National Audit Office

The closure of MG Rover

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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.