



House of Commons
Committee of Public Accounts

**The closure of MG
Rover**

**Fifty-seventh Report of
Session 2005–06**

*Report, together with formal minutes,
oral and written evidence*

*Ordered by The House of Commons
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The Committee of Public Accounts

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The following were also Members of the committee during the period of the enquiry:

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Jon Trickett MP (*Labour, Hemsworth*)
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Committee staff

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Summary

MG Rover closed on 15 April 2005 with the direct loss of almost 6,000 jobs with further jobs lost amongst suppliers and former dealers over subsequent months. The collapse has profoundly affected the lives of those who worked at the Company, their families and the local community. The Company's demise resulted in substantial costs for the Company's creditors and for the taxpayer, including statutory payments and other support for former employees.

Responsibility for MG Rover's commercial management rested with the Directors and owners, Phoenix Venture Holdings Limited. The Department of Trade and Industry [the Department] knew in 2000 that the Company was vulnerable in the longer term without a strategic industrial partner. But the Department's relationship with the Company's owners between 2000 and late 2004 was "distant" and it had difficulty obtaining information about the Company's plans. The Company made a number of attempts to find a strategic partner but with only limited calls for support from the Department and UK Trade and Investment.

As the Company's position deteriorated, the Department's contingency planning during 2004 focused on preparing for the Company's collapse. In June 2004, however, the Company announced it was in negotiations with SAIC, a Chinese company, as a potential partner. In November and December 2004, in the light of MG Rover's deteriorating cash position but with the continuing prospect of a deal, the Department stepped up its planning for a possible collapse and, in early 2005, began to consider the scope for offering the Company financial support.

In deciding whether to offer support to MG Rover, the Department had to balance its policy of not intervening in the market to support companies in difficulty and the benefits if SAIC made substantial investment into the UK automotive industry. To help it address its cash flow problems the Company reached agreement with HM Revenue and Customs in December 2004 and January 2005 to defer some of its VAT payments. But it was soon clear this would not be sufficient to keep the Company going. The Department established a set of criteria for a bridging loan to MG Rover. But by April 2005, as progress on the deal faltered, the Department considered relaxing key criteria. It was only when SAIC's advisers told the Department that the deal was off that it abandoned the idea of a loan.

After MG Rover went into administration on 8 April the Department decided to keep the Company going for one week by providing a £6.5 million loan to the administrators. In reaching this decision the Department had to balance the risk that some, or all, of the loan might not be repaid against the chance that jobs could be saved and the benefits of allowing extra time for local agencies to prepare for the consequences of a closure. No purchaser was forthcoming and the Company closed a week later. £5.2 million of the Department's loan will probably have to be written off. The Department subsequently appointed company inspectors to investigate MG Rover's affairs, and hopes they will report their findings by the end of 2006.

The Department, the local regional development agency, Advantage West Midlands, and their various partners were ready to assist former employees and the local economy when the Company closed. Emergency assistance was made available to MG Rover's suppliers, saving an estimated 1,300 jobs, and former employees quickly received statutory financial support, as well as advice on training and employment opportunities.

On the basis of a Report by the Comptroller and Auditor General, the Committee took evidence from the Department and Advantage West Midlands on the efforts made by the Department to provide support to the Company prior to the collapse and the subsequent response by the various agencies to alleviate the impact of closure on the local community.¹

¹ C&AG's Report, *The closure of MG Rover* (HC 961, Session 2005–06)

Conclusions and recommendations

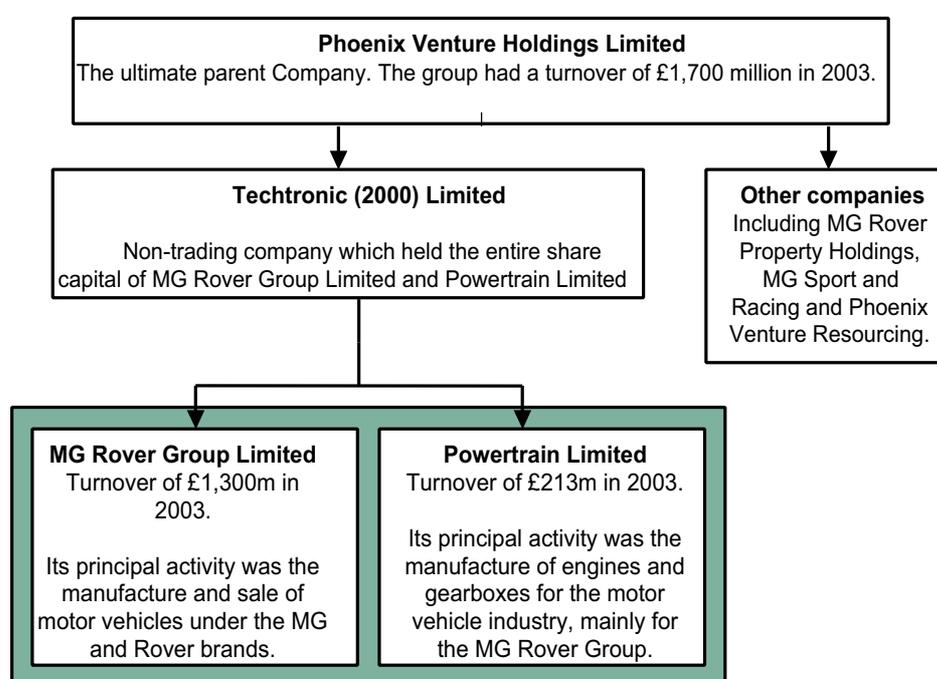
- 1. MG Rover's decline between 2000 and 2004, and its ultimate collapse, cost the taxpayer around £270 million, including £90 million to modernise and diversify the West Midlands economy following BMW's decision to dispose of MG Rover in 2000.** Without the efforts made by local agencies to help the local economy diversify in the years prior to the Company's collapse, the final impact of the collapse on the local economy would have been worse.
- 2. The cost to the private sector and former employees of MG Rover's collapse may nevertheless exceed £600 million.** This figure comprises an estimated deficit in the Company's pension scheme of £500m which may have to be met by the business-financed Pension Protection Fund, and £109 million owed to UK-based trade creditors.
- 3. The Directors of Phoenix Venture Holdings received £40 million from the Company between 2000 and 2005.** The Department has appointed company inspectors to investigate MG Rover's affairs.
- 4. The Department responded effectively where it had contingency plans, for example arranging the immediate support for former employees following the collapse, but not on some other aspects.** There were serious gaps in the Department's detailed planning, for example how it might assist a going concern sale if MG Rover went into administration. Where a major company is at risk, the Department should develop a planned response in good time which is included in the Department's top-level risk register and revisited regularly as events unfold. In this case, the Department was too distant from the company.
- 5. The Department does not normally advise HM Revenue and Customs on the ability of a company to meet its tax obligations.** If exceptionally it does so, it should be careful not to risk any appearance of compromising the impartial administration of tax by HM Revenue and Custom. The advice and any discussion should be formally recorded.
- 6. The local agencies did well to respond quickly and effectively in the immediate aftermath of the Company collapse.** The agencies paid statutory redundancy money and benefits well within the normal target times and increased their capacity to provide advice and services to the 5,300 people made redundant immediately in April 2005. They showed how local agencies can respond effectively to an impending crisis by drawing up plans well in advance.
- 7. A year on from the collapse over 4,300 people who lost their job were back in work, but around 2,000 former MG Rover and supply chain employees still have to find work.** Although the Rover Task Force has been wound up, Advantage West Midlands, and Job Centre Plus should continue to report the number of former employees still unemployed. Advantage West Midlands should also report on the nature of the work obtained by former employees and the success of initiatives to re-train people for other occupations.

8. **In 2000, 161 companies in the UK had been dependent on MG Rover for over 20% of their sales. By 2005, the figure had dropped to 74 companies, of which 57 were in the West Midlands.** The Department should disseminate the lessons learned from diversifying the West Midlands economy to other regions or public bodies with a responsibility for supporting the development of local economies.

1 The Department's relationship with MG Rover

1. The Phoenix Consortium acquired MG Rover Group Limited from BMW in May 2000 and subsequently transferred ownership of the Company to Phoenix Venture Holdings Limited² (**Figure 1**). In this Report, the term MG Rover (the Company) refers to MG Rover Group Limited and Powertrain Limited.³ Both MG Rover's management and the Department understood that the Company's long term viability was likely to depend on it establishing a strategic partnership with another automotive company to help it update its already ageing model range. The Department estimated that MG Rover had enough cash to keep it going until 2004 or 2005.⁴

Figure 1: The main companies within the Phoenix Venture Holdings Limited group in 2004



Source: C&AG's Report, Figure 3 and para 1.4

2. Between 2000 and 2004 MG Rover made limited calls on the Department and UK Trade and Investment to help its discussions with potential overseas companies. The Department, however, did not have details of the Company's financial position and business plans. Instead, the Department used publicly available information to keep abreast of the Company's fortunes. Following adverse publicity when MG Rover's 2002 accounts were published in late 2003, the Department commissioned a review of the Company's

2 Ownership of MG Rover was transferred in December 2000 when 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 Phoenix acquired Powertrain Limited from BMW in 2001.

4 Qq 3, 157–158; C&AG's Report, paras 1.3, 1.5, 2.3

prospects. The review, completed in April 2004, concluded that MG Rover's trading activities were consuming significant funds and that the Company might run out of cash as early as autumn 2004, although the available funds might last until autumn 2006 if the Company could cut back its cash consumption. In response, the Department stepped up its monitoring of the Company's prospects.⁵

3. With increasing concerns over the Company's financial position the Department completed a second review in December 2004 which looked at the commercial logic behind the Company's proposed deal with the Chinese Company SAIC, announced in June 2004. The Department predicted that the deal was likely to lead to the loss of 2,000 to 3,000 jobs at MG Rover. The review concluded correctly that without any additional external finance MG Rover would run out of cash in early 2005 and go into administration.⁶

Key events in the Department's relationship with the Company prior to 2005

May 2000 – The Phoenix Consortium acquired MG Rover.

2000–2004 – The Department monitored MG Rover's performance. Working with UK Trade and Investment, the Department provided, where requested, support for the Company in connection with discussions with potential overseas partners.

April 2004 – The Department completed its first major review of MG Rover's prospects which concluded that the Company might run out of cash as early as autumn 2004.

June 2004 – The Company declined the Department's offer to provide diplomatic support for the proposed deal with SAIC.

November 2004 – Following senior Departmental contact with MG Rover, the Company accepted the Department's offer to provide diplomatic support for the SAIC deal. The Department initiated another review of the Company's prospects, which was completed in December 2005.

4. The Department began to draw up contingency plans in April 2004. These plans were subsequently updated and developed but they did not cover all the key issues that were to require attention. The Department had initially 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. It therefore focused its planning on mitigating the consequences of any collapse. The Company announced its negotiations with SAIC in June 2004 but the Department did not take account of the proposed deal in its contingency arrangements until the end of 2004. The Company did not take up the Department's initial offer of assistance on the deal in June 2004. When it eventually accepted the offer in November 2004, the Department tried to engage with the Chinese authorities. It was not until early 2005, however, that the Department sought detailed information on the Chinese Government's process for approving the SAIC deal and on whom they should talk to in China.⁷

5 Qq 6, 69, 84–86; C&AG's Report, paras 2.11–2.16

6 C&AG's Report, paras 2.17–2.18

7 Qq 7, 74–78; C&AG's Report, paras 8a (iv), 2.15, 2.17

2 MG Rover's final months

5. During the last three to four months of the Company's existence, the Department tried to help MG Rover secure the investment it needed to remain viable through the deal with SAIC. It also talked to HM Revenue and Customs (HMRC) which was considering a possible tax deferral; considered a possible bridging loan; and made a loan of £6.5 million to the administrators when the Company went into administration.

Key events during MG Rover's final months

Key events

December 2004 and February 2005 – HM Revenue and Customs agreed to defer the majority of MG Rover's tax payments due from the end of November 2004.

February 2005 – The Department developed criteria that would need to be met before it could offer a bridging loan to MG Rover.

14 March 2005 – MG Rover made a written request to the Department for a bridging loan of £148.5 million. The Department reported that it had received an initial request for a bridging loan at a meeting with the Company in February 2005.

23 March 2005 – The Department wrote to SAIC and MG Rover targeting 1 April as a deadline for a decision on whether to provide a loan.

31 March 2005 – The Department sent officials to China to understand the state of negotiations and SAIC's particular concerns.

Early April 2005 – The Department exchanged further letters with SAIC.

7 April 2005 – The Department was advised that SAIC no longer wished to proceed with the proposed deal.

8 April 2005 – MG Rover went into administration.

6. As the Company's cash position deteriorated it sought and obtained, in December 2004 and February 2005, HMRC's⁸ approval to defer the majority of its VAT payments due from the end of November of 2004. HMRC can grant such deferrals where it believes that a business is fundamentally viable and the deferral is likely to benefit the Exchequer in maximising tax revenue. At the request of MG Rover, the Department talked to HMRC in December 2004 and January 2005. During these discussions, the Department passed on information about MG Rover's financial position and the likely prospects of the deal with SAIC being completed. This included information it had received suggesting that the Chinese Company had already paid £67 million for the Intellectual Property Rights to some MG Rover models. The Department relied on MG Rover for this information and, at that time, had not verified its accuracy or veracity.⁹

8 In April 2005 HM Customs and Excise merged with the Inland Revenue to form HM Revenue and Customs.

9 Qq 105–112; C&AG's Report, paras 2.22–2.23

7. At the time of MG Rover's collapse HMRC 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.¹⁰

8. The Department knew that the tax deferral might not be enough to keep the Company going ahead of a deal with SAIC. By February 2005 the Department had decided that providing rescue aid to allow MG Rover extra time to conclude a deal with SAIC might be consistent with its policy objective of promoting inward investment into the UK.

