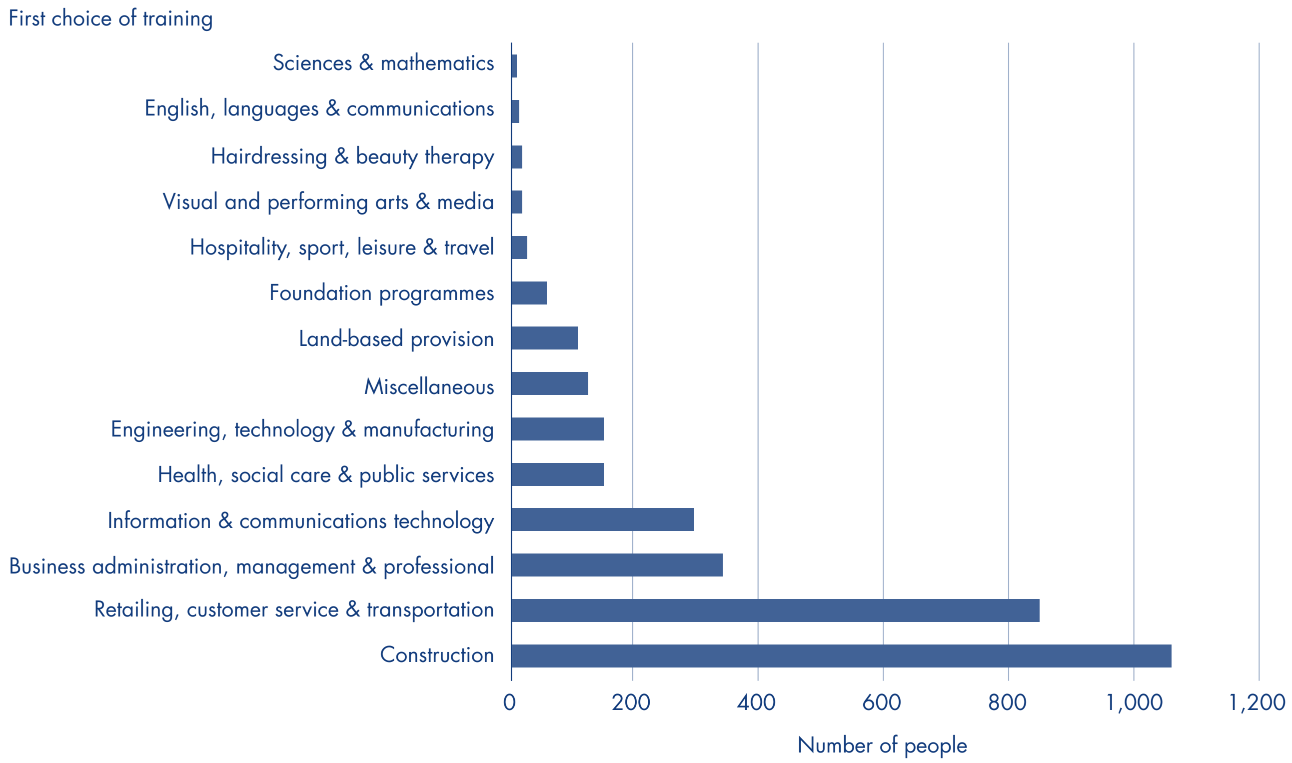
3.23 Given the large numbers of former employees wishing to undertake training, the Council found that it was unable to fully source the broad range and scale of courses necessary to get people on training as promptly as they may have wished. As at the end of September 2005, 3,530 people (58 per cent of the 6,084 known claimants at that point) had training plans identifying courses to help them develop skills. These plans were used by the Council to arrange training or develop courses accordingly. Of the people with training plans, 3,302 (94 per cent) had been booked onto courses and 1,956 (55 per cent) of them had started their courses by early September 2005.[34]

3.24 The training plans were prepared following one-to-one skills needs assessments. These were undertaken by skills advisers located at the Council's skills co-ordination centres in the West Midlands and other local sites such as Jobcentres. The Council established the capacity to advise former employees on skills issues by opening a skills co-ordination centre close to the Longbridge Jobcentre Plus office with extended hours for the first two weeks including weekends. Within a week of the Company's closure it had also created a pool of 120 skills advisors, who were seconded, for example from Further Education colleges. In reflecting on this process, the Council considers that the skills assessment may have been too early for some former employees as the suddenness of MG Rover's collapse meant that they had not had a chance to consider potential future occupations.

3.25 The former employees attending our group discussions expressed a range of opinions on the service they had received. Some had been satisfied with the efforts made to place them on relevant courses, others were not. Several participants felt that after providing their details to the skills co-ordination centres they had not heard back from them and had to chase up on progress. Some participants perceived that there was a set range and number of courses that did not always match their personal profile or career interests. Some commented that some of the training courses were only a "taster" and did not lead to any qualification and others felt that that there was a drive to put people on courses that were not always appropriate for them. Participants often mentioned a desire for more in-depth career counselling to help them adjust, many had not been in the jobs market for many years and needed to build up their confidence. Intensive careers guidance was made available from September 2005. In general, some participants at our discussion groups suggested that the Council needed to adopt a more flexible and proactive approach to matching up applicants and training opportunities. That said, from our small sample of former employees, there were examples where individuals had been placed on the course of their choice, for example, one participant had seen an advertisement for a job as a drugs counsellor and the Council were able to find a training course that would provide him with a qualification to take up this role.

34 Figures taken from the *Closure of MG Rover: Economic Impact Assessment Stage 2 Report*, November 2005, Regeneris Consulting, paragraph 3.25. The NAO has not validated the figures. The figure for people booked onto training includes some 170 people who were booked onto taster courses or one day assessment courses. Similarly, the figure for people who had started courses included some 170 people who had started taster courses or attended one day assessments.

12 The first choice of former employees for training for their new career directions



Source: Learning and Skills Council

3.26 The Learning and Skills Council and Jobcentre Plus responded to the potential for a loss in manufacturing and engineering expertise within the West Midlands area following the closure of MG Rover. The two agencies collaborated to develop a package of support measures for all former MG Rover and supply chain employees wishing to find a new job within manufacturing and engineering, and to improve the skills of those individuals. The two agencies reported that by early January 2006, the package had successfully helped over 700 former employees find work but this may have been at the expense of other candidates with similar qualifications. Under the package, former MG Rover and supply chain employees who gain employment in a manufacturing or engineering job are eligible for support in meeting their daily travel costs and their new employers are covered for the cost of training up to a minimum of NVQ Level 2, or to Level 3 if the employee was already at Level 2. Funding is not normally available for such a broad range of training when a person has found work. In addition, the new employer can retrain an existing employee for free. The employers are also eligible for an induction support allowance of £50 a week for 12 weeks for each such person recruited. At the end of January 2006, the majority of the £1 million budget for 2005-06 had been used **(Figure 13 overleaf)**. The Council was forecasting that it would use the two year budget of £4.37 million as expenditure was expected to increase in the second year as, for example, more people started their training courses. Some of the former MG Rover employees participating in our group discussions would have liked the support measures to have been extended to MG Rover workers seeking jobs outside manufacturing and engineering. This would, however, have required an increase in the resources allocated to these support measures.

3.27 The Learning and Skills Council's sought to ensure that available training places were well utilised. The Council, however, was not helped by the difficulties it encountered in finding out whether former MG Rover employees were still unemployed and thus continued to need training courses that had been booked for them. Jobcentre Plus investigated whether it could provide details it held on the employment status of individuals to the Council. It found that under the Data Protection Act it was not possible to share such data.