9. The prospect of a bridging loan created significant risks for the Department. The Department had to comply with EU State Aid rules governing support to companies; avoid the risk of encouraging the Directors of MG Rover to act contrary to their legal responsibilities or obligations to the Company's creditors; and there needed to be a good prospect that the loan would be repaid. The Department therefore commissioned KMPG to obtain independent information on MG Rover's financial position. In assessing SAIC's intentions towards MG Rover and the likely timing of any deal, the Department relied on collecting and interpreting information offered by the two companies and the Chinese Government.¹¹

10. The Department had established criteria to help it assess and manage the range of risks in providing a bridging loan. If the criteria had been met in full they would have minimised the risks that the bridging loan would not be repaid or would not comply with EU State Aid rules. The criteria required that the deal was effectively done and was favoured by the Chinese Government and that SAIC acknowledged that its contribution to the UK joint venture would be used to repay the bridging loan. As negotiations between the two companies began to falter, however, the Department considered relaxing some of its criteria. In the absence of any agreement between the two companies and assurance from the Chinese Government that it favoured the deal, the Department sent a draft letter to SAIC for discussion on 5 April in which it said it was prepared to offer a loan of £110 million to MG Rover. The Department's team was due to decide whether to offer a loan facility to MG Rover on the evening of 5 April. Shortly before the meeting, SAIC's advisers, Rothschilds, reported that the Chinese Company did not wish to proceed with the deal. As a result, the prospect of a loan disappeared.¹²

10 C&AG's Report, para 2.25

11 Q 48; C&AG's Report, 8b(i)

12 Qq 9, 43, 45, 53, 99; C&AG's Report, Appendix 7

11. MG Rover went into administration on Friday 8 April 2005. On Sunday 10 April the Department used powers under the Industrial Development Act 1982 to make a loan of £6.5 million to cover MG Rover's operating costs for one week. The Department provided the loan to the administrators, who had been appointed at short notice, so that they could quickly examine the prospect of selling the assets of MG Rover (in part or in whole) 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.¹³

Key events leading up to and shortly after the payment of the £6.5 million loan

8 April 2005 – The Directors of MG Rover appointed PWC as administrators. The administrators took control of the affairs, business and property of the Company.

10 April 2005 – The Department decided to make a loan of £6.5 million to the administrators.

15 April 2005 – As they had received no credible bids for MG Rover as a going concern, the administrators concluded that Company could not recommence car production in the short term.

15 April 2005 – MG Rover closes and over the next two days the administrators issued redundancy notices to most of the workforce.

12. The Department had not planned for the role it might play if the Company entered administration with few liquid assets. It therefore had to quickly decide how to respond. The administrators informed the Department they were not in a position to use any of the Company's cash to keep MG Rover going. Without some external funding, therefore they would issue redundancy notices on 11 April. The immediate issue was whether any buyer was likely for all or part of the Company as a going concern.¹⁴

13. The Department had to balance the possibility of a bid for the Company as a going concern against the risk that the loan might not be repaid. A going concern sale of MG Rover to SAIC, or a sale of part of the business to another Company, could have helped to save a significant number of jobs. The Powertrain business, which at the time of MG Rover's collapse had a contract to supply engines to Land Rover, employed 1,200 people. There had also previously been interest in developing a niche sports car business which the Department considered could have employed 500 to 1000 people. Each job saved would have reduced the costs of the rescue package to the Exchequer by at least £10,000.¹⁵

14. The prospects for a going concern sale were highly uncertain. Administration meant that some of MG Rover's liabilities, for example its pension liabilities, might fall away thereby making the Company more attractive to a potential purchaser. The most obvious potential bidder was SAIC. Before administration SAIC had shown a significant interest in MG Rover and diplomatic sources had suggested that the Chinese Government had recently been positive about the proposed deal. SAIC's internal deal team, however, had been stood down and on 10 April the administrators had assessed the prospects of a going concern sale as "remote", with negative soundings from SAIC's advisers. The Department

13 C&AG's Report, para 2.41

14 Q 140; C&AG's Report, paras 8a (iv), 8a (v), 2.41

15 Qq 120, 137

judged that SAIC's actions could be interpreted as a negotiating stance to get MG Rover's assets at the best possible price. Apart from SAIC, the Department considered it possible that another bidder might come forward.¹⁶

15. The Department was also uncertain about the speed with which a going concern sale could be made, and how operating costs of the business could be funded if negotiations went beyond the one week covered by the loan. The administrators judged that a sale to SAIC might take three months to complete and estimated that it could cost £70 million to £100 million to keep MG Rover fully running and afloat over such a period. Under EU State Aid rules it would not have been legal for the Department to have funded the Company for an indeterminate period of time. But the Department considered that SAIC could have crystallised their position quickly because they did not need to go through further due diligence. If a niche bidder had come forward, it would have been for them to arrange the funding to keep the business going until a sale could be arranged.¹⁷

16. In the event, there were no credible bids for the business as a going concern. The loan did, however, give the administrators the extra time they needed to put in place the personnel procedures necessary to process in one week all the workers being made redundant. The loan also gave Advantage West Midlands and other public bodies an additional week to finalise their preparations for supporting former MG Rover workers and suppliers. The loan may also have provided other benefits which are difficult to identify and quantify, such as reducing the administration costs imposed on Jobcentre Plus and speeding up the return to work of MG Rover workers.¹⁸

17. The Department will probably have to write off £5.2 million of the original loan (**Figure 2**). Around £1.2 million of the loan was for MG Rover's administrators' fees. The Department considered that its decision to keep the company going for a short period increased the time the administrators had to run the Company. It therefore agreed to meet their fees for the period of the loan.¹⁹

16 Qq 56–57, 60; C&AG's Report, para 2.43

17 Qq 11, 139, 141, 147; C&AG's Report, para 2.44

18 Qq 122–125; C&AG's Report, para 2.43 (third bullet)

19 Qq 58–59; C&AG's Report, para 2.46

Figure 2: How the loan to MG Rover's administrators was used

	£ million	£ million
Value of loan made		6.5
Operating costs and fees		
Salary and wage costs	3.0	
General operating costs (Note)	0.6	
Legal and agent's fees	0.4	
Administrators fees	<u>1.2</u>	
Total cost		<u>5.2</u>
Value of loan recovered		1.3

Note: Includes cost of utilities, information and communication technology, site maintenance and production.

Source: C&AG's Report, para 2.46; Ev 22

18. On the day MG Rover closed, the Department asked the Financial Reporting Council to look at whether MG Rover's accounts complied with the Companies Act 1985. The Department subsequently appointed company inspectors to investigate the Company's affairs and it hopes they will have completed the investigation by the end of 2006.²⁰

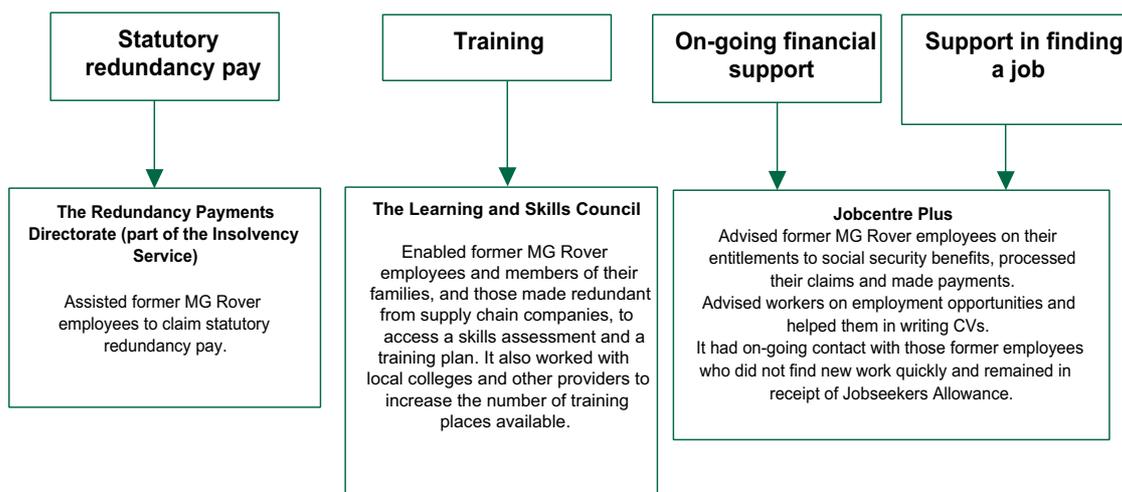
²⁰ Qq 26, 65; C&AG's Report, para 1.22

3 Support for the West Midlands economy

19. The closure of MG Rover presented a significant challenge to the agencies, led by Advantage West Midlands, charged with dealing with the consequences. On 15 April 2005 the administrator sent redundancy letters to 5,300 of MG Rover's 5,900 workforce. More received such letters in the following weeks. For many, this was their first experience of being unemployed. The closure also posed a risk to other businesses. MG Rover owed its UK-based trade creditors £109 million, of which £44 million was to firms in the West Midlands. The support package, totalling over £170 million, was intended to mitigate the consequences for the local community and economy.²¹

20. The various agencies responded quickly in the immediate aftermath of the collapse. Advantage West Midlands provided funding to keep the Human Resources team at MG Rover in place to help the Agency's communication with former employees (Figure 3). The Redundancy Payments Directorate reported that it was able to make statutory redundancy payments within two days of receiving applications from former MG Rover employees, on average, compared with the normal targets to pay 70% of claims within three weeks. Jobcentre Plus reported that it had exceeded its normal customer service standard to pay benefits to individuals within 12 days of making a claim. Former employees reported that significant efforts had been made to process claims promptly. The Learning and Skills Council offered a wider range of courses than is normally available for redundant workers. But given the numbers involved, the Council was unable to organise the full range and scale of courses necessary to get people into training as promptly as they might have wished. Of the people with training plans, 3,302 (94%) had been booked on to courses and 1,956 (55%) had started their courses by early September 2005.²²

Figure 3: Support package made available to former MG Rover employees



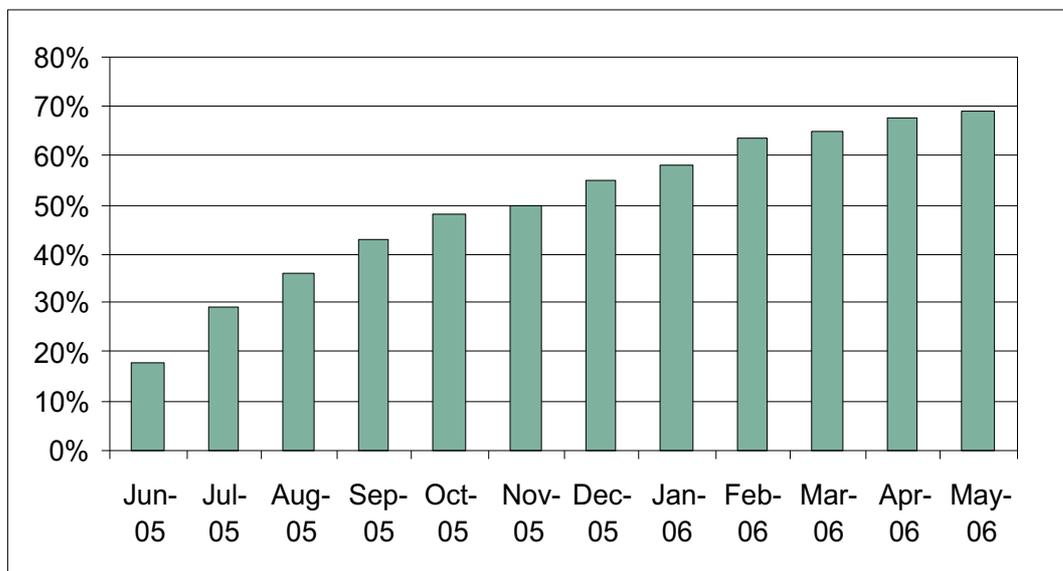
21 Ev 20; C&AG's Report, paras 5, 3.2, 3.32

22 C&AG's Report, paras 3.10–3.14, 3.22–3.24

21. In April 2005, Jobcentre Plus had estimated that a year after the Company's closure 75% of MG Rover workers would be in new employment. Even with additional support, many former MG Rover employees would take longer to find jobs than an average group of all jobseekers because of their concentration in the South West Birmingham area, their lack of knowledge of the labour market and the time required to provide an extensive training programme. By the beginning of May 2006, Jobcentre Plus reported that almost 70% of former MG Rover and supply chain employees were back in work (**Figure 4**).²³

22. Initial findings from research commissioned by the MG Rover Task Force show that of those in work around 60% are in permanent positions. A similar percentage are earning "a little less" or "a lot less" than they were at MG Rover. But neither the Department nor Advantage West Midlands had set targets for the rate at which former employees would find jobs or the permanency or quality of those jobs.²⁴

Figure 4: Percentage of MG Rover and supply chain employees who had found new employment



Note: Figures include some 900 supply chain employees who applied for benefits and could be identified as coming from a MG Rover supplier.

Source: For the period up to February 2006, data has been taken from the MG Rover Task Force. The figures for March 2006 onwards provided by Jobcentre Plus.

23. The impact of the collapse on former suppliers has been less than expected. At the end of September 2005, Advantage West Midlands estimated that less than 10 former MG Rover suppliers had gone into administration or closed plants and some 2,100 people had been made redundant from supply chain companies located in the West Midlands, with this figure expected to grow to 2,500. This compared with the worst case scenario of 5,750 job losses estimated by the Department in April 2005 and the 22,500 estimated at risk, including Rover, when Longbridge was under threat in 2000. The impact of MG Rover's

23 Figure includes 900 supply chain employees who applied for benefits and could be identified by Jobcentre Plus as coming from a MG Rover supplier. Qq 15, 35; Ev 20-21

24 MG Rover Task Force Final Update Report, March 2006, p13 and Appendix 3

closure was reduced by earlier efforts by supply chain companies to diversify and reduce their dependence on MG Rover, assisted by the £90 million provided through the support package made available in 2000. Between 2000 and 2005, the number of companies in the United Kingdom which depended on MG Rover for over 20% of sales fell from 161 to 74, of which 57 were in the West Midlands.²⁵

24. Overall, the Company's decline between 2000 and 2005 imposed costs on the taxpayer of some £270 million, including the 2000 and 2005 support packages (**Figure 5**). The cost to the private sector could exceed £600 million, mainly as a result of a deficit in the Company's pension scheme which may have to be met by the Government-created, but business-financed, Pension Protection Fund. In contrast, in the four years to 2003 the Directors of Phoenix Venture Holdings received in excess £40 million from the business.²⁶

25 Q 42; C&AG's Report, paras 3.37–3.38

26 Qq 14, 26, 62–65

Figure 5: The cost of MG Rover's decline and closure, April 2000 to March 2008

	Description of cost or forecast cost	£ million	Who bears the cost	When cost incurred
Costs borne by the taxpayer	Expenditure to modernise and diversify the West Midlands economy following BMW's decision to dispose of MG Rover in 2000.	90	Department through Advantage West Midlands	Since April 2000
	Public sector grants to MG Rover as part of wider schemes for the automotive industry and the West Midlands region.	4.7	Mainly the Department	May 2000–April 2005
	Cost of external advisors employed by the Department.	0.7	Department	February 2005–April 2005
	MG Rover's estimated tax liabilities at the time of its collapse arising from normal business, and from tax deferrals agreed by HM Revenue and Customs. The precise debt, and consequent write-off, is unlikely to be finalised for some time.	18	Loss of revenue to the Exchequer	From April 2005
	The part of the £6.5 million loan, made by the Department to MG Rover's administrators that is unlikely to be repaid.	5.2	Department	April 2005
	Cost of the company investigation into the affairs of MG Rover.	3.1 (Note 1)	Department	From June 2005
	Estimated cost of the support package to help MG Rover's suppliers and the wider West Midlands economy and community.	66 (Note 2)	Department, Advantage West Midlands, Birmingham City Council	April 2005–March 2008
	Estimated cost of training for workers made redundant.	25	Learning and Skills Council	From April 2005
	The cost of statutory redundancy payments and compensation awards.	55	National Insurance Fund	Mainly April 2005 and May 2005
Costs borne by pension funds, MG Rover's former employees and creditors	Estimate (at February 2006) of the shortfall in the MG Rover Pension schemes, some of which may be met from the Pension Protection Fund (Note 3).	500	If the MG Rover pension schemes are eligible for the Pension Protection Fund, the main cost will be met by those business financed pension funds which pay levies to the Pension Protection Fund. Former MG Rover employees will also receive lower pension payments. If the pension schemes are not eligible for the Fund, the main cost will fall to former employees.	On-going from April 2005
	Amount owed by MG Rover to UK-based trade creditors when the Company collapsed. The administrators are likely to be able to repay only a small proportion of this debt.	109	MG Rover's creditors	From April 2005

Notes:

1. Cost as at January 2006
2. Includes loans of £10 million. If these are repaid in full, expenditure will fall to £56 million.
3. The Pension Protection Fund is intended to offer compensation to members of eligible defined benefit pension schemes in situations where companies become insolvent and leave insufficient assets to cover Pension Protection Fund levels of compensation. The Pension Protection Fund is considering whether the two MG Rover Pension Schemes are eligible for the Fund. If the Schemes are accepted then the Fund will provide the majority of former employees who had not retired with 90% of their full pension value subject to a cap which varies with age. The Fund is financed by levies that are payable by the trustees or managers of eligible occupational defined benefit and hybrid pension schemes.

Source: C&AG's Report, paras 14, 3.31, 3.32 and Figures 1, 6

Formal minutes

Wednesday 12 July 2006

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Annette Brooke
Mr Greg Clark
Mr Ian Davidson

Helen Goodman
Sarah McCarthy-Fry
Mr Austin Mitchell
Mr Don Touhig

A draft Report (The closure of MG Rover), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 24 read and agreed to.

Summary read and agreed to.

Conclusions and recommendations read and agreed to.

Resolved, That the Report be the Fifty-seventh Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Wednesday 11 October at 3.30 pm.]

Witnesses

Monday 20 March 2006

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Sir Brian Bender KCB, Ms Catherine Bell, Mr John Alty, Mr Mark Russell,
Department of Trade and Industry and **Mr John Edwards,** Advantage West
Midlands

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Third Report	Ministry of Defence: Major Projects Report 2004	HC 410 (<i>Cm 6712</i>)
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Twenty-first Report	Skills for Life: Improving adult literacy and numeracy	HC 792 (<i>Cm 6766</i>)
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Twenty-fifth Report	Securing strategic leadership in the learning and skills sector	HC 602 (<i>Cm 6775</i>)
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Thirtieth Report	Excess Votes (Northern Ireland) 2004–05	HC 917 (<i>N/A</i>)
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Fifty-seventh Report	The closure of MG Rover	HC 1003

The reference number of the Treasury Minute to each Report is printed in brackets after the HC printing number

Oral evidence

Taken before the Committee of Public Accounts

on Monday 20 March 2006

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Greg Clark
Mr David Curry
Mr Sadiq Khan

Sarah McCarthy-Fry
Mr Austin Mitchell
Kitty Ussher
Mr Alan Williams

Sir John Bourn KCB, Comptroller and Auditor General, National Audit Office, was in attendance and gave oral evidence.

Ms Paula Diggle, Treasury Officer of Accounts, HM Treasury, was in attendance and gave oral evidence.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

THE CLOSURE OF MG ROVER (HC 961)

Witnesses: **Sir Brian Bender KCB**, Permanent Secretary, **Ms Catherine Bell**, Former Acting Permanent Secretary, **Mr John Alty**, Director General, Fair Markets Group, **Mr Mark Russell**, Director, Industrial Development Unit, Department of Trade and Industry and **Mr John Edwards**, Chief Executive, Advantage West Midlands, gave evidence.

Q1 Chairman: Good afternoon, welcome to the Committee of Public Accounts where today we are considering the Comptroller and Auditor General's Report on the closure of MG Rover. We welcome to our Committee today Sir Brian Bender, who is the current Permanent Secretary at the Department, Ms Catherine Bell, who is the former Acting Permanent Secretary and was Permanent Secretary at the relevant time, Mr John Alty, who is the Director General of the Fair Markets Group, Mr Mark Russell, who is the Director of the Industrial Development Unit and from Advantage West Midlands we have Mr John Edwards the Chief Executive. You are all very welcome. Sir Brian, could I please ask you, almost by way of a brief opening statement, to tell us what lessons we have learned from this and what we can take into the future?

Sir Brian Bender: We were dealing here with a major car producer with a long history that the Committee will be well aware of and which had changed ownership in the year 2000. As the time passed after 2000 and the Department was monitoring the situation, there were three alternative contingencies that the Department needed to prepare for; I state them in no particular order. The first was that the company would need a strategic partner, which was evident from 2000, and might need the facilitation support of the Government to find it. The second was that the company might need some financial support. The third contingency, which was the one that eventually happened, was that the company would go into administration with all the implications for the region. Therefore the lessons for the Department are around the quality of the

contingency planning in what was an evolving situation and did involve some unprecedented situations, and what lessons we can learn looking forward. The Committee will clearly ask a number of questions around that. I have, internally, asked for a lessons-learned report on this and clearly the Report of this Committee and the Report of the Trade and Industry Committee will feed into what those lessons are. I hope the Committee will feel, as a result of this afternoon's hearing, that the Department was pretty well prepared in what was a complicated and unprecedented situation.

Q2 Chairman: Thank you very much Sir Brian. Ms Bell, as you were there at the time, do you think you could just give us a chronology of events and your overall view of the events as they unfolded?

Ms Bell: I took responsibility as Permanent Secretary and Accounting Officer on 1 March, at which point it was very clear that MGR was in difficulty in terms of its cash flow and indeed there was a request to the Department for help with a bridging loan. In terms of the events which then flowed forward, we saw those in the context of the attractions of MGR succeeding in the joint venture negotiations with the Shanghai Automotive Industry Corporation, SAIC, and we were keen to support that in so far as it was appropriate for the Government to do so in relation to negotiations which were essentially between two private sector companies. We were certainly very conscious of the time pressures because of the cash flow difficulties. At the same time, it was important that we should get a very accurate sense of where the position of MGR was, what the commitment of the directors was, what indeed the cash flow position was in

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detail. Equally, we were very keen to understand the position not only of SAIC but also NDRC (National Development And Reform Commission), who would need to approve the joint venture, on the Chinese side and indeed the Chinese Government. It was therefore a matter of urgency that we should consider how we could address the risks in this situation, including the risk to the taxpayers' funds, if taxpayers' funds were going to be exposed to supporting the joint venture through a bridging loan. In the middle of March we canvassed conditions for such a loan first to MGR and a few days later to the Chinese company SAIC. At the same time, on 17 March, we sent accountants KPMG into MGR to look at the cash flow position and, as is reflected in the NAO Report, later that month we also sent DTI officials to Shanghai to get the most accurate understanding we could of how matters stood on the Chinese side. There were continuous commercial negotiations, but, as the Report also reflects, eventually it proved not possible for a joint venture deal to be agreed and we then faced the dilemma of the company moving into administration. Going briefly over the timetable, that happened, it was announced on 7 April and the administrators were appointed on 8 April. The company was then in administration and we needed to consider whether any jobs could be salvaged at that time, hence we came to the decisions of 10 April, looking at a situation where there were 6,000 jobs at issue in an assisted area on one site, the biggest potential redundancy in one place that had been seen for a very long time and probably as many jobs again at issue in the supply chain behind MG Rover.

Q3 Chairman: All right. I shall view those as two helpful opening statements. I am now going to go back to try to shed some light on this Sir Brian, if I may, and start with you. We go right back to 2000 where you started in your short opening statement. If you look at paragraph 2.2 on page 27, you can see as early as May 2000 that the Department was aware that, although MG Rover might be financially secure in the short term, it needed an industrial partner. This was obviously quite clear in 2000; this was a very small volume car maker in terms of world production and clearly it needed a strategic alliance to survive. Why did you not immediately draw up plans to assist it?

Sir Brian Bender: This was a private sector company, as I am sure you will appreciate. Therefore it is for the judgment of the company and its directors how to proceed and the Government's role is to facilitate, to make contingency plans and not actually to get into the position of running the company. The Department did track the progress of the company against its understanding of the milestones and in 2001 made an assessment which said that it was secure until probably 2004-2005.

Q4 Chairman: Of course, you could put that the other way that it was even clear then in 2000 that the money, the very generous dowry which came from BMW, would only sustain it until 2004.

Sir Brian Bender: Correct, Chairman.

Q5 Chairman: So this was clear to you way back in 2000.

Sir Brian Bender: Indeed it was and, when invited by the company, we did support them on alliances: we did so in relation to activities in Poland; we did so in relation to China Brilliance, but at the end of the day it has to be for the company itself to decide what alliances it wants with the Department facilitating, rather than the Department trying to form a view for it.

Q6 Chairman: A private company which eventually soaked up the best part of £1 billion of public money.

Sir Brian Bender: I repeat what I said. At the end of the day the Department's role is to try to engage in those circumstances, try to facilitate. We offered help and, in the course of the final few months, intensive help was given in relation to the Shanghai Automotive Industry Corporation but it has to be for the company to make the overture to the Department, rather than the Department to try to run it.

Q7 Chairman: Okay, you have made that point. Let us travel forward then to 2004. If we look now at page 32 and paragraph 2.15, it says "The Department concluded that it would commence planning to mitigate the impact of a potential collapse". It seems then that although obviously finding a partner would have been preferable to closure, you were focusing on closure. Why did your contingency plans in 2004 focus on closure with all the difficulties that would inevitably entail?

Sir Brian Bender: I would assert that the Department did not solely focus on that as an option. It did look at that as an option, it put a lot of work into it and I would assert too that it was as well that we did. Indeed in the period between 2000 and 2005, the dependence of the West Midlands economy on MG Rover reduced significantly. The number of companies which were dependent for their supply chain purposes on the company was reduced as a result of the work which Advantage West Midlands and the Department had done over the previous few years, though that was not the only activity the Department was doing. We were also, by late 2004, actively trying to engage with the Chinese authorities on the SAIC negotiations.

Q8 Chairman: Let us travel forward now then Ms Bell to April 2005, the key period when you were actually responsible for the Department. Shall we look at paragraph 2.34 which you can find on page 38? "During the first week of April, the Department considered relaxing some of its loan criteria, in particular whether to make available a loan facility". You see that paragraph, do you Ms Bell?

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Ms Bell: I do.

Q9 Chairman: So you actually offered £100 million, did you not? You were actually saved from giving £100 million by SAIC, the Chinese company, which actually made clear then that they were not going to proceed with this deal. The question we have to ask you is why you relaxed your own criteria? You drew up these detailed criteria that helped you to manage these risks, but then you apparently were prepared to ignore your own criteria to give a loan facility of £110 million, which we now know would just have gone into a bottomless pit.

Ms Bell: No conclusion was reached in these complex commercial negotiations and it was our constant endeavour to explore where there could be movement on the negotiations to see whether there was a prospect of taking this forward in order to find a future for MGR, but in fact no agreement was reached in those commercial negotiations.

Q10 Chairman: Let us look at this £6.5 million that you actually did make. Shall we look at page 40 now, paragraph 2.43, the second bullet point? "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 whole) to SAIC or another purchaser as a going concern were 'remote'". Given that the prospects of getting this money back were remote, would not the proper way of terming this £6.5 million be not as a loan at all? It was a gift was it not? It was a grant or a gift? The prospects of getting it back were remote. You knew that at the time did you not?

Ms Bell: That was not my own view on Sunday 10 April. We took advice from a number of quarters, looking at what the options might be in terms of the assets then in administration. One view we took was from the administrators and the administrators had been appointed on the Friday lunchtime and had been in charge of the business for a very short period. At that time they took a reserved view about what the prospects were for sales out of MGR. At the same time the Department had been in charge of negotiations, or rather had been tracking the negotiations for several months. We thought that there was a prospect that SAIC might indeed buy the company out of administration.