13 Take up of support measures for former MG Rover or supply chain employees starting new manufacturing and engineering jobs

Nature of support available[1]	Budget for 2005-06 to 2006-07[2]	Expenditure by end of January 2006
Former MG Rover or supply chain employees who gain employment in a manufacturing or engineering job are eligible for free training up to a minimum of NVQ Level 2, or to Level 3 if they were already at Level 2	£2,208,000	£262,000
Financial support to former MG Rover and supply chain employees. It is expected the majority of funding will go towards meeting daily travel costs to new work	£1,335,000	£434,000
Induction support allowance to new employers of £50 a week for 12 weeks for each former MG Rover or supply chain employee recruited	£381,000	£70,000
Marketing and administration	£446,000	£67,000
Total	**£4,370,000**	**£833,000**

Source: Learning and Skills Council

NOTES

1 Includes both support for employees and their new employers.

2 Total budget is split between 2005-06 (£1,000,000) and 2006-07 (£3,370,000)

3.28 Effective joint working by the Learning and Skills Council and Jobcentre Plus improved the range and nature of work based courses that former MG Rover and supply chain employees could undertake without losing their entitlement to benefits. In particular, they put in place a local agreement which enabled people who were attending courses arranged by the Learning and Skills Council, which run for more than 16 hours a week, to retain their right to receive a Training Allowance which is equivalent to the Jobseeker Allowance rate plus £10 per week.[35, 36] Thus, since April 2005, former employees were able to undertake intensive training, as it became available, without becoming financially worse-off. This should have facilitated their prompt return to work with enhanced skills.

3.29 The Council estimates that the cost of training for former MG Rover and supply chain employees, including its own administration costs in arranging courses, will total £10 million[37]. By early September it had awarded £5.5 million worth of contracts to approved colleges and to other providers. Overall the Council anticipates spending a total of £25 million on its various activities to support MG Rover workers. It does not expect to draw significantly on the £25 million which had been allocated from the Learning and Skills Council's wider Employer Training Pilots[38] to the MG Rover support package, as the skills needs of supply chain companies have been less than anticipated.

Safeguarding pensions

3.30 When considering the support package for employees on 25 March 2005, the Department examined the position of the MG Rover pension schemes. It understood that the main MG Rover pension scheme would have a substantial shortfall should the Company collapse and that in the absence of any compensation arrangements, the shortfall in employees' pensions would be 50 per cent.[39] However, the new Pension Protection Fund arrangements became operational on 6 April 2005. The Fund is a statutory fund run by the Board of the Pension Protection Fund established under the provisions of the Pensions Act 2004. The Fund is intended to offer compensation to members of eligible

35 Under Jobseeker Allowance rules, a Training Allowance is not usually paid to people if they are attending a Learning and Skills Council course which exceeds 16 hours a week.

36 This agreement was also extended to 800 people who had lost their jobs at the Peugeot plant in Coventry in 2005.

37 This is in addition to the training costs that are being met through measures available to former MG Rover or supply chain employees starting new manufacturing and engineering jobs, see Figure 13.

38 The Employer Training Pilots initiative launched by the Learning and Skills Council in 2002 aims to encourage employers to develop the skills of their workforce, particularly, where low skills are hampering performance.

39 The Department's estimate focused on the MG Rover Group Pension Scheme which has a total of around 6,000 members who had not retired and over 200 pensioners. Another scheme – the MG Rover Group Senior Pension Scheme – has a total of 100 members. By February 2006, it was estimated that the shortfall in the Pension Schemes may be £500 million.

defined benefit pension schemes in situations where companies become insolvent and leave insufficient assets in the pension scheme to cover Pension Protection Fund levels of compensation. The Department reviewed the Fund's eligibility criteria and concluded that should the Company go into administration the MG Rover pension schemes ought to qualify for the Fund. In drawing this conclusion, the Department was aware that even if MG Rover entered administration before the 6 April, administrators were unlikely to issue the final petition to wind-up the Company until after this date and thus the Company's liquidation would fall in the period when the Pension Protection Fund was operating.

3.31 The Board of the Pension Protection Fund confirmed on 12 September 2005 that the MG Rover Group Pension Scheme and the MG Rover Group Senior Pension Scheme had entered into a Pension Protection Fund assessment period on 31 August. During the assessment period, which is likely to last for a period of more than 12 months, the Pension Protection Fund will formally determine whether the schemes are eligible. If the schemes are accepted, the Fund would then provide the majority of former employees who had not retired with 90 per cent of their full pension value subject to an overall cap which varies according to age[40]. If MG Rover had been wound up before 6 April, a minority of members of the pension schemes may still have been eligible under the Financial Assistance Scheme (the predecessor to the Pension Protection Fund) for compensation, but at a lower level of benefit.

Former suppliers

3.32 When MG Rover collapsed it owed its UK-based trade creditors collectively £109 million, of which £44 million was to firms based in the West Midlands, who could expect an extremely low or negligible pay out.[41] The regional support package included £41.6 million of grants available over a three year period to limit the effect on MG Rover's former suppliers and a fund (the Advantage Transition Bridge Fund) through which up to £20 million could be loaned to help suppliers and retailers hit by the collapse of MG Rover. Some £10.5 million of the grants were set aside for providing emergency support with the remaining £31.1 million available for longer term assistance with increasing supplier competitiveness. The emergency element of the package was administered by Accelerate, part of the Birmingham Chamber of Commerce, with responsibility for longer term support resting with Advantage West Midlands.

3.33 In addition to the support package, HM Revenue and Customs deferred, on a case by case basis, immediate and current VAT payments of viable former MG Rover retailers and suppliers up to the limit of their bad debt from MG Rover. It also discussed with retailers and supply chain companies the deferral of VAT, Pay-As-You-Earn and National Insurance payments to reduce cash flow pressures, while the companies restructured. HM Revenue and Customs contacted those companies it thought might be affected to let them know this arrangement might be available. By late September 2005, it had agreed deferrals totalling nearly £12 million for former suppliers and former retailers.

3.34 **Figure 14 overleaf** shows the take-up by September 2005 of the main forms of supplier support that had been made available by that date. In addition to these items, grants of up to £30,000 were available to help companies complete business reviews and improve business performance and to help companies diversify into new products and markets away from the automotive sector. The £3.4 million provided through the wage replacement scheme had accounted for the majority of expenditure by September 2005.

3.35 By mid January 2006, Advantage West Midlands reported that:

- a total of £5.5 million of the £10.5 million emergency supplier support package had been spent, committed to individual companies or designated to programmes in 2005-06 (with a further £3.4 million designated for programmes in 2006-07). Advantage West Midlands forecast that it might underspend the overall three-year grants budget of £41.6 million by just under £5 million;
- some £4.6 million of the £20 million made available to make loans to suppliers and dealers had been committed to 15 companies, and a further £3 million was in the pipeline. Advantage West Midlands forecast that the total value of loans would be £10 million and thus £10 million of the fund would not be used.

40 The cap at February 2006 was £27,778 for someone aged 65, thus giving a maximum value of compensation of £25,000 per annum. For people younger than 65 the maximum compensation will be lower than £25,000.
41 *Closure of MG Rover: Economic Impact Assessment Stage 2 Report*, November 2005, Regeneris Consulting, paragraph 7.3.

14 Main support made available to suppliers and retailers in 2005

Support available	Take up by September 2005
Wage replacement: support to retain employees affected by the loss of MG Rover business. Companies would be required to make such employees available for off-the-job training and would be then eligible for wage replacement of £50 per employee per day for six weeks.	■ 170 companies on the scheme. ■ 3,034 employees retained under the scheme. ■ £3.4 million paid to companies.
Business advice: a specialist Business Advisor to assist in a business review and help create an action plan focusing on seeking new business and developing new products (up to six days of the advisor's time).	■ 210 companies had taken up the business review. ■ 95 action plans had been prepared.
Advantage Transition Bridge Fund: loans of £50,000 up to a maximum of £500,000 to those businesses facing financial difficulty and having a viable recovery plan but insufficient finance from normal sources to implement it. The loans are for up to three years, dependent on the requirements of the recovery plan. MG Rover must have represented at least 15 per cent of the Company's business either directly or indirectly. The loans were only available in circumstances where conventional lending sources could not be accessed or were already fully committed. The loans were not for repayment or reduction of existing borrowings.	■ 12 companies had applied for loans and 11 have been accepted. ■ £3.4 million of loans have been requested of which £2.6 million had been committed (six loans to former suppliers totalling nearly £1.7 million and five loans to former retailers totalling nearly £1 million).