Q11 Chairman: After all these years you thought that just by giving them another week, when apparently you had already been told by SAIC that they were not going to buy it ... Surely if there were a realistic chance of them buying it, you should have taken three months, which might have cost the best part of £70 to £80 million. What was the point of keeping the company going for just another week, knowing that the chances of ever getting the money back were remote?

Ms Bell: The situation was fundamentally altered by the company going into administration in that it was possible for bidders coming forward to take a package of assets and leave liabilities with the administrators, which was a different situation.

Q12 Chairman: So you never sought a direction on this matter?

Ms Bell: I was entirely content that it was a measured risk to take for one week and one week only.

Q13 Chairman: Sir Brian, just summing up, it could be said with the benefit of hindsight that if they had sold to Alchemy in 2000, it would have kept part of Rover going. Those who lost their jobs would have had proper redundancy payments, full pension assignments, that is right it is not? This is going back to 2000.

Sir Brian Bender: You are dealing with a hypothetical situation and the discussions with Alchemy broke down between the parties. It was at that stage that PVH (Phoenix Venture Holdings) came forward, so it is not appropriate for me to comment on what might have been if those negotiations had not broken down.

Q14 Chairman: Let us see what did happen. Let us go through the costs, this is a value for money Committee, we are supposed to be looking after the interest of the taxpayer here. The cost of supporting Rover and dealing with the consequences of its decline: £247 million. That is shown on page 24, table 6. VAT and PAYE loss: £18 million. That is shown on page 35 of the NAO Report. The cost of company inspection to date: £3 million. Total cost to Government: £268 million. Then we go to trade creditors' loss on page 51 of the Report: £109 million. Pension Protection Fund may need to spend £500 million, mentioned on page 50. Six thousand jobs were lost. The Phoenix four directors walked away with £40 million in their pockets. Are you proud of this performance Sir Brian? The best part of £1 billion of public money for what you say was a matter for a private company.

Sir Brian Bender: One of the aspects I am proud of is the work that was done in that intervening four or five years to help the supply chain diversify. That meant that when the company finally collapsed the impact on the West Midlands economy was far, far less. As to what the directors may or may not have done, that is obviously a matter for the Companies Act inspection.

Q15 Chairman: Mr Edwards, this is a positive part of the Report and I want to congratulate you on what you did to help the workforce. It is a positive part of the Report and I congratulate you. But the fact still remains that after nine months, January 2006, over two fifths of MG Rover's workforce were still unemployed. Do you know why that is?

Mr Edwards: The current state is that some 4,000 out of just over 6,000 people made redundant, both at Longbridge and in the supply chain, are now in work. We should anticipate normally 12 months after a major closure that some 75% of the workforce would be back in work and we are on track at the moment to get to around 73% of the workforce back in work at the first anniversary of the closure of MG Rover at Longbridge. I should

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regard it as a very positive outcome given the scale, the immediacy and the concentration of job losses that occurred because of MG Rover's closure in April of last year.

Q16 Chairman: Very lastly then, Sir Brian, why did the Department not take action when you knew that the PVH directors had paid themselves £40 million? This is mentioned, by the way, if colleagues are interested, in paragraph 2.11 on page 30.

Sir Brian Bender: The PVH directors were subject to the same corporate governance arrangements as anyone else in a private company, and there was no particular basis for the Department to take action beyond what subsequently happened when Patricia Hewitt asked the Financial Reporting Council chairman to do a Report which led to the Companies Act investigation.

Q17 Mr Khan: There are two areas of policy I want to focus on to start off with. The first one is the policy that your Department should facilitate substantial inward investment into the UK. The second area of policy is the one that says that you should not interfere with the market. Now clearly there is a balance to exercise between those two. How do you decide how to balance those two policy areas?

Sir Brian Bender: The intervention in the market is essentially in areas of market failure and therefore the intervention schemes the Department has will be used when there is a judgment that there has been a market failure or, in the case of a collapse of a company like this, in order to help the local and regional economy adapt. We should not otherwise normally intervene in the market.

Q18 Mr Khan: So there are exceptional circumstances where you would interfere.

Sir Brian Bender: They would be exceptional circumstances, and the sort of circumstances when the bridging loan and the £6.5 million were being considered were those exceptional circumstances.

Q19 Mr Khan: With hindsight, did you get the balance right?

Sir Brian Bender: My belief, and I look at this only with hindsight, is that the Department did get it right in these circumstances. Had a negotiation with SAIC been successful, then that would have been a benefit to the West Midlands economy and to car production in this country. SAIC has a record of doing joint ventures with companies in other countries; if I might put it this way, that was a horse worth backing but it was not successful.

Q20 Mr Khan: Ms Bell has referred to the factor which led to the bridging loan being given which was the administration; that was the key thing. There is a huge white elephant in the room which nobody is talking about, which is the general election, which was 5 May which has been referred to in press reports preceding today's hearing and after publication of the NAO Report. Can you confirm that the factor which led you to make a

recommendation for the bridging loan was in fact the administration, that was the key? What impact did an election four weeks away have on your decision?

Ms Bell: The election being four weeks away had no bearing whatsoever on the advice which I gave to ministers. We looked first at the options on the bridging loan. When the company went into administration we then looked at a different situation in terms of options for bidders and what we felt it was appropriate to do.

Q21 Mr Khan: At no stage did you consider recommending more than one week's worth of operating costs being given as a bridging loan?

Ms Bell: That is correct.

Q22 Mr Khan: So at no stage did you consider a five-week operating cost loan.

Ms Bell: No, I did not.

Q23 Mr Khan: May I move on to something the Chairman alluded to which is something we discovered in the context of the Report? After publication of MG Rover's accounts of 2002, we discovered that £13 million had been transferred to the directors' remuneration package and we subsequently discovered that four of the companies, if I have got this right and the Chairman will correct me if I have got it wrong, showed the directors receiving £40 million from the business. Have I got the figures right?

Mr Alty: Yes, £40 million is certainly a figure I recognise.

Q24 Mr Khan: Would you like to comment on that?

Mr Alty: Sir Brian has already commented. These were figures which were in the accounts, they were published and there was a corporate governance regime which required that they should be published, but of themselves they would not necessarily provoke government action.

Sir Brian Bender: May I add one comment? The very fact that they had this money led to one of the conditions which was put in for the possible bridging loan, which was that the directors themselves should contribute towards the cost of the £110 million loan. It was in that knowledge, that it was felt they should make a personal contribution if that had been pursued.

Q25 Mr Khan: But not to the £6.5 million.

Sir Brian Bender: No, this is the bridging loan which the Chairman was asking about earlier. This is the £110 million.

Q26 Mr Khan: Except for the inspection which has been ordered into the company, there is no other recourse to get some of these funds back?

Sir Brian Bender: I believe that to be the case and we shall have to see what the inspection comes out with.

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Q27 Mr Khan: When do you think they will respond?

Sir Brian Bender: I cannot answer that. When the inspection was set up, the Secretary of State asked for it to be done as rapidly as possible. I would hope it will be in the course of this calendar year, but that is in the hands of the inspectors.

Q28 Mr Khan: So far we know £3.1 million has been spent on the investigation. Is there a cap or limit on what they can spend?

Sir Brian Bender: There is no cap. The expenditure would normally be front-end loaded, because there is a more intensive work programme of amassing documentation, but there is no cap on it.

Q29 Mr Khan: Moving on to the question that the Chairman asked of Mr Edwards about the recovery package and the support package, you referred to a figure of 75% as the sort of figure we could hope to see for those 6,000 people made redundant being able to get a job within 12 months. Where is that figure obtained from?

Mr Edwards: I would need to ask colleagues, but I understand it is normal in a significant redundancy situation.

Q30 Mr Khan: When was the last time we had 6,000 people made redundant from one employer??

Mr Edwards: That was the point I was making in response to the Chairman. In normal circumstances, after 12 months you would expect to see around 75% of the workforce—

Q31 Mr Khan: When was the last time an employer had 6,000 made redundant?

Mr Edwards: I cannot answer that question; I do not know.

Sir Brian Bender: We can provide a note on that. We have someone from Jobcentre Plus in the back row, if that would be helpful to you.¹

Q32 Mr Khan: I just find it staggering that there are five of you here, we have a redundancy of 6,000 and nobody can give me an example.

Mr Alty: There is an example in the back of the Report which is the Corus redundancies which are very large, but they are spread over a longer time period and they are at a variety of sites.

Q33 Mr Khan: But they were not overnight, were they? They were not 6,000 from one site. That is Sir Brian's point about the reason why.

Mr Alty: No; absolutely.

Sir Brian Bender: That is correct.

Mr Alty: It is very unlikely that there has, certainly not in recent times, been—

Q34 Mr Khan: Can I help you? What about some of the mining redundancies back in the 1980s? Were they of similar size?

Mr Alty: They were, but they are not a company going bust overnight. That is what is so unusual about this case: a company of this size going into administration.

Mr Edwards: What the task force had to do essentially was to step in and provide a support package to employees when the company that had employed them was no longer there.

Q35 Mr Khan: That is the question I am trying to lead on to. How do you then measure the success of your support package, if you have nothing to compare it against?

Mr Edwards: The figure I quoted was what you would normally expect to see in a redundancy situation. There are no examples in the very near past of such a significant scale of redundancies on a single site which I can give you. All we have available to us is what you would normally expect to see and the point I was making in response to the Chairman's question was that we shall hit the norm in an abnormal situation where the number of people being made redundant was in a single location. It is about scale, it is about immediacy and it is about concentration; a lot of people very quickly in a very, very tight location. Eighty-five per cent of the people employed at Longbridge came from within a 10- to 15-mile radius of the plant so we were facing a very, very concentrated set of redundancies. There is no very recent situation that I can point you to that is similar.

Q36 Mr Khan: You also cannot tell me where the 75% comes from.

Mr Edwards: It is the figure that Jobcentre Plus would expect to see.

Q37 Mr Khan: Where do they get it from?

Mr Edwards: I would need to ask them.

Q38 Mr Khan: Could somebody give me a written note on that?

Sir Brian Bender: We can give you a note.²

Q39 Mr Khan: May I ask Ms Bell what would have happened had the £6.5 million loan, which extended life by a week, not been given? What would have happened?

Ms Bell: The workers would have received mass redundancy notices on the Monday morning.

Q40 Mr Khan: A week earlier?

Ms Bell: A week earlier; Monday 11 April.

Q41 Mr Khan: Just to be clear, a similar question to one I asked previously. With hindsight, if you were to make the judgment again, would you give the same advice?

Ms Bell: I would give the same advice.

Q42 Mr Khan: As far as the help given to employees is concerned, Sir Brian talked about the supply companies and the fact that there was a

¹ Ev 20

² Ev 20-21

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need in the preceding months and years to diversify the work that they do. How successful has that been?

Mr Edwards: In 2000 somewhere in excess of 150 companies were heavily dependent on the Rover plant at Longbridge. By the time we get to 2005, that figure dropped to just over 50 companies which were dependent on MG Rover at Longbridge, so in the intervening years we had managed to move a significant proportion of the West Midlands automotive supply base away from dependency on MG Rover to supplying a range of other automotive companies and other companies with similar products. We had through those years made a significant positive difference in the supply chain in the West Midlands.

Q43 Mr Bacon: I should like to start with the bridging loan of £110 million. In the offer letter which was shown to SAIC, the DTI said, and I quote "I am now in a position to confirm my Government's willingness to extend to MG Rover a bridging loan facility of up to £110 million to the end of May 2005. We believe this facility will provide you and MG Rover with the time in which you can resolve the outstanding commercial issues, including Phoenix Venture Holdings' solvency post completion". What was the response of SAIC to that offer?

Ms Bell: SAIC continued to say that they had concerns about the liabilities which might attach to the joint venture company and hence there was no conclusion to those negotiations.

Q44 Mr Bacon: The letter of 5 April referred to on page 65 is the letter in which SAIC responded to this offer from the DTI of the £110 million, is it not?

Ms Bell: There was very frequent correspondence. I should state on the record that the letter that you refer to from the DTI was a draft letter. That is an important point in the sense that these were negotiations.

Q45 Mr Bacon: You showed it to them as a letter that you were minded to send to them. It was not actually sent and signed, so to speak.

Ms Bell: It was sent as a draft for further discussion. That of course is an important point. In terms of the responses which came back from SAIC, as I said, they continued to repeat their concerns about liabilities which might attach to the joint venture company and hence no conclusions to the negotiations.

Q46 Mr Bacon: Sir Brian, is it possible you could send copies of this correspondence to the Committee?³

Sir Brian Bender: Of course Chairman.

Q47 Mr Bacon: Ms Bell, I am looking at the response of 5 April in which it states that SAIC believes the decision whether or not to make the bridging loan to MG Rover and the responsibility for the consequences arising are entirely ones for the UK Government. It is independent of and does not influence SAIC's assessment of the proposed joint ventures. That is correct, is it not?

Ms Bell: That was the statement made by SAIC at that point in the negotiations.

Q48 Mr Bacon: In other words the £110 million putative bridging loan was not going to influence their decision one way or the other. That is what they are saying in that paragraph, is it not?

Ms Bell: That was their negotiating statement.

Sir Brian Bender: As we understand it, Mr Russell was the one closest to the negotiations which related to the scale of the liabilities. That appeared to be their primary concern: the scale of liabilities that would remain in the joint venture if the deal went ahead.

Q49 Mr Bacon: The SAIC letter goes on to say that the personal financial contributions, which Sir Brian you referred to, by the Phoenix Venture Holdings' directors, while a welcome gesture, do little to reduce the overall quantum of financial risk. Basically, we were looking at £110 million that the Department was considering making as a bridging loan. There was an offer letter, as a draft, unsigned, suggesting that this was a route that the Government might go down. You asked SAIC for their comments on this and they said that it would not influence their decision one way or another because they would still deem the financial risk to be far too large. Is that right?

Ms Bell: They made those statements in response to that point in the negotiations.

Q50 Mr Bacon: In paragraph 2.44 on page 41 it states "The administrators had informed the Department on 10 April that any deal with SAIC might take three months to complete". You were told on the Sunday that it might possibly take three months to complete a deal. The administrators estimated that around £70 to £100 million could be required to keep MG Rover fully running and afloat over this period, although your own putative offer letter talked about a loan only until the end of May. I take it you were expecting that in such circumstances that loan would be repaid by the end of May.

Ms Bell: Certainly the discussions about the bridging loan related to covering the cash flow difficulties to the end of May and, by the end of May, there would need to have been a conclusion to the negotiations.

Q51 Mr Bacon: May I ask whether you asked for a direction about the £110 million loan?

³ Information provided but not printed.

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Ms Bell: No loan was made.

Q52 Mr Bacon: That was not my question.

Ms Bell: If a loan had been made, I would have asked for a direction.

Q53 Mr Bacon: If a loan had been made, you would have asked for a direction. Under the Blue Book rules, you would have thought that it would not have been correct to have made the loan, is that right?

Ms Bell: There would have been two concerns. One of them was the risk to public funds; the second was the potential impact of the making of that loan on the other programmes in the DTI budget.

Q54 Mr Bacon: Yes; in other words resources that in your view could perhaps be better used elsewhere.

Ms Bell: That was a judgment for ministers to make, but it was very clear that a sum of that scale would have a severe impact on other programmes.

Q55 Mr Bacon: It was going to create a big hole.

Ms Bell: Yes.

Q56 Mr Bacon: Which leads me on now to the £6.5 million loan which was agreed on Sunday 10 April because, as we just heard a minute ago, all that did was delay the redundancy notices by one week. I know you mentioned that the fact that it had gone into administration changed the situation but, from a buyer's point of view, you are not going to buy liabilities if you do not want to. What evidence was there that you could achieve a quasi-going-concern sale in one week from Sunday 10 April onwards that would merit a £6.5 million loan?

Ms Bell: There were two considerations. First, in relation to SAIC, it opened the door for them, if they so wished, to take assets and leave the liabilities with the administrators. So from their perspective it was a fundamentally different opportunity and an opportunity which addressed, from their perspective, the very thing which proved to be the sticking point in the negotiation.

Q57 Mr Bacon: Hang on, they told you a minute ago that £110 million was not going to make a difference to their stance, so why would you think that £6.5 million would make a difference?

Ms Bell: You need to consider what the scale of those liabilities was. First of all, they were making a negotiating statement in terms of their response to the draft letter. Secondly, in terms of the scale of the liabilities which concerned them, these potentially ran into hundreds of millions of pounds. So this was a materially different situation for all bidders to look at.

Q58 Mr Bacon: May I go into the breakdown of the £6.5 million? It says at the bottom of page 41 in paragraph 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" and then there were various other things including "general

operating costs of £0.6 million, legal and other fees of £0.4 million and £1.2 million for the administrators' fees". It is not usual to lend money to the administrators to pay their fees, is it? They got £1.2 million for a week's work from a loan that you gave them.

Ms Bell: The administrators, because of the decision taken by the Government, needed to run the business on for a week. That was negotiated as their professional fee in that situation. We have no reason to think that that was out of line with payments which might have been made in other circumstances.

Q59 Mr Bacon: Not normally from loans by Government. Traditionally in an insolvency situation they come off the top line of the creditors. They are first in the queue; they do not expect to come along to HMG and ask for a loan.

Ms Bell: The consequence of the Government's decision was that they needed to run the business on for another week.

Q60 Mr Bacon: Yes; indeed. The consequence of the Government's decision was that; I accept that. As a simple financial hack I am still not clear what this £6.5 million was actually achieving other than making people feel better for a few days before they got their redundancy notice seven days later.

Ms Bell: I explained to you how we felt that it changed fundamentally the opportunities for SAIC. What it also did was potentially open opportunities for other bidders who might have come forward, the niche parts of the business. We needed to consider those opportunities against the known cost of the regeneration package which, as the NAO Report observes, was likely to be of the order of £150 million. If we were able to preserve only, let us say 1,000 jobs in the Powertrain business or in a specialist niche sports car business, we would still have saved the taxpayer money. As the Accounting Officer with responsibility for the net impact of decisions on public expenditure, it was appropriate for me to bring all those considerations into my mind in making that decision.

Sir Brian Bender: I wanted to add something, if I may, because it seems to me relevant that the administrators welcomed the loan.

Q61 Mr Bacon: They would, would they not?

Sir Brian Bender: No. Let me read the quote "We are pleased to have secured this funding which has given us vital breathing space to evaluate the interests of all parties". In another one "There is a possibility this creates an opportunity to resolve some of the concerns around the previous deal". So their professional judgment was that this was a welcome development which enabled them to have this breathing space.

Q62 Mr Bacon: If you throw several million pounds of cash at anybody, they would normally comment that it is welcome; certainly I would. By the way, if the DTI wishes to give me a lot of money, I will

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not deny that I would like it. May I just ask one more question? This £40 million cash taken out by the directors was only until 31 December 2003. Are you aware Sir Brian, or are you aware Ms Bell, or is anyone else aware of further monies taken out by the directors since that date and if so, how much?

Sir Brian Bender: The answer is that we are not aware. The more recent reports have not been filed and Companies House have sent a chaser and begun proceedings.

Q63 Mr Bacon: But it is entirely possible that there is a larger sum at stake than £40 million, possibly considerably larger and we do not know that yet.

Sir Brian Bender: We do not know.

Q64 Mr Bacon: As Donald Rumsfeld might have said, "We don't know what we don't know". Presumably the company investigation now ongoing is looking into these matters, is it?

Sir Brian Bender: The investigation will look into whatever the inspectors wish to under the Act. In parallel there are proceedings beginning against the company in relation to their latest accounts not being filed on time. There are two separate processes.

Q65 Mr Bacon: When will the company investigation conclude or do you have any information?

Sir Brian Bender: As I said to Mr Khan, we do not know that. It will take the time it takes. When it was set up, Alan Johnson asked them to do it as rapidly as they can. I would hate to be tied to a timescale that was out of my control, but I would hope that it would be in the course of calendar 2006.

Q66 Mr Mitchell: I am sitting here thinking this could never happen in France, could it? They seem much better there at intensive care, whereas we seem much better at burial grants when it comes to co-operation with industry. Here you have Rover, which is a self-enriching, self-boosting organisation, negotiating with Albatross, which is a department intent on covering its own backside, which is passive, which is reactive to events, which does not seem to have any hard and fast plan of how to deal with things. The Report says in paragraph 8-i "The Department knew in 2000 that the Company was vulnerable in the longer term without a strategic partner". It also knew from comments in the motoring press that it was too small, that it had no new models, that its prospects were not all that good. Why was there no attempt to get down between the Department and the company and just talk turkey about what the real prospects were for this?

Sir Brian Bender: Before I answer your last question, may I just comment for one moment on your earlier point about the French. A comparison of French unemployment rates and British unemployment rates would suggest that they are not quite as good at backing winners as some people might think whereas we stand back a little

and actually allow the market to operate. I would sooner have British unemployment rates, than French unemployment rates.

Q67 Mr Mitchell: I would sooner have departments that know something about industry and know something about the dynamics of the industrial situation and the prospects for a company in this kind of situation.

Sir Brian Bender: Coming then to your direct question, this was a private company. The extent to which the Department can dictate to it how it should operate is fanciful. So what the Department actually did was try to have discussions with the company. It did help it on some joint ventures as I described earlier both in Poland that failed and in relation to China Brilliance that failed. At the end of the day all the Department can do in that situation is offer its services and engage, as it tried to do, but it cannot solve the company's problems.

Q68 Mr Mitchell: You were serving as a grave digger. What is wanted is some element of co-operation. Nobody is suggesting you should dictate anything to it, but somebody is suggesting that there is a degree of co-operation there which could have helped the company had the Department been clear at the start what it was about.

Sir Brian Bender: I would assert that the Department was clear that it was ready to offer its support as and when the company might want it, and it did indeed offer it in relation to Poland, in relation to China Brilliance, but it requires the company actually to ask for what it wants, rather than the Government just saying they will do this. Indeed, in relation to the Chinese and SAIC, the Department offered support and the company did not want it in the summer of 2004. It was only in the autumn that the company said they wished to have the support.

Q69 Mr Mitchell: And later the Department rushed in, but we shall come to that in a minute. What the Report says is "... the Department reported that the Company was reluctant to share detailed information". That is not what the company says. They say they were ready to share the information and they wanted to get on with it. Who is right in this matter?

Sir Brian Bender: I looked at this myself on the files. We sought to have regular meetings where we could actually discuss business plans and the company was not as outward looking as most other companies that we deal with, including in this sector. Most companies that we deal with are readier to share their plans and discuss options. This company was not. That was our experience. Again, one of my colleagues who was involved at the time can elaborate more if you wish.

Q70 Mr Mitchell: The Report also says that the Department eventually established "... an accurate picture of MG Rover's finances based on information largely in the public domain". You could have done that from the start.

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Mr Russell: Two reports were done, one in April 2004 and one in November/December 2004. Yes, you are right, largely publicly available information was pulled together at that time simply because the Department was more concerned that we did get an accurate picture of what was available. Yes, information was pulled together from publicly available sources simply because the company would not let us have any sensitive information or inside information.

Q71 Mr Mitchell: From 2000 the company was making a series of efforts to establish an alliance with an overseas based partner. Sir Brian has just said you tried to help them there, but the company says they received only limited support from the Department and from UK Trade and Investment. In determining the amount of effort it should devote to MG Rover, the Department reported that it sought to balance the company's vulnerability and the concentration of employment in the West Midlands against what it considered to be the reluctance of the directors to engage. Here you are doing this philosophic balancing act while the company is venturing out into a hard cold world in which its prospects were fairly hard. Why did you not co-operate more strenuously and more generously?

Sir Brian Bender: I should assert the Department did seek to co-operate and other companies in the automotive sector find the degree of cooperation and engagement with the Department satisfactory. It takes two to co-operate with one another.

Q72 Mr Mitchell: Yes, but what seems to have triggered your activity and co-operation is the sudden alarm at the end of 2003, when the directors start feathering their own nests. Then there is a public clamour, ministers are presumably anxious, word comes down to you to do something and suddenly you start doing things. Why was it left until that actually put the fear of God into you?

Sir Brian Bender: I do not believe it was left until then. I have referred a couple of times in this hearing so far to the support that was given to the company in relation to Poland, in relation to China Brilliance. When there were opportunities, the Department did support, but it takes the company to come along and say they are interested in this partner. The Government cannot dictate to the companies where they should be operating or how.

Q73 Mr Mitchell: So if you see them feathering their own nests and that kind of factor, there is nothing you can do. You have no powers to intervene with a company you are helping and trying to support.

Sir Brian Bender: If there is evidence that people are feathering their own nests, we can set up investigations. That is now what the Secretary of State has done in relation to the Companies Act inquiry.

Mr Mitchell: A bit late, is it not?

Chairman: It is difficult to record a shrug in the transcript, Sir Brian.

Q74 Mr Mitchell: Very Gallic, if you do not mind me saying so. Let us turn to help with the Chinese. It seems to me that when they began negotiations with the Chinese, which they could not really carry through without some degree of financial support from the Government, either in terms of keeping going or help with the pension plan or whatever, you effectively sent them into a conference chamber, naked.

Sir Brian Bender: No, Mr Mitchell we did not. When we first heard of the discussions taking place with the Chinese, which was in the first part of 2004, the Department offered support and the company said it did not wish to have it. It was later, in the autumn of that year, when we were repeating those offers, that the company did then turn around and say they wanted support and at that point the then Secretary of State and the Prime Minister and other ministers engaged with the Chinese Government.

Q75 Mr Mitchell: Following initial rebuttal in the five months to November 2004, the Department was not asked and did not seek to play any part in assisting the company in negotiations. Why was that? You knew what was going on, you knew they would need help. You could have assessed the prospects. Why did you just stand by and do nothing?

Mr Alty: As Sir Brian said, the company initially told us actually that it would be counter-productive for us to take a high profile position.

Q76 Mr Mitchell: Why? Because you were nervous?

Mr Alty: Because they were concerned for their own commercial position. They did not want the Government charging in and giving the impression that they were in a weak negotiating position. The other point they made to us was that their Chinese counterparts, SAIC, had excellent contacts with the Chinese Government and that if anyone was capable of getting the deal through the Chinese Government, it was SAIC. So that is why we took the initial position that we did and in the autumn there were further discussions with the company when they did ask for help.

Q77 Mr Mitchell: But you are negotiating with a Marxist government here. It believes in the Labour theory of value and all sorts of stuff like that. Certainly it is the kind of regime which would expect a government to back a national company. They expect the Government to do something; they expect the Government to help and you just sat back and did nothing.

Sir Brian Bender: No, Mr Mitchell.

Q78 Mr Mitchell: Indeed it was not until later on, early 2005, that you were still collecting detailed intelligence on the key stakeholders in China and the Chinese Government's approval process. Why did you not know all this beforehand?

Mr Alty: We did know the basics of the approval process.

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Q79 Mr Mitchell: You knew the kind of regime you were negotiating with and you knew what they might expect from the British Government.

Mr Alty: The point about early 2005 was that at that stage, the timing had become critical because we knew the company was running out of cash. Therefore what was critical to establish was how long the Chinese Government might take to approve the process: it was not that we did not know what the approval process was.

Q80 Mr Mitchell: Why, suddenly in January 2005, is a strenuous effort made as though you were going through a nervous paroxysm, realising you had delayed so long and something had to be done and then you start throwing activity and money at the problem.