Source: National Audit Office analysis of Advantage West Midlands data

3.36 The slower than anticipated take-up of some of the emergency support measures was despite the extensive efforts made by Accelerate, Advantage West Midlands and the Department of Trade and Industry Manufacturing Advisory Service in the West Midlands to bring the support mechanisms to the attention of MG Rover's suppliers, including a dedicated website (http://www.accelerate.uk.net/) and a telephone helpline.

3.37 Accelerate attributed the low take-up by suppliers of some of the emergency support measures to date, in part, to earlier efforts to help the local economy diversify. In 2000, 161 companies in the United Kingdom had been dependent on MG Rover for over 20 per cent of their sales. By 2005, this had dropped to 74 companies, of which 57 were in the West Midlands.[42] Some of the companies diversifying had benefited from support offered via the support package introduced in 2000. This was administered by the Rover Task Force 2000 and funded by the Department. The assistance, delivered by Accelerate, had included the provision of experts to advise on new product and process development, and grants for items such as capital investment in plant for new types of products. In other instances, companies had made their own assessment of the risks to their business and had taken their own action to reduce their exposure to MG Rover.

3.38 At the end of September 2005, Advantage West Midlands estimated that just under 10 former MG Rover suppliers had gone into administration or closed plants and some 2,100 people made redundant from MG Rover supply chain companies located in the West Midlands, with this figure expected to grow to nearly 2,500. These figures compare with the worst case scenario of 5,750 job losses in the West Midlands estimated by the Department at the time the support package was announced in April 2005, and the estimated 22,500 jobs considered at risk in the West Midlands economy including Rover, its supply chain and local traders when Longbridge was under threat of closure in 2000. The wage replacement scheme temporarily supported 3,034 employees in 170 companies in the West Midlands region and elsewhere. The MG Rover Task Force reported in November 2005 that 1,329 (44 per cent) of these jobs were subsequently saved.[43]

3.39 At present it appears that supplier support measures will not require all the provision made available. The Department will consider with Advantage West Midlands the case for reallocating any of its uncommitted funds to other purposes.

42 Economic Impact of MG Rover Closure - Interim Report - Regeneris Consulting - July 2005.
43 The NAO has not independently validated this figure.

Former MG Rover retailers

3.40 There were 264 MG Rover franchised outlets (showrooms and garages) in the United Kingdom in April 2005, employing around 6,600 people in new and used cars sales and servicing. The National Association of Franchised Dealers informed the Department in April 2005 that as many as half of these jobs could be at risk, as could some of the jobs of the 5,000 other people who were employed in other parts of the retail sector and also dependent upon MG Rover business such as independent garages and parts suppliers.

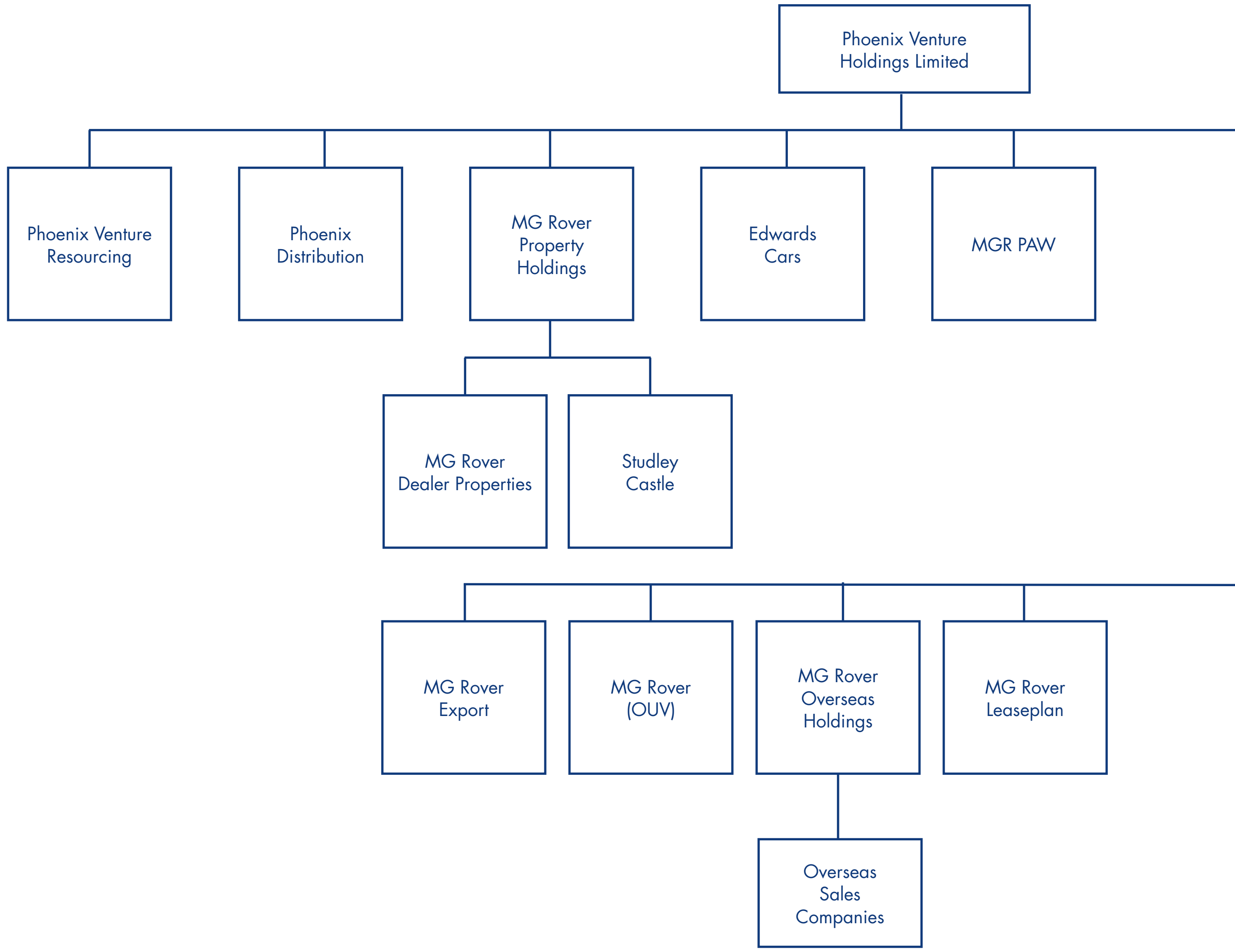
3.41 The Department considered that extending the full benefit of the support package offered to suppliers to the former franchised MG Rover dealerships and dependent outlets could not be justified. In its view, the dispersed nature of the businesses across the UK, and the transferability of employees' skills meant that established support mechanisms provided by Jobcentre Plus, Business Links and other organisations would be able to provide an appropriate response.

3.42 The Department did, however, establish a dedicated sub-group of the MG Rover Task Force to consider the position of those affected in the retail sector and make appropriate recommendations. As a result of the sub-group's intervention, dealers were given the same access as MG Rover suppliers to the Advantage Transition Bridge Fund (Figure 14), and arrangements were made to ensure that dealers were, like suppliers, pro-actively targeted by HM Revenue and Customs for discussion of possible tax deferrals. By September 2005, there was no separate information on the number of jobs lost at MG Rover dealerships as a result of MG Rover's demise.

3.43 The maximum three year repayment period for loans from the Advantage Transition Bridge was set to provide time for business to restructure and show a robust business plan which would attract normal commercial financing. In some cases the loan period may have been too short, given the impact the closure of MG Rover has had on the turnover and cash flow of dealers and the time required to build up a new business base retailing for other manufacturers. The rate of interest on loans from the Fund was set above the normal banking rate to avoid breaking state aid rules.