Mr Alty: As we said, there were really three stages: there was the initial contact with the SAIC, where the company said they did not want help; there was sustained lobbying before Christmas, when both the Secretary of State and the Prime Minister wrote; so there was sustained lobbying before the end of 2004 at a high political level; but the critical thing that became apparent when we reviewed our contingency plans in the light of the company's latest accounts was that the company was going to run out of money in the spring of 2005, which is what actually happened. It then became critical to understand how long the Chinese approval process would take. Up until that point, the company had been confident that they would have approval for this deal before any financial problems occurred.

Q81 Mr Mitchell: Just one final question. It is a pretty depressing fiasco that this was allowed to happen. There is a Department there which is supposed to be about trade and industry and a company there which is supposed to be about supporting the last surviving British major car manufacturer and the failure of intentions on both sides which led to the collapse of the company and the loss of all these jobs. It is a discreditable story, but the National Audit Office recommends that you should set down the principles in future on which you will act, on which you will intervene and which you will operate in this kind of situation. Have you done that?

Sir Brian Bender: We have some general principles, which are in the Department's Manufacturing Strategy published two or three years ago, which the National Audit Office Report refers to.

Q82 Mr Mitchell: Before the Audit Office's Report.

Sir Brian Bender: Before then. I am not convinced yet, though I am ready to look at the recommendation, of the value of actually setting down more detail in hypothetical situations. May I just come back on your point about the demise of British motor manufacturing? Yes, Rover was the last of the major British-owned companies, but there is some seriously impressive data about automobile manufacturing in this country, with record output from a number of plants last year in

Britain and also with three British plants in the top most productive ones in the European Union. The British motoring industry is doing extremely well.

Mr Mitchell: I do not know about "doing well" in a situation where it is foreign owned and where any cuts and sacrifices in the contraction of production which is going to come will probably fall more on this country than on the domestic country that the producer is in. I hand over.

Q83 Mr Williams: Way back in history when I was in the Department of Industry, as it used to be, one of my functions was to see what could be salvaged from bankruptcy situations. Looking at the paragraphs 2.6 to 2.11, I find the conduct of the company absolutely grotesque. Would you say, in your experience, that a firm like BMW is likely to write off a business which is probably going to be able to be made viable?

Sir Brian Bender: BMW did of course deal with the Mini and the Land Rover which are continuing profitable operations. Plainly a view was taken by PVH in 2000 that they could make a go of this company and they did not. However, it was not impossible: SAIC, as I said earlier in reply to a previous question, did have successful joint ventures with other motor manufacturers in Europe.

Q84 Mr Williams: The Report makes it clear that most of automotive industry is only too happy to have support from the Department; if anything, they would probably be complaining if support were not available. The conduct of these directors seems to be fundamentally perverse. Other than getting their £40 million out of it, which was very astute, their conduct over the four to five years was inexplicable, would you agree, as far as possible help from your Department was concerned?

Sir Brian Bender: I should use a different word. The Department found it puzzling. As I was trying to say earlier to Mr Mitchell, it takes two to have a relationship and there was a limit to what the Department could do in those circumstances. I guess whether it was inexplicable or not is something that the Companies Act investigation will uncover.

Q85 Mr Williams: It was puzzling to the extent of being almost suicidal, was it not? If you look at paragraph 2.6, we see that in the first four years the Department found the directors distant and it talks of reluctance on the part of the company. This was a time when they were trying to build something out of what was clearly a rescue situation and yet they were reluctant even to cooperate with you at that stage.

Sir Brian Bender: Mr Alty may want to supplement with his first-hand experience. They were certainly reluctant to share with us their business plans looking forward and that was difficult.

Q86 Mr Williams: It says in paragraph 2.8 that the Department sought information on business strategy and progress and in response the company

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chose not to provide detailed business plans. To rebuff assistance from the Department, even if at the end of the day you did choose not to take what was being offered, seems to be rather stupid.

Mr Alty: Just to add to what Sir Brian has said and put it in a slightly wider context, in our relations with businesses, it is certainly the case that not all businesses want to have the same degree of relationship with the Department. There are businesses who, quite rightly, think that they have the commercial nous to take forward their business; they do not particularly need the Department's help and they may feel that they have perfectly good avenues of communication and good commercial strategies. Although we have described the company in the way that is set out in the Report, I should not say it was unique to that company; it just so happens the Report is about that company. I just put it in that wider context.

Q87 Mr Williams: I am not normally the defender of groups that find themselves before this Committee, so enjoy this exceptional occasion. Reading paragraph 2.10, to find that for four years the Department eventually decided there was not much point in trying to seek senior level meetings and that it was not worth putting extra time into seeking senior level meeting, is difficult for me as an outsider to understand. It must have been very frustrating for the Department.

Mr Alty: Again generalising, it can be frustrating. There are companies who see merit in a close relationship with the Department and there are others who do not and in our judgment the management or directors of MG Rover fell into the latter category.

Sir Brian Bender: It was that lack of contact which led us to do the review which took place in 2004 based on public information that turned out to predict the problems that indeed lay ahead.

Q88 Mr Williams: If it was clear from public information, I should have thought it would have been clearer from all the inside information they must have had.

Sir Brian Bender: Yes.

Q89 Mr Williams: It raises questions about their judgment managerially. In fact, as it says, in 2004 the Department renewed its efforts to get closer links. Frankly, I am not normally here as the defender of people who are being reported on, but it does seem to me that there was not much more that a government department could do to help the company. They were willing to help, the company did not want their help, the company paid the cost of not getting any help earlier, not even wanting help from the embassy and from a department in relation to China and the only people who come out of it smiling are the directors with £40 million. Would that be a fair summation of the situation?

Sir Brian Bender: Let us see what the Companies Act investigation shows.

Q90 Greg Clark: First of all, may I say at the outset that during the 1990s I worked very closely with Catherine Bell and John Alty when I was a special adviser at the DTI. I have a very high regard for both of them. Turning to one of the Chairman's questions, paragraph 2.34, page 38, deals with the consideration the Department made of relaxing some of its loan criteria. Ms Bell, I know that the decision ultimately was not to relax it, but why was it considered?

Ms Bell: There was concern that the pressures were becoming ever more intense in terms of the cash flow difficulties on the MGR side and also seeking to understand precisely what the obstacles were on the SAIC side.

Q91 Greg Clark: But is that not exactly why you have these criteria, these loan criteria, precisely to allow you to keep a cool head when the pressures do become intense? To consider revising the criteria then seems paradoxical.

Ms Bell: The conditions, as you say, were designed to put some fixed points in the ground in terms of the risks which were there for taxpayers' funds. At the same time, it was very important that we understood precisely what the sticking points were in the negotiations.

Q92 Greg Clark: I am not sure how revising the criteria allows you to understand the sticking points. Why is it that considering relaxing some of the criteria allows you to consider the obstacles? I do not understand the connection with it.

Ms Bell: We had put a number of different requirements into the conditions for the bridging loan. What we wanted to do, what the ministers wanted to do, was to explore whether there was any flexibility at all to see a way forward. To go back to the very point I made at the beginning, this was a rock and a hard place in terms of progress on these negotiations with a very desirable joint partner against all the risks on the other side in terms of the jobs at issue.

Q93 Greg Clark: I take it that it was not your advice then that these conditions should be relaxed?

Ms Bell: It was for ministers to decide how they wanted to take—

Q94 Greg Clark: Of course, but you advised and I infer from what you said, that it was not your advice. Is that a correct inference?

Ms Bell: Ministers were very, very keen to see whether there was any prospect whatsoever of making this deal happen.

Q95 Greg Clark: So the pressure to relax these criteria that you are talking about came from ministers rather than from officials in the Department?

Ms Bell: Naturally everybody was concerned to see whether there was a way forward. Against that, it was my responsibility to constantly comment on what the risks were.

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Q96 Greg Clark: Sure, but it says "... the Department considered relaxing some of its loan criteria". Was it your advice as the accounting officer at the Department that the criteria should be relaxed?

Ms Bell: No it was not my advice as the accounting officer that the criteria should be relaxed. However, Mr Russell was the person primarily in charge of the detail of the negotiations, if you wish to ask him more on the detail.

Q97 Greg Clark: But your view, as the Accounting Officer, was that the criteria should not have been relaxed?

Ms Bell: My view as the Accounting Officer was that there was a very significant sum at stake but there were many variables in this including our assessment of the assets available in MGR against which the loan could be partially secured, what the intention of SAIC was in relation to staged payments if the joint venture was completed. There were several variables here. We were constantly seeking to establish whether there was any way through.

Q98 Greg Clark: I understand that, but I surmise from what you have said that, in terms of relaxing the loan criteria, the pressure to do that came from ministers rather than officials.

Ms Bell: It is certainly true to say that relaxing the loan criteria increased the risk and I have already given you my view about how, as the Accounting Officer, I saw the risks.

Q99 Greg Clark: Is it fair to say that the pressure came from ministers rather than officials?

Ms Bell: The desire to see this to a conclusion obviously came very, very strongly from ministers in a very complex situation.

Sir Brian Bender: May I make the one point I was going to make earlier? If the Department had not been looking at different scenarios and different developments, which in this case was the relaxation of the terms of the loan, we should have been open to criticism for not actually looking at different scenarios and contingency planning.

Q100 Greg Clark: I am merely trying to understand, and actually we have pretty much established, where the pressure came from. May I invite the witnesses to turn to page 34 of the Report? In paragraph 2.23, towards the bottom, there is a statement which says, this is talking about the pressure on Her Majesty's Customs and Excise to defer tax, "The Department told Her Majesty's Customs and Excise that the Company had stated that SAIC had already paid MG Rover £67 million". That seems to be a very convoluted way of putting it, "The Department told Her Majesty's Customs and Excise that the Company had stated that SAIC had already paid" the money. Ms Bell, did you have evidence that this money had been transferred?

Ms Bell: It had been constantly stated by MGR that the money had been paid.

Q101 Greg Clark: I understand that, but did the Department ... Perhaps Mr Russell could help us?

Mr Russell: The wording is convoluted for precisely that point: we did not have evidence.

Q102 Greg Clark: You did not have evidence?

Mr Russell: We did not have evidence that it had been paid. We had not seen a bank account, but we had been told that the cash had passed.

Q103 Greg Clark: This is very significant is it not? You are vouching for the likelihood that this sale should take place and you were not even able to verify that £67 million from a previous arrangement had actually come into the company. Is that correct?

Mr Russell: This was one component of laying out to Customs and Excise what we had been told in terms of the financial state of affairs for MGR. We as a Department had not done detailed due diligence on any of the figures.

Q104 Greg Clark: On page 32, paragraph 2.17, it says that you commissioned a detailed survey.

Mr Russell: Indeed; from publicly available information. There was no due diligence on that.

Q105 Greg Clark: There was no due diligence, so when MGR said that they had received the £67 million, the Department was not able to confirm that.

Mr Russell: At that stage we were passing over our original reports which were put together from publicly available information, supplemented by information that we had been given by the company

Q106 Greg Clark: Is it your view now that the money had been paid over?

Mr Russell: Yes, we are almost certain that it had been paid over, otherwise they would not have kept going.

Q107 Greg Clark: You are almost certain.

Mr Russell: We are certain it had been paid over.

Q108 Greg Clark: You were not at the time.

Mr Russell: No, because at that stage we had not sent in our accountants to do due diligence. We were merely representing to Customs and Excise what we had been told by the company.

Q109 Greg Clark: But then you were using that, your knowledge of the company, to intercede with Customs and Excise to have deferred tax payments. The one piece of evidence which strikes me as crucial to understanding whether there was a reasonable prospect of a deal is to see whether they paid over the £67 million that they were contracted to do, but you had no idea as to that.

Mr Russell: Very simply, we were saying to Customs and Excise that we had been told by the company. We said that this was simply what we

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had been told by the company in addition to what we had found from the public domain. It was up to them to verify that.

Q110 Greg Clark: Why were you directly interceding with Customs and Excise? Is that a standard practice?

Mr Russell: We were not interceding. What we were doing was explaining to Customs and Excise what we had been told; nothing more than that.

Q111 Greg Clark: Why could the company not do that directly?

Mr Russell: They did and Customs and Excise simply asked us what we had been told about the business?

Q112 Greg Clark: But they could have asked directly.

Mr Russell: We very simply passed over what we had been told.

Ms Diggle: Maybe I can help you here. Customs and Excise then and HMRC now, try to use the best management of debt principles they can, using all the sources of data and information that they possibly can get hold of. I imagine that they were simply trying to learn what they could and to check out what facts they could. DTI were not able to check it out but they were able to explain what they knew. That was what was happening at the time.

Q113 Greg Clark: But the Department was taking a view based on the recommendation of the £6 million, if not the consideration of the £100 million, that there was a material prospect of a deal. You were advising or certainly making a case to Customs and Excise to defer another great public liability in terms of the foregone tax revenue based on the prospect of a deal with SAIC and yet you did not know at the time whether the money that SAIC was contracted to have paid originally had been paid over. Is that not extraordinary?

Mr Russell: No. At the time we were considering the loan, KPMG have verified cash had passed. If cash had not been passed, the company would have fallen over much earlier. This was a pre-payment to keep the company going.

Q114 Greg Clark: But when you were talking to Customs and Excise, you had no idea whether this money had come in.

Mr Russell: No, we had not verified the fact by sending in accountants.

Q115 Kitty Ussher: I should probably also start off my remarks by saying that I was Patricia Hewitt's special adviser from September 2001 until February 2004 when I left because I was selected as a parliamentary candidate. As far as I can recall, I was not involved in any way with this project, although I was involved in other very similar projects for entirely unrelated companies and obviously I know some of the witnesses quite well. I just want to clarify this issue around the direction. No direction, no ministerial direction, that is ministers overruling the

advice of the accounting officer and her team, was given on the decision to grant a loan to the administrators. That is correct, yes?

Sir Brian Bender: Correct.

Q116 Kitty Ussher: No direction was given on the bridging loan, because the bridging loan obviously did not take place. However, Ms Bell, you did advise the Secretary of State that if she wanted that bridging loan to go ahead, she would have to seek a direction, that is overrule your advice as Accounting Officer.

Ms Bell: That is entirely correct on all counts.

Q117 Kitty Ussher: She decided not to in effect, although circumstances did change at the last minute. I am sure there would have been huge political pressure on her to do so because it would have effectively kept the company afloat until the end of May and we all know what happened on 5 May, but I should just like to clarify for the record that that was never done and the advice of officers was not overruled for political or any other purposes by ministers. Is that correct?

Ms Bell: That is indeed correct and the focus of the discussion, once the company had gone into administration, was on the one-week breathing space, as we have already discussed.

Q118 Kitty Ussher: Indeed. Are there any other examples of ministers overruling crucial decisions for political reasons in terms of accounting officer direction?

Sir Brian Bender: May I just be clear? Accounting Officer direction is not necessarily overruling for political reasons. There would be advice from the Accounting Officer about whether or not this was good value for money and the minister may decide for policy reasons that it is worth making that investment despite the advice of the Accounting Officer. Whenever that happens, the National Audit Office and this Committee are informed; so there are incidents from time to time. I just wanted to correct the impression that you are giving about overruling: it need not necessarily be like that. There are some historic cases where it certainly appeared like that.

Ms Diggle: May I add that they are very rare?

Q119 Kitty Ussher: Indeed, and there was none in this timescale around April 2005.

Sir Brian Bender: No.

Q120 Kitty Ussher: I want to focus in on the decision which had to be taken to provide the administrators with the £6.5 million loan on Sunday 10 April and I want to explore a couple of counter-factual cases. You said Ms Bell that if the company had gone into administration and then, say, parts of the assets were sold, that would save the taxpayer considerable amounts of money in terms of not having to provide redundancy support and so on. Are you able to quantify any numbers that you are aware of, albeit on the back of the envelope and what type of possibilities that might have opened in terms of the overall value for money of that decision?

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Ms Bell: Our working rule of thumb at that time, with the information we had about the age of the workforce and length of service, which was material, was of the order of a minimum of £10,000 per head, maybe up to £15,000 for those who had more years of service with the company and hence would be entitled to more advantageous redundancy terms. Looking at the total equation of net public expenditure, which it was my responsibility to do, that was the figure that we had in our minds in terms of looking at the option for SAIC on the one hand and also looking at whether there would be any bidders for niche parts of the business. Powertrain employed about 1,250 people, as is observed in the NAO Report. If there had been a bid for a sports car development out of the business, it could have employed 500 to 1,000 people and we could not exactly quantify that. That was part of the equation that needed to be weighed in terms of what it was appropriate to do in these very difficult circumstances.

Q121 Kitty Ussher: So it is quite possible in those two examples that you quoted, that the decision that you made would lead to the taxpayer in effect saving £10, £15 possibly £20 million. Is that right?

Ms Bell: Yes, that is correct.

Q122 Kitty Ussher: The other counter-factual I wanted to explore was that, from reading the Report, one of the things that seems to have happened as a result of giving that loan is that people were able to be made redundant in a more sort of structured, less chaotic way and they would have been on-site to discuss what type of training they needed, if they were to become redundant in a week's time. This may be a question for Mr Edwards. Presumably it is cheaper to discuss each individual's options with them if they are actually on-site in the Longbridge plant rather than if they go home not knowing what their future is. Were there savings to be made in terms of the retraining package by the fact that you actually had them on-site for a week or so?

Mr Edwards: Certainly the time that we had available to us enabled us to plan better and to make sure, for example, that the Jobcentre Plus office just north of the plant was able to deal with a potential very large-scale redundancy and the Learning and Skills Council and ourselves were able to begin to prepare for what might happen if the loan were not to be successful and the company were not to be taken over or to be absorbed by SAIC. Yes, it is not unfair to say that we were able to plan a little better, but we were well prepared in any event for what might happen.

Q123 Kitty Ussher: Would Jobcentre Plus have spent less money as a result of having a week to plan, than they would have if everyone had been made redundant overnight?

Mr Edwards: I cannot really comment on that to be absolutely honest. Jobcentre Plus were well prepared.

Ms Bell: May I just comment from the Accounting Officer perspective? It is certainly the case that we also weighed in the balance the advantage of bringing together the administrators, the MGR HR people and the government agencies on site in a more orderly way so that people could be contacted and given specific appointment times, partly because it would be a better process, but the point of that was to get those many workers who had only ever known employment at MGR focused on the reality, if that was what proved to be necessary, of needing to find a new job and to retrain. All the evidence, including the resonance from the MORI evidence of the work done by the NAO, shows that it was quite difficult for many of those workers to accept that the world had changed in that way.

Q124 Kitty Ussher: The fact that they and all their colleagues were turning up to what seems to have been a sort of fair, where all the different agencies were explaining what the choices were, that this was a reality, presumably meant that where we are now there are more people in work than there would otherwise have been, do you think?

Ms Bell: Hard to prove but common sense tells you that is probably so.

Q125 Kitty Ussher: And there is a financial price tag or saving attached to that.

Ms Bell: The transition factor might have been strongly supported, even accelerated by that approach in that way rather than mass redundancies on the Monday morning. That was the view we took and it was a significant part of our consideration in making the decision that there was a good argument for breathing space on Sunday 10 April.

Q126 Kitty Ussher: Do you feel that either of those counter-factuals has been fully taken into account by the NAO Report, which is an excellent Report?

Ms Bell: I note that there is no comment on them.

Q127 Kitty Ussher: You have talked about there being various possibilities of bits of the business or possibly even the Chinese again coming back into play over the weekend. Can you describe the atmosphere of that weekend? What snippets of information did you have when you were trying to make this decision about what possible other purchasers there were of all or parts of the business? Was it seen as a real possibility?

Ms Bell: It was certainly the case that there had been a number of approaches, both to the Department and to the administrators, by the afternoon of Sunday 10 April. There was also very extensive comment in the press that a range of bidders might come forward including Jon Moulton who had led the Alchemy bid in 2000. We needed to make the best evaluation we could of what those options might amount to and the net cost to the taxpayer in a very, very tight period of time. Information was extremely uncertain in terms of what would happen but we had to exercise our best judgment in terms of what we knew of the SAIC scenario—in particular, the specific concerns that they had had about the

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sticking points on the joint venture negotiations, how that was changed by the administration, where some of those concerns could be removed—and we also had to bear in mind, in terms of the scenario if there was no bid, how easy it would be to get the workers refocused on re-employment and retraining. All those considerations under the relevant legislation had to be in our mind when taking a view.

Q128 Kitty Ussher: Thank you very much. I have one further question following on from that point. What was the legal basis for the loan to the administrators? What kind of aid was it?

Ms Bell: It was aid under the Industrial Development Act and the footing for the aid was focused in part on the fact that this was in an assisted area. That was a material part of the consideration in looking at the *vires*.

Q129 Kitty Ussher: So jobs were an explicit and legal consideration in aid of this type?

Ms Bell: Yes, they were; both the preservation of jobs where possible and, where that was not possible, the orderly transition into new employment where that could be created.

Q130 Kitty Ussher: At the bottom of page five where the NAO says “We therefore doubt whether the Department obtained sufficiently good value for the loan” it was not simply good value on financial terms that was the legal basis for giving that loan, is that correct? Yes or no.

Ms Bell: That is indeed correct in the sense that we had to assess on the one hand the known risk and cost to the taxpayer if all jobs went, £150 million minimum in the total regeneration package which had already been determined by ministers, against the risks, and of course there were risks, in terms of whether bidders would come forward against the scenario of the very changed proposition in the separation of assets and liabilities in the way I have described.

Q131 Mr Curry: I am slightly intimidated that some of my questions might turn out to be counter-factuals. As a simple financial hack, I have not come across these before. I shall try not to let them bother me. I am afraid I do not have the slightest idea what a counter-factual is, unless it is fiction. I want to continue Kitty’s line of questioning because you made it clear, Ms Bell, that this last minute loan was to keep up the possibility of a fire sale. The duck was dead, but people could make use of one or two of the feathers, the feet could go into duck soup or something could happen to bits and pieces. I do not know whether you are a betting lady, but what odds do you think there were that that might happen? If you were having a private bet in the office, what was your bet that something would turn up?

Ms Bell: If I might just comment on your first statement, what I actually indicated as the range of options was on the one hand a bid from SAIC looking to capture assets out of the administration, which could have taken pretty much the whole of the

business or a significant part of it, or, on the other hand, a niche bidder. It was not just a case of a niche bidder.

Q132 Mr Curry: Let us go back to the SAIC counter-factual. Even though you had sent your delegation to China and the delegation had been told that the Chinese had shut up shop, they had disbanded their team, you still thought there was a chance that SAIC might come in for a company which they could presumably pick up cheaply, having gone into liquidation. What reason did you have to think, having gone through all this rigmarole and having sent your delegation, that they might still come into the whole shooting match?

Ms Bell: The principal reason, as I stated, was that their very sticking point was the liabilities. The liabilities potentially ran to hundreds of millions of pounds, particularly the pension fund was a concern, redundancies, warranty payments. Rationally, from their point of view, if that was the sticking point at the end of the negotiations on the joint venture, they potentially had the very thing they wanted in front of them. I therefore thought there was a fair prospect that they might do exactly that and come in and make a bid to the administrators.

Q133 Mr Curry: Did you feel that there was a realistic chance that prior to that they were really interested in buying the company, before it had gone into liquidation, or was that all sort of play acting?

Ms Bell: As we have stated in relation to a previous question, they had paid £67 million for the intellectual property in relation to the Rover 25 and the Rover 75. That to me seemed to be a very serious indication of intent. They had also conducted negotiations over a sustained period and brought sizeable teams to the UK to look at the assets at Longbridge.

Sir Brian Bender: Would it help to hear from Mr Russell who was involved in direct discussions with the Chinese?

Q134 Mr Curry: It might well, because my next question was going to be: at what levels were these talks held? When the team went to China, who did the team talk to and what was the highest level at which talks took place? What was the most senior layer of interlocutors engaged in this?

Mr Russell: Between Rover and SAIC?

Q135 Mr Curry: No, between the DTI and China? You were lending a helpful hand at this stage, even though the company did not seem to be terribly keen on you doing it.

Mr Russell: The most senior person was the President of SAIC; that was with whom we met. There was someone more senior, the Chairman, but he was out of the country. We were completely convinced that we were dealing with the senior levels of SAIC.

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Q136 Mr Curry: Did the Chinese not think it slightly curious that senior officials from a government department should be trying to do what the company was supposed to be doing?

Mr Russell: Yes, I think they did; I think exactly that. They in fact made the comment that they were puzzled as to why the British Government would be interested in the fortunes of a private company.

Q137 Mr Curry: A curiosity which I think quite a lot of people at home shared as a matter of fact. Let me go back to Ms Bell. SAIC has bowed out, even of picking up the pieces. You did a lot of scurrying around trying to find a way of saving this company. How many people had you talked to who might have been in for bits of the company? What was your realistic hope of somebody coming for the bits? Had somebody come in, had SAIC come in again, presumably you would have had to extend that loan because that negotiation would not have been completed in a week. If people had come in for the bits, presumably those negotiations would have taken more than a week. You said you extended it for a week; you agreed to it for a week only, purely for a week. Would there have been circumstances in which you might have been persuaded that it should be carried on? Who did you think realistically might be in for bits of the company?

Ms Bell: First of all in relation to SAIC, SAIC had conducted very extensive due diligence by virtue of the joint venture negotiation, so certainly they were not starting at square one. They knew a very great deal about the company; arguably they knew enough to call the position in terms of whether they would look at the position in administration, the assets in administration. That is one scenario. A different scenario is that a niche bidder comes in. Then there would have been different issues, if they had been new to the business. We felt that the Powertrain business in particular, which the administrators themselves were keen to get running again, was one serious area of interest. It had a contract to supply Land Rover as well as MGR. As we all know from the history of Rover, there had also been persistent interest in developing a niche sports car business out of the MGR activities and the MGR marque. Those seemed to me the most likely areas.

Q138 Mr Curry: Did anybody talk to them? Did anybody pick up a phone? Did a minister pick up a phone and ask whether they were interested in a very fine sports car business which was going begging? What I am asking is what you based that assessment on that somebody might be interested other than reading the business sections of the papers?

Ms Bell: There had already been some approaches direct to the Department and some approaches also to the administrators by Sunday 10 April. It is true to say, however, that the administrators had only been in charge of the business for 48 hours at that stage.

Q139 Mr Curry: That being the case, had somebody come in for a niche part of the business, it would have been difficult to contemplate that deal having been concluded in a week, would it not, because the administrators were presumably getting to grips with the business and they would have had to go through the books. There could have been circumstances where the logic which led you to approve a loan for one week would have been equally persuasive for two, three or four weeks.

Ms Bell: I think not. It was quite clear that SAIC were likely to crystallise their position very quickly because they did not need to go through more due diligence than they did.

Q140 Mr Curry: I am talking about people bidding for the niche business, not SAIC.

Ms Bell: If a niche bidder had come forward, then the cash requirements of any niche bidder would clearly have been different from someone looking at the whole of the business. Equally, it was true on Sunday 10 April that the administrators had not at that stage been able to establish how much unencumbered cash there was in the business, because they had only taken charge of the business on the Friday lunchtime and they had not yet been able to make that assessment.

Q141 Mr Curry: You say that, if there had been an issue of another loan in order to sustain the interest of a niche bidder, that would have been much smaller, because by definition they would only have gone through part of the company. That would have been quite difficult really, would it not, if 90% of the workers were told they were not going to keep their job and 10% were? This might not necessarily have been easy to separate out. Do not forget that the structures of this group were not exactly a model of transparency, were they?

Ms Bell: Those were real dilemmas in this very difficult commercial negotiation. At the same time it was very clear that we should have needed to press the intent of any bidder very hard indeed. The further point to bear in mind in all of this is that under the EU state aids regime it was well known to absolutely everybody that running the capacity on for an indeterminate period of time was simply not possible; it would not have been legal. In that sense there was a window of a week and beyond that it would have been very difficult to continue to run capacity forward.

Q142 Mr Curry: So you believe that it is to all intents and purposes inconceivable that that loan or any part of that loan might have been extended beyond that week.

Ms Bell: This is hypothetical. We had to consider a wide range of possibilities with limited knowledge on Sunday 10 April. If there had been a bidder for Powertrain, it could have been a relatively self-contained proposition. If there had been a bidder for some other part of the business it would have been messier, you are right. In terms of the range of possibilities we needed to consider, set against the known cost to the taxpayer of £150 million and

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rising for the full regeneration package, that was the equation which needed to be weighed. I judged it a risk worth taking.

Q143 Mr Curry: Actuarially as it were, the chances of there being either a full or a mini rescue were indeed very small, were they not?

Ms Bell: I do not share your view. I do say that it was quite difficult for all the interested players to calibrate quite what that risk was.

Q144 Mr Curry: It is difficult to find any observer who would calibrate it as anything other than a very risky proposition, is it not? A very doubtful proposition.

Ms Bell: It is certainly true to say that at that time all stakeholders thought that it was a good thing to create a breathing space for a week: the administrators; all the political parties at both national and local level.

Q145 Mr Curry: Let us then go back a little bit. The Report is redolent with evidence that the directors really did not want to tango particularly: they were withholding information; they were not sharing things with the Department and you were finding it difficult to help them. Let us put it that way. Of course there are difficulties with the way the company was financially structured. As I understand it, a significant part of the BMW inheritance seems to have found its way to the non-operating parts of the group, to the MG Rover part of the group. This was a company which had been rescued from the ashes—you had reasons to be doubtful to start with about a company called Phoenix. However, you had been in constant communication with it, it had been earmarked as a potentially failing business for quite a long time, it had to have a strategic partner as opposed to any other sort of partner and yet it was cheerfully carrying on running its own affairs in a way which you must have been a bit bothered about, were you not? Were you not a bit anxious about the way this managerial behaviour, the directors' behaviour was taking shape?

Ms Bell: I do not think I can add to what Sir Brian has previously said about the behaviour of the directors. It remains the case that we need to await the outcome of the Companies Act investigation. It would not be prudent to add to that.

Q146 Mr Curry: No, I realise that an investigation is taking place but there was a huge amount of public comment about what the directors were doing, even while the minister was still defending them as heroes of entrepreneurial risk taking. Was there not a sub-layer of anxiety or discussion saying "Hang on, don't you think you need to sort things out"? Or were you completely content with the way the business was run?

Ms Bell: It clearly would have been desirable for the directors to be prepared to share more information with us so that we could make the best assessment of the way forward. We sent accountants in to Rover to look at the books on 17 March. I thought it was

extremely important that we should do that, having regard to the fact that there were potentially public resources at risk.

Chairman: There is probably very little more we can get out of this. It has been a very good hearing but there are some quick supplementaries.

Q147 Mr Bacon: I shall try to be very brief, at the risk of flogging a dead horse. The question of the circumstances in which the £6.5 million loan might make a difference is what interests me. You said that there was a changed situation; plainly there is in legal terms because it is a new situation once it goes into administration. The administrators themselves told you on 10 April—we see that in paragraph 2.44—that any deal might take three months to complete. Any deal with a niche buyer of, for example, the sports business or Powertrain or anything else, could not have been completed inside one week either. What I am at a loss to understand is what the point was of £6.5 million for one week. It just does not seem to make sense. All you seem to have done, apart from paying the wages at £3 million for one week, which might have been money better put into the benefits package with the other £3.5 million, was to enrich the administrators.

Ms Bell: If a bidder had come forward, if a niche bidder had come forward, it would have been for that bidder to consider whether they wanted to bring forward cash with their interest to run the business on. Given what I have already said about the view of the Government and also the EU state aids regime, if they wanted to come to conduct long due diligence they would have needed to consider what cash they wanted to put behind that to support, on a going-concern basis, whatever part of the business they were interested in.

Q148 Mr Bacon: You were talking about SAIC and saying there was a fair prospect that they might come in and make a bid. SAIC already had a huge amount of information about the company, as you said, and they had already told you that the £110 million bridging loan was not going to sway them one way or the other.

Ms Bell: On that point, I regard that as an observation on a negotiating dialogue and no more than that.

Q149 Mr Bacon: One more question about the administrators' fees. You said they were not out of line; £1.2 million for a week's work sounds to me quite expensive even for PricewaterhouseCoopers. Is it possible that either the Department or the NAO could send us some information about other figures of what administrators have been paid for comparable insolvency situations?⁴

Ms Bell: We shall be very happy to do that. We have looked at precisely this question.

⁴ Ev 21-22

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Sir Brian Bender: Yes.

Sir John Bourn: Yes.

Mr Bacon: In conclusion, may I say that perhaps we can tell the Cabinet Secretary how helpful we found Ms Bell and, moreover, that it does not appear to me, although I have been listening very hard, that the sky has fallen in.

Chairman: It rarely does unfortunately; or fortunately perhaps.

Q150 Greg Clark: May I echo that? Given that Catherine Bell no longer works in the Civil Service, I think she has been very frank and helpful. It seems clear to me from the overview of the evidence that actually, whilst we might have some concerns about the £6 million, the officials in the DTI stepped in quite appropriately with public funds to prevent a much worse fate at a time of great pressure. It is reassuring that they did that. For future learning purposes there is the question of the £6 million and that was the one chink which went a bit beyond what was appropriate. There are several statements from the Report which I think summarise the position here. Paragraph 2.43 says “Immediately prior to administration the Department had ... understood that SAIC’s internal deal team had been stood down”. The Report goes on to say “... soundings taken by the administrators through SAIC’s advisers Rothschilds ... were negative”. The administrators themselves, Tony Lomas the administrator at PwC, said that they became very sceptical as to the potential to close the deal with SAIC and, if it could have been done, how long it would take. They thought it highly unlikely and they were not prepared to venture any of the funds available to them. The Report also says that all of the key public bodies would have been ready individually to provide the support needed by 8 April. So the £6 million was provided against the judgment of everyone concerned, who would have taken a different position, all of the public bodies could have stepped in at short notice, they did not need the week’s breathing space; no doubt it was beneficial to have it, but they did not need it. Just on this one chink I think we should learn for the future that a slightly greater degree of rigour might have saved £6 million of public monies. I do accept that the Department has prevented the waste of a large amount of public funding which might have gone down the drain.

Sir Brian Bender: A lot of the questioning has implied that SAIC had no interest whatsoever after April. Let me read to you from a press notice the administrators released in July. “Until late last week SAIC had offered to acquire only the Powertrain assets. On Monday of this week SAIC submitted a conditional bid for all of the MG Rover and Powertrain assets”. So there was clearly some interest still from SAIC in the period after it went into administration. It was then a question of what was practicable at the end of that and it turned out that nothing was practicable. There was continued SAIC interest according to the public statement of the administrators in July.

Ms Bell: May I just have the opportunity to comment, particularly on the measure I took, on what the administrators said, having been in charge of the assets for 48 hours, and particularly their assessment of the Chinese position? I repeat again that we had been tracking Chinese intentions at the level of SAIC, where we were aware that there were differences of view within the company, as very often happens when a big joint venture is in contemplation. We were aware that there were differences of view from time to time at the NDRC level and quite possibly differences of view from time to time at the Chinese Government level. The administrators brought forward to us one piece of evidence that the negotiating team had been stood down. They would, would they not, if they wanted to get the assets out of administration at the best possible price? It could have been a negotiating tactic. I simply make the wider point that there was a lot to interpret in terms of the total Chinese position. I should not myself take the view that the administrators’ perspective ... As they themselves said to us on the Sunday morning, this was a first cut for them and it was not a definitive view. I just want to put that on the record.

Q151 Kitty Ussher: I just want to make sure I have understood something properly. You said that before Rover went into administration the sticking point with the Chinese was very much the large level of their liabilities and that is why they said, even with this putative, hypothetical bridging loan, that it would still be a problem because of the large level of liabilities. I am not an expert on what happens when companies go bust, but it is quite possible, as you have just hinted, that that would no longer be a factor once the company had gone into administration, because the administrators could do a deal where they could buy the assets without taking on the liabilities. Is that correct?

Ms Bell: In the interests of a short answer, yes.

Q152 Kitty Ussher: I am glad that we are going to get a note on the administrators’ fees because it does sound very complicated. I got the impression, am I right, from an earlier answer that although this is written in the Report as fees, it was actually the cost of keeping the company going as a going concern? Because the company was running at a loss, obviously it was going to cost money to keep it going rather than it going straight to the bottom line of the administrators. Is that correct?

Sir Brian Bender: The £1.2 million was for the administrators.

Mr Alty: There is a line for the administrators’ costs themselves and then on top of that there are the costs of the wages for the workforce and so on.

Q153 Kitty Ussher: Do they add up to £1.2 million?

Mr Alty: No, they add up ultimately to £6.5 million.

Ms Bell: We shall provide a note.⁵

Sir Brian Bender: A note will clarify.

Q154 Kitty Ussher: You said a few minutes ago that all political parties had agreed the loan.

⁵ Ev 22

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Ms Bell: No. I was asked what support there was for the provision of the £6.5 million loan to provide the breathing space for one week. I simply observed that at the time all the stakeholders, including national and local politicians, universally supported the provision of this breathing space.

Q155 Kitty Ussher: Correct me, if I am wrong. Is this because we were in an election period so therefore there was communication, was there? Or was it publicly supported?

Sir Brian Bender: These were public statements. This was not a question of getting agreement in those terms; these were public statements.

Ms Bell: These were public comments on what the Department had done.

Sir Brian Bender: What it is important to say briefly for the record is that strenuous attempts were made during this weekend by ministers and the private office in the DTI to inform the Opposition parties, consistent with election rules.

Kitty Ussher: That was to inform, not to seek consent.

Q156 Chairman: By way of light relief, I am intrigued by this reference in paragraph 2.42. I know perhaps we were not doing very well in the election, but why could you not find HM Opposition? Were they not findable?

Sir Brian Bender: I regard that as a rhetorical question Chairman. There was a conversation. Jacqui Smith did brief her opposite numbers on 1 April. On the weekend in question there was a conversation between the Secretary of State's Principal Private Secretary and Stephen O'Brien in the middle of the day, but later on in the day when Patricia Hewitt tried to speak to Stephen O'Brien, she had to leave a message because he was not around at that time or immediately around that. She did speak to him the following day.

Q157 Mr Mitchell: How did you know that they were thinking what you were thinking? I am not going to join in the general song of praise because it seems to me that you ended up with the worst of all possible worlds, but I should not mind yes/no answers to a few questions. The main problem for the company was new models; they had none. Was there no possibility of stashing some money into research projects or into some type of institute or some other way of giving them new models to increase sales in the future? Was that totally ruled out?

Mr Alty: Any research funding, which of course we would look at with that company as any other, would not have been anywhere near enough to cope with the problems they had in terms of their cash. That is the simple answer.

Q158 Mr Mitchell: You could have given money if it had been to draw in overseas investment. That was quite a possible route for investment. Why did you not do that?

Mr Alty: Again, only if an investment is taking place which qualifies for support and there are rules for that scheme. Any investment we were aware of from the Chinese was not going to generate anything like the sum of money that Rover would have needed.

Q159 Mr Mitchell: How did you know that?

Mr Alty: Because we had some information about what the Chinese plans were.

Q160 Mr Mitchell: Yes, but if you are sending the company naked into the Chinese conference chamber, any self-respecting government is going to say that if its own government cannot help it, why should they bother.

Mr Alty: I can assure you that there were discussions with the company about whether any of these options were open. All I am saying is that the amounts of money involved would not have gone anywhere near to meeting the sort of cash sums we are talking about.

Q161 Mr Mitchell: On pages 4 and 5 the Report says that you could have drawn up comprehensive contingency plans earlier. Why did you not draw up plans earlier?

Sir Brian Bender: This was a Report agreed with the NAO, but this particular point was the view of the NAO. My own view, having looked at this very carefully, is that the Department, in what was a developing and moving situation, did draw up contingency plans which it refined as time passed. Looking at the papers afresh, I do not feel that there are particular things we should have done particularly differently. The NAO had their view that there were things we could have done earlier: I am not convinced of that, having studied the papers and talked to people.

Q162 Mr Mitchell: Why is there a difference of view between Customs and Excise and the DTI in the sense that they thought it was worth not calling in the VAT debt as a kind of statement of faith in the company and you did not think it worthwhile helping them any more?

Ms Diggle: What the Customs and Excise did and what HMRC do now is to look on a very pragmatic basis at how they can best get the maximum revenue.

Q163 Mr Mitchell: They have to look for a return, do they not?

Ms Diggle: Yes, they do.

Q164 Mr Mitchell: They have to be hopeful that they can get their money back.

Ms Diggle: They look for the maximum revenue that they can hope to get, they look at the possible different scenarios and they do have to look at the possibility that, if they absolutely insist on all the revenue immediately, the company may go bust on the spot and things may get worse. They sometimes find that it pays to wait.

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Q165 Mr Khan: Just so I can have some clarity, you accept the first part of Mr Clark's supplementary question, which was that you have acted in an exemplary manner throughout. You do not accept the second part of his question, which was that the one chink is the £6.5 million loan. Is that correct?

Sir Brian Bender: That is correct and both accounting officers are saying that.

Ms Bell: Absolutely.

Greg Clark: May I clarify that that is with the benefit of hindsight? I am certainly not suggesting that was not a judgment genuinely entered into at the time; it was merely an outturn point.

Mr Khan: Just for clarity, I think that Mr Clark was asserting that the one chink was the £6.5 million and the point I was trying to make was that the DTI do not accept that, nor do some colleagues