APPENDIX 1

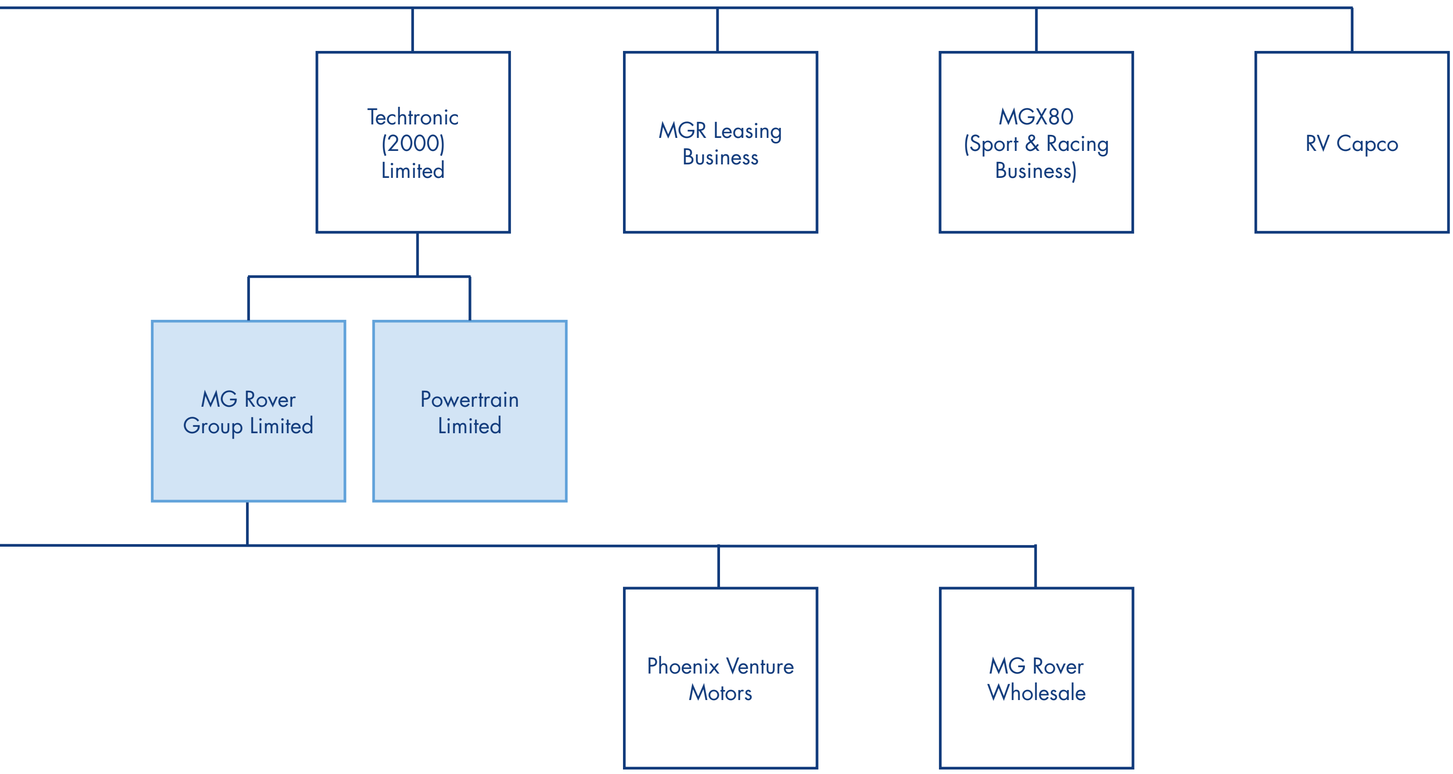
Phoenix Venture Holdings Limited group structure in 2004



Source: Based on a diagram provided by the Department of Trade and Industry

NOTE

The companies in the shaded boxes are referred to in this report as "MG Rover" or "the Company". Together the two companies accounted for around 90 per cent of Phoenix Venture Holdings Limited group's turnover and employees.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Limited
MGR Leasing
Business
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(Sport & Racing
Business)
RV Capco
MG Rover
Group Limited
Powertrain
Limited
Phoenix Venture
Motors
MG Rover
Wholesale

APPENDIX 2

MG Rover's main models

Model	Description	2004 production
Rover 25	Rover's supermini, launched in November 1999 as a facelift of the Rover 200 which the Company started selling in November 1995. It was available as a 3 and 5 door hatchback and competed against cars such as the Ford Fiesta and Renault Clio. Production figures include the "Streetwise" version launched in July 2003.	24,000
MG ZR	MG version of the Rover 25. First launched in May 2001.	20,000
Rover 45	Launched in January 2000, the 45 was a mid-sized car available as both a hatchback and saloon and competed with cars such as the Ford Focus and Vauxhall Astra. It was a face-lifted version of the Rover 400, which was based on the then Honda Civic, originally launched in the UK in March 1995.	15,000
MG ZS	MG version of the Rover 45. First launched in May 2001.	6,000
Rover 75	Designed with the help of BMW, the 75 was originally launched as a saloon in June 1999 and competed with cars such as the Honda Accord and Saab 9-3. An estate version, the Tourer, went on sale in July 2001.	24,000
MG ZT	MG version of the Rover 75. First launched in May 2001.	7,000
City Rover	Rover's entry in the citycar class was manufactured in India and based on the Tata Indica. It was launched in July 2003 as a rival to cars such as the Volkswagen Lupo and Ford KA.	Not produced in the UK
MG TF	A 2 door convertible, the TF was a re-engineered version of the original MGF, launched in March 1995. It went on sale in February 2002 as a rival to cars such as the Mazda MX-5 and Toyota MR2.	11,000

APPENDIX 3

Terms of Reference for the MG Rover Task Force (2005)

1 The MG Rover Task Force was established in early April 2005. It advised the Secretary of State on:

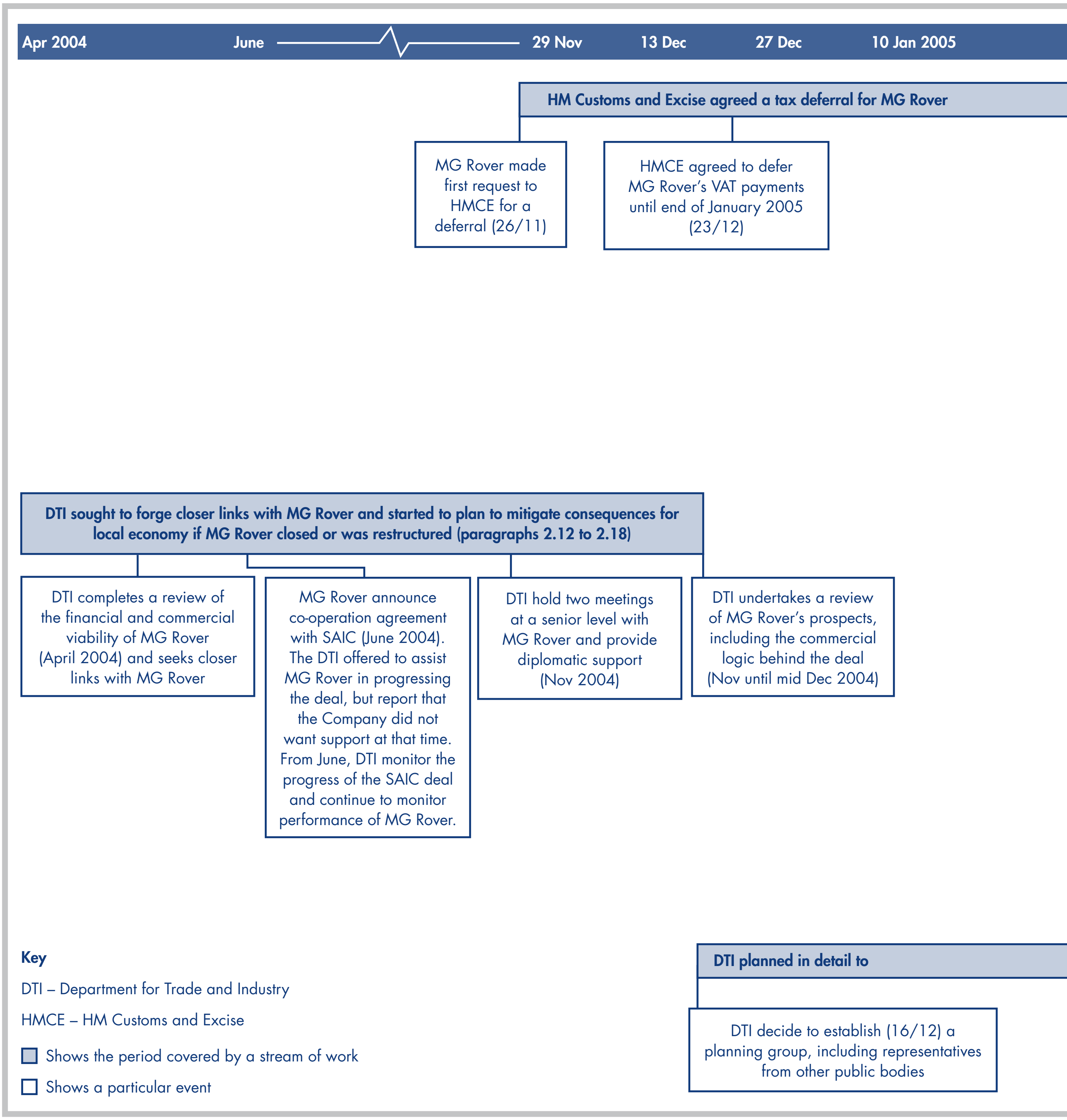
- the implementation of the emergency package of support for MG Rover suppliers, the Longbridge workforce and the local community;
- other national and regional actions as appropriate to address the outcomes of the closure of MG Rover.

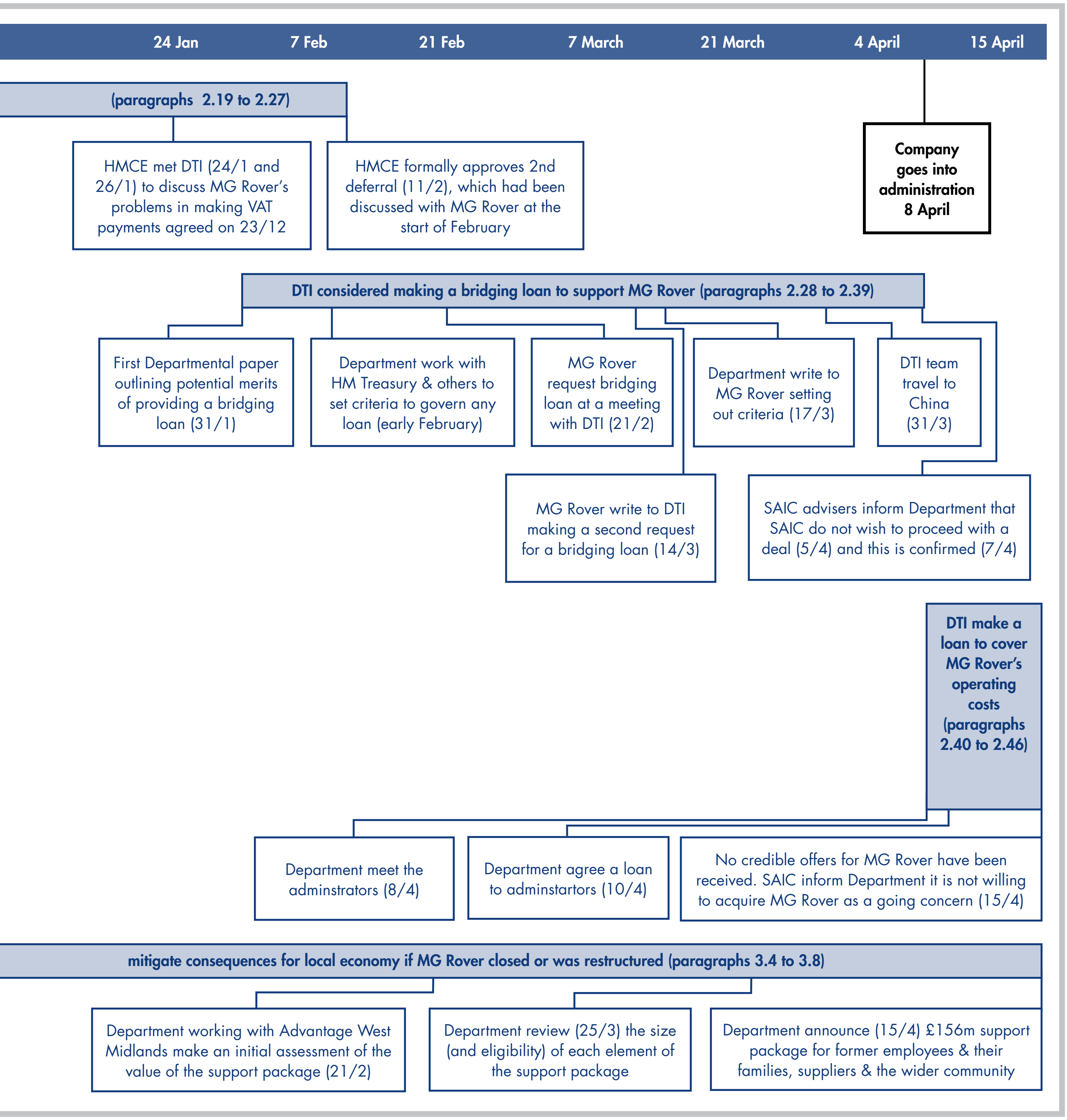
2 The MG Rover Task Force also advised the board of Advantage West Midlands on:

- the progress of regional and local partners in delivering the whole of the emergency package;
- changes to the West Midlands Regional Economic Strategy and implementation plan in the light of the closure of MG Rover.

APPENDIX 4

Public sector support for MG Rover and preparation of contingency plans: Outline of the main events




24 Jan
7 Feb
21 Feb
7 March
21 March
4 April
15 April
(paragraphs 2.19 to 2.27)
HMCE met DTI (24/1 and 26/1) to discuss MG Rover's problems in making VAT payments agreed on 23/12
HMCE formally approves 2nd deferral (11/2), which had been discussed with MG Rover at the start of February
Company goes into administration 8 April
DTI considered making a bridging loan to support MG Rover (paragraphs 2.28 to 2.39)
First Departmental paper outlining potential merits of providing a bridging loan (31/1)
Department work with HM Treasury & others to set criteria to govern any loan (early February)
MG Rover request bridging loan at a meeting with DTI (21/2)
Department write to MG Rover setting out criteria (17/3)
DTI team travel to China (31/3)
MG Rover write to DTI making a second request for a bridging loan (14/3)
SAIC advisers inform Department that SAIC do not wish to proceed with a deal (5/4) and this is confirmed (7/4)
DTI make a loan to cover MG Rover's operating costs (paragraphs 2.40 to 2.46)
Department meet the adminstrators (8/4)
Department agree a loan to adminstartors (10/4)
No credible offers for MG Rover have been received. SAIC inform Department it is not willing to acquire MG Rover as a going concern (15/4)
mitigate consequences for local economy if MG Rover closed or was restructured (paragraphs 3.4 to 3.8)
Department working with Advantage West Midlands make an initial assessment of the value of the support package (21/2)
Department review (25/3) the size (and eligibility) of each element of the support package
Department announce (15/4) £156m support package for former employees & their families, suppliers & the wider community

APPENDIX 5

Study Methods

Department of Trade and Industry

1 The National Audit Office examined value for money issues relating to the role played by officials in the Department in the period leading up to the eventual closure of MG Rover in April 2005. We focused on:

- the Department's relations with the Company following Phoenix purchase of MG Rover Group Limited from BMW in May 2000;
- its assessment of the Company's strategy and business plan and the support it offered to help the Company achieve its plan;
- its understanding of the financial position of the Company;
- its role, and that of UK Trade & Investment, in supporting the Company in its various efforts to form a partnership with another Company, in particular, the assistance the Department provided to MG Rover in taking forward the proposed deal with SAIC;
- its development and assessment of criteria for offering financial support to the Company through a bridging loan;
- its decision to provide a loan to the Company's administrators to cover the operating costs of MG Rover for one week. We also met with administrators to get their perspective;
- the risks faced by the Department in both preparing to make a bridging loan to the Company and making a loan to the Company's administrators. We were advised on the legal risks to the Department by Nabarro Nathanson, a commercial law firm; and
- the timeliness of the Department's actions.

2 We examined the Department's scenario planning and contingency planning, including advance development of the support to be made available in the West Midlands to former employees, suppliers, retailers and the wider community should the Company negotiations with SAIC fail. This included the Department's working arrangements with the regional development agency, Advantage West Midlands, in finalising the regional support.

3 Evidence was collected via semi-structured interviews with officials from across the Department, including the Automotive Unit, the Industrial Development Unit and its legal team. To obtain more evidence on the Department's relationship with the Company in the period 2000 to 2004, this evidence was supplemented by interviews with former officials in the Automotive Unit.

4 We conducted a detailed review of papers kept by the Automotive Unit and relevant papers kept by other teams. This included examination of electronic records kept on the Department's Matrix system.

HM Customs and Excise

5 We examined HM Customs and Excise's (from April 2005 HM Revenue and Customs) consideration of the requests from MG Rover to defer its payments of VAT in late 2004 and early 2005. We examined its decision making process, including the information it had available upon which it assessed the risks and benefits of granting deferrals.

6 We conducted semi-structured interviews with officials in HM Revenue and Customs. We also conducted a detailed examination of the papers relating to HM Revenue and Customs' contact with MG Rover leading up to the tax deferral decisions in late 2004 and early 2005.

Other departments

7 We followed-up with officials in HM Treasury and UK Trade & Investment points related to their involvement in the issues covered in this report.

Consultation with Phoenix Venture Holdings Limited

8 The Board of Phoenix Venture Holdings Limited was invited to comment on draft sections of this report relevant to the Company. The comments provided were taken into account in preparing the draft.

Advantage West Midlands and other agencies working in the region to mitigate the impact of the collapse

9 We examined the development and implementation of the regional support package to deal with the consequences of MG Rover's collapse. Our review focused on the role of Advantage West Midlands, the regional development agency, (http://www.advantagewm.co.uk/) and the MG Rover Task Force who were responsible for implementing the regional support package and co-ordinating the organisations involved in delivering support.

10 We conducted semi-structured interviews with staff in the following organisations to determine their responsibilities for implementing aspects of the regional support, identified the main services they provided and reviewed how they planned, delivered and evaluated these, including the feedback they had received from those who sought support. We also reviewed relevant papers from the various organisations. We are grateful for their assistance to our examination.

Accelerate
http://www.accelerate.uk.net/

Birmingham City Council
http://www.birmingham.gov.uk/rovercommunity.bcc

Government Office of the West Midlands
http://www.go-wm.gov.uk/

Jobcentre Plus
http://www.jobcentreplus.gov.uk/

Learning & Skills Council
http://www.lsc.gov.uk/

Redundancy Payments Directorate (Birmingham office) of the Insolvency Service
http://www.insolvency.gov.uk/contactus/rp/office-rpbirmingham.htm

11 We conducted a telephone interview with the National Association of Franchised Dealers to get their views on the support made available to former MG Rover retailers.

Group discussions with former employees of MG Rover

12 The National Audit Office (NAO) appointed MORI to conduct a qualitative piece of research into the support provided to former employees of MG Rover following the closure of the Company. The main objectives of the research were to:

- understand the effect of the closure of MG Rover on former employees of the Company;
- obtain the perspectives of former employees of the Company on the support and information that was provided by public agencies. The support included payment of redundancy pay and social security benefits and advice and assistance on accessing relevant training courses and finding new employment.

13 MORI organised six group discussions in Birmingham in September 2005 and followed up with a further three groups in November 2005. In total 38 people attended the group discussions. The research provides an insight into the reactions of these people who had to deal with the wide ranging financial and social implications of being made redundant at very short notice. For many of the participants, the closure of MG Rover resulted in their first experience of being unemployed and as a result their first direct contact with the public bodies that were responsible for providing them with financial support, advice and other services. At the time MORI ran the group discussions many of the employees remained upset over the Company's closure and the consequent impact on their lives.

14 To recruit participants, a letter of invitation was sent through the MG Rover Task Force weekly mail communications pack co-ordinated by the Human Resources team. The letter explained the purpose and importance of the research. Once participants opted-in to the research, they were contacted via telephone and invited for the discussion groups. In order to increase the number of participants, MORI conducted a snowballing exercise where participants who opted-in to the research were asked to recommend other former colleagues who might be interested in taking part in one of the discussions. Fourteen people were recruited through snowballing.

15 The intention was to divide participants into three broad categories: unemployed, in training and in work, with three discussion groups held in each category. In any discussion group the greater the homogeneity of participants the more successful the group will be in terms of the depth of information gathered and the dynamic between participants. However, in practice there was often a degree of mixing between the three categories within individual groups. The nine groups included: 13 people who found new employment or had become self employed; 10 people on, or waiting for, an assigned training course; and 15 people who were unemployed. Participants in the research had a variety of job roles at MG Rover such as paint shop, track, product development, sales and management positions. We are grateful to all those who kindly participated in these groups.

16 MORI's report – The Closure of MG Rover: Perspectives of 38 former employees on the support provided by public agencies – is available from the National Audit Office website (www.nao.org.uk).

17 When interpreting the findings from qualitative research such as that undertaken for us by MORI, it should be remembered that the results are not based on statistical evidence and do not claim to be statistically reliable. The aim of qualitative research is to get 'under the skin' of what participants say, think and feel in order to answer the all important 'why?' questions. Qualitative research is exploratory in nature rather than a surface level enquiry. Issues and perceptions are probed in depth to elicit participants' underlying feelings and motivations. As qualitative research is designed to be illustrative, it does not look to produce statistics, but to identify the range of views, opinions and experiences of participants. In addition, it is important to bear in mind that qualitative research identifies perceptions rather than facts. However, these perceptions are facts to those who hold them.

Consultation with academics and automotive industry experts

18 We appointed Professor Garel Rhys, Director of the Centre for Automotive Industry Research at Cardiff University Business School (http://www.cf.ac.uk/carbs/econ/rhysg/) as advisor to the National Audit Office examination.

19 We consulted other academics and automotive industry experts to gain their perspectives on the major events in the history of MG Rover through the different owners of the Company, its business strategy, approaches to joint ventures, contacts with public bodies, model development and range, and levels of production and market share, through to its collapse in April 2005 and the subsequent impact on the West Midlands economy. We are grateful to all those shown below for their time and help.

Professor Chris Brady
Co-author of *'End of the road: The true story of the downfall of Rover'* 2005 (October 2005, ISBN 0-273-70653-5)

Dr Mark Cowling, Chief Economist, The Work Foundation
Co-author of *'Sent to Coventry? The re-employment of the Longbridge 5000'*, April 2005
www.theworkfoundation.com/pdf/longbridge.pdf

Dr Matthias Holweg, University Lecturer in Operations Management, and Professor Nick Oliver, Director of Professional Practice Programmes,
University of Cambridge
Authors of *'Who killed MG Rover?'*, April 2005
www-innovation.jims.cam.ac.uk/downloads/rover_report.pdf

Dr Tom Donnelly, Principal Lecturer, Coventry Business School, Coventry University
Co-author of *'Industrial restructuring and the state: the case of MG Rover'* November 2005 in the Journal "Local Economy" *'Rover-BMW: From shotgun marriage to quickie divorce'*, 2003 in the International Journal of Business Performance Management *'Rover-BMW: Study in merger failure'* (2002 ISBN 0-887-48390-9)

Other recent large scale redundancies

20 We reviewed a sample of cases involving redundancies of 1,000 or more employees since 2000 from large companies in the United Kingdom to gauge the extent and nature of support services made available to those affected from public bodies. We are grateful to the Government Offices in the United Kingdom, Regional Development Agencies and the Welsh Assembly for their assistance in providing details of large scale redundancies in their regions and of the public support services and funding made available. The results of this work are detailed at Appendix 8.

APPENDIX 6

Criteria for the proposed bridging loan

On the 17 March the Department wrote to Phoenix Venture Holdings Limited setting out the following criteria for the loan.

This document is strictly confidential. It sets out the principal criteria which DTI must be satisfied are fulfilled before a bridging loan facility would be provided to relevant members of the group comprising PVH, MGR and their respective subsidiaries (the "Group"). Such a loan facility would only be provided on the basis that it was interim bridge inancing to be repaid in full from receipts from SAIC on completion of the JV transaction and would not be available for the funding of trading losses after completion. In this document SoS refers to the Secretary of State for Trade and Industry.

No decision has been made as to whether any loan facility would be made available and neither this document nor any statements made by or on behalf of SoS in the course of discussions with any member of the Group or their respective shareholders or representatives will constitute any commitment on the part of SoS: such commitment will arise only to the extent provided in definitive legal agreements, if and when entered into. SoS reserves the right to withdraw from such discussions at any time.

Conditions Precedent to Signing of a Loan Facility

1 The Group provides a copy of the signed JV documentation (including all principal legal agreements and funding agreements) in a form satisfactory to the SoS and:

a the JV transaction documentation provides for the repayment of the loan by SAIC in full with interest and HMG costs on completion;

b SAIC has completed all due diligence;

c the only material outstanding condition to completion of the JV is Chinese central government approval;

d the making of the loan will not adversely affect the obligations of the parties under the JV documentation or the Chinese central government approval process; and

e it is clear that completion of the JV will be delayed beyond the point at which the Group has run out of cash, no further cash pre-payment from SAIC (or arranged by SAIC) can be made and that the Company would otherwise be placed into administration.

2 The SoS is satisfied that:

a there is no expectation of further material decline in the business's performance over the period of the loan or any other event which would be likely to prejudice completion of the deal. After completion of the JV the resulting business will have sufficient cashflow to repay any deferred VAT liabilities;

b SAIC have a proper understanding of both the Group's financial position and future prospects (including adequate sensitivities on the business plan) and acknowledge that their contribution to the JV on completion will repay all amounts outstanding to SoS;

c no other sources of finance for the Group exist and SAIC are unable to guarantee repayment of any third party loan;

d the Chinese Government favours the deal; lack of approval (including refusal to allow SAIC to inject funds in advance of final clearance) reflects their need to follow procedure rather than any fundamental misgivings; and SAIC and MGR release a joint announcement stating that the deal is agreed subject only to approval of the Chinese Government;

e Chinese Government approval will be granted so that the transaction will be completed, and payment of the sum necessary to repay the loan principal, interest and HMG costs and to provide any other necessary funding to the Group will be made by SAIC, no later than 31 May 2005 and the deal will be approved substantially unchanged;

f SAIC and Nanjing Auto are in a position (subject only to the Chinese central government approval) to perform all their material obligations under the JV documents;

g the making of the loan conforms to EU State Aid rules and that there is a reasonable expectation that the Commission will approve it; and

h the expected overall costs to the Exchequer of any loan will not exceed the expected costs and liabilities to the Exchequer that are likely to arise as a result of refusing to grant any loan.

3 The DTI Accounting Officer is satisfied that the loan is a proper, appropriate and a defensible use of public money.

4 Messrs. Beale, Edwards, Howe, Stephenson and Towers (the "Individuals") (and, in the case of b. and c. below, relevant Group companies) agree:

a to ensure, to the extent that they are able to do so through the exercise of their rights as shareholders, compliance with all conditions in this document;

b not to enter into the JV except on the terms disclosed to the SoS prior to the grant of the loan. Pending completion to the JV transaction, no member of the Group shall make any payment to or enter into any other transactions with the individuals or persons connected with them, SAIC, Nanjing Auto, their shareholders or any other related company without the SoS's consent;

c to provide the SoS and her advisors with full and timely access to the Group's records, management information and all other material information;

d to contribute a proportion of their personal assets to the loan funding, the amount to be decided in the light of advice to the SoS on their value and liquidity, and to guarantee a proportion of the loan facility using a significant proportion of their personal assets as collateral; and

e to warrant that they have used all reasonable efforts, and will continue to use all reasonable efforts, to realise all non-core assets within the Group to provide finance pending completion of the JV, before each instalment of the loan is drawn down.

5 SAIC have been asked and are unable (because they are not allowed by the Chinese Government) to put sufficient additional funds into the Group in advance of the deal being approved.

Principal Terms of Loan Agreement

6 Loan to be repaid by 31 May 2005. The loan will become due and payable on completion of the JV if earlier than 31 May or earlier than 31 May if SoS determines that, in her opinion, (i) the JV transaction is likely not to be completed by that date or (ii) the facility is likely not to be sufficient to fund the Group's working capital requirements to completion of the JV transaction.

7 Loan to be subject to appropriate and customary conditions, including representations and warranties, undertakings, events of default and conditions to draw down. These would include requirements:

a for adequate evidence that each draw down is required;

b that the SoS continues to be satisfied that there is no impediment to completion of the JV other than Chinese central government approval; and

c that no material adverse change, and no event that would lead to a material adverse change, in the financial position, business or prospects of the Group has occurred.

8 Amount and timing of the loan to be based on the SoS's financial advisors' assessment of the Group's cash requirements for the term of the loan.

9 Loan to be guaranteed by all material Group companies and secured over any available assets.

10 Loan to bear a commercial rate of interest. All HMG costs to be added to the outstanding balance, to bear interest and be payable with the loan. SAIC (or MGR in the event that the JV transaction is not completed before the end of the term of the loan) to pay HMG's costs.

11 Continued full and timely access to Group records and management information for the SoS and her advisers during the term of the loan.

APPENDIX 7

Proposed bridging loan – timeline of key events

By 31 January 2005: The Department had begun to consider how it would respond if MG Rover requested financial assistance. During February it developed criteria that would need to be met before a bridging loan could be offered.

21 February: Departmental papers record that MG Rover requested a bridging loan at a meeting with the Department. The Department encouraged the Company to explore other options for raising finance, but these proved fruitless. The Company had already sold most of its disposable assets, which were not part of the joint venture, and it informed the Department that banks were unwilling to lend it cash as they did not want to accept the risk of negative publicity if the loan had to be called in.

14 March: MG Rover made a second request in writing for a bridging loan of £148.5 million.

17 March: The Department provided MG Rover with the criteria. Its advisers, KPMG, went into MG Rover to assess the Company's financial position.

21 March: The Department received a letter from MG Rover. The Department understood from this letter and preceding conversations with two of the Company's Directors that the Directors considered that the criteria could be met.

23 March: The Department wrote to SAIC and MG Rover targeting 1 April as a deadline for a decision on whether to provide a loan. The Department also explained to SAIC the key points on which it would require satisfaction before it could make a loan.

29 March: SAIC wrote to the Department identifying hurdles to achieving the signing and successful implementation of the proposed deal with MG Rover but said it was prepared to continue discussions.

31 March: Departmental officials travelled to China and met with SAIC. They were unable to obtain a meeting with the National Development and Reform Commission, the central Chinese Government body which reviews the business proposals of Chinese companies wishing to enter into joint ventures with overseas companies.

2 April and 3 April: The press reported the possibility that the Department might provide a bridging loan to MG Rover. This prompted further speculation in the media about the Company's future.

4 April and 5 April: SAIC sent the Department two further letters.

5 April: The Department showed a draft letter to SAIC stating that it was in a position to extend to MG Rover a bridging loan facility of up to £110 million to the end of May 2005. If the Department had made the loan, it would have done so to provide the Companies with the opportunity to resolve outstanding commercial issues and secure the approval of the Chinese Government for the deal. The Department was proposing to take maximum security for the loan against the remaining assets of Phoenix Venture Holdings Limited. In the event that the loan was not repaid this would have reduced any financial loss to the Department but would have placed it ahead of other creditors, including employees or pension scheme members.

On the evening of 5 April, the Department's team was due to decide whether to offer a £110 million loan facility to MG Rover. Shortly before the meeting it was reported to the Department, by SAIC's advisers Rothschilds, that the Company did not wish to proceed with the deal.

6 April: The Department had further contact with MG Rover, SAIC and their advisers in an attempt to clarify the position. SAIC confirmed its position was unchanged from 5 April. An alternative proposal was tabled by MG Rover.

7 April: SAIC confirmed through Rothschilds that it would not be completing the deal. The Department therefore decided not to make the bridging loan.

Source: National Audit Office summary of Department of Trade and Industry papers

APPENDIX 8

Examples of support packages introduced following recent large scale company redundancies

UK Coal plc

UK Coal plc made 2,100 employees compulsory redundant from the Selby mine complex. 400 others employed on the site by specialist contractors were also made redundant. The job losses were announced in July 2002 but were phased through to March 2005. The total loss to regional economy was estimated at £165 million per year. An estimated 2,000 further jobs were lost from other employers as a result of the mine closures.

Support package

On 16 July 2002, the Government announced a package of measures to support redundancy costs, regeneration and retraining. These included:

- A multi agency Selby Coalfield Task Force to deliver the support to miners, local communities and businesses. In December 2002, the task force proposed a support package costing £35 million (£24 million redirected by Yorkshire Forward and English Partnerships and £11 million additional funding from the Department of Trade and Industry over two to four years) and in March 2003 the Government response agreed to all the task force recommendations.
- The support package included services to help the miners develop new skills and qualifications. The Learning and Skills Council provided information, one to one advice to each miner on their training needs, and guidance on career opportunities. Free training courses were available to the workforce as soon as they received their notice of redundancy and the normal rules that this would only be available for three months were relaxed. These were delivered during the phased redundancies and at the pithead sites. The European Social Fund gave funding for apprenticeships and mineworkers were eligible for support towards new qualifications even after finding new jobs. Jobcentre Plus set up a jobs hotline and held a jobs fair as well as provided careers information to miners, their families and others in the community. Business Link gave presentations on self employment to the miners and provided support and advice to other businesses including new and growing businesses on business development. Local employers gave presentations on the types of jobs available in the local area in the run up to closure. The regional development agency also compensated individual miners who lost wages as a result of taking training courses prior to redundancies. Personal business advisors helped other companies in the region affected by the closure.
- A further £10 million to enable the miners to receive pre-privatisation redundancy terms.

Corus

In February 2001, Corus announced 6,050 job losses of which 1,340 were from Newport and 780 were from Ebbw Vale. A further 3,000 job losses were planned up to 2003. 770 jobs were also lost in north east England.

Support package

On 3 May 2001, the Secretary of State for Trade and Industry announced that Corus had confirmed the job losses would proceed. The Secretary of State announced a total package of support worth £140 million. This included £76 million worth of measures announced by the First Minister in Wales to help the individuals and communities affected and a £48 million package of regeneration measures in England. The support announced in Wales was administered by the All Wales Steel Task Force.

- A lump sum for each former employee of £2,500 (it was anticipated that 12,000 workers in England, Scotland and Wales would benefit from this at a total cost of about £32 million) drawn from the European Coal and Steel Community funds based on a modernised form of the Iron & Steel Employee Readaptation Benefits Scheme of which the United Kingdom Government would contribute half.

- £5 million expenditure in England and Wales to ensure that everyone affected by the redundancies had access to an equal level of support in getting a new job.
- Employment Service jobshops at Redcar, Scunthorpe and in South Yorkshire and, in Wales, in Llanwern, Ebbw Vale, Bryngwyn and Shotton.
- A Job Transition Service (JTS) involving audits of the local economies where major redundancies took place. The Employment Service (now Jobcentre Plus) worked with local employers looking for new staff to identify their recruitment needs and analyse their skill requirements. The JTS provided those made redundant with personal advice on careers, financial matters and general skills development. It also directed people to suitable vacancies, identified the skills they needed to develop, and discussed their training needs. Training was funded by the Service and customised training programmes were developed.
- An Employment Credit for the over-50s going back to work.
- Support to regional development agencies for local regeneration schemes.

Vauxhall

In December 2000, General Motors announced that it was to close its Vauxhall plant in Luton in March 2002. 2,500 employees were employed there with the majority losing their jobs and 250 moving to a van plant nearby. 95 per cent of the staff left in March 2002 in weekly batches, depending on which department they worked in. Their average length of service was 17 years with most people having known no other employer and limited transferable skills.

Support package

- Jobcentreplus set up facilities on the Luton plant site before the redundancies took place to assist the employees in finding new employment by providing access to the latest vacancies and helping the people see the sorts of employment available outside Vauxhall. This helped the people to identify training in areas with realistic job opportunities.
- The East of England Development Agency initiated a number of projects to ensure that every worker facing redundancy was offered the chance to retrain using funding provided by the Department of Trade and Industry and the European Social Fund. Each person received personal professional careers guidance and training recommendations. They were also encouraged to take up generic training on literacy, numeracy, IT and CV writing skills. 1,540 people took up training with the average value of training received being £1,000 per person.

Evaluation

Many of the Vauxhall employees used the opportunity to change their career knowing that their manufacturing skills would be difficult to use outside the Vauxhall plant. The unemployment rate in Luton rose by 0.5 per cent after the closure, lower than expected, as most of the former Vauxhall employees found new employment. The cost of the support package was nearly £1.6 million.

APPENDIX 9

Sources of funding for the MG Rover support package

On 15 April 2005 the Secretary of State for Trade and Industry announced a £156 million package of support for former employees of MG Rover, their families, suppliers and the wider community around Longbridge, the details of which are set out below. This was subsequently increased to £176 million by a further £10 million contribution from Advantage West Midlands and a £10 million contribution from Birmingham City Council.

Nature of support	Amount	Breakdown and sources
Training for workers made redundant at MG Rover and suppliers.	Up to £50 million	£5 million programme resource from Department of Trade and Industry budget, drawn from forecast underspend in 2005/06 and reallocation within Business Plan; £5 million capital grants additional funding provided by HM Treasury to Department of Trade and Industry to channel to Advantage West Midlands; £15 million from the European Social Fund for wage compensation and retraining individuals; £0.5 million from the Learning and Skills Council; Priority access to existing £25 million from the Learning and Skills Council's Employer Training Pilots in the West Midlands and nationally.
Redundancy payments and compensation awards for Longbridge workers.	Over £40 million	This was a forecast of the statutory redundancy payments. The original estimate did not include compensation awards (compensation for absence of a period of notice of redundancy) which were decided by an Employment Tribunal. As these are statutory payments, or payments arising from legal rights, these costs were not additional support to former employees. Their payments were funded from the National Insurance Fund.
Loan fund available to former MG Rover suppliers and dealers.	£25 million	Advantage Transition Bridge Fund was established to help otherwise viable businesses affected by MG Rover's collapse. It comprised: ■ £20 million of capital grants. Of this, £10 million additional funding was provided by HM Treasury to the Department of Trade and Industry to channel to Advantage West Midlands. Advantage West Midlands provided £10 million from its resources; ■ £5 million Department of Trade and Industry programme resource from forecast 2005/06 underspend and re-allocation within its Business Plan. This funding was set aside to cover loans that were not repaid. The maximum value of loans that could be made was therefore £20 million.
Grants for MG Rover suppliers.	£41.6 million	This was made up of: £18.4 million extension of existing Advantage West Midlands supplier support schemes (£11 million funded from the existing Advantage West Midlands budget, and £7.4 million from the Rover Task Force 2000); £23.2 million new supplier programme. This comprised around £17 million new funding for Advantage West Midlands from the Department of Trade and Industry budget – through reallocation of funding within relevant objectives in the Business Plan; around £6 million of funding reallocated by Advantage West Midlands within existing Advantage West Midlands budgets.
Grants for technology and innovation infrastructure.	£9 million	The additional funding was provided by HM Treasury to the Department of Trade and Industry to channel to Advantage West Midlands. It will be used to assist investment in new business structure in the three High Tech Corridors in the West Midlands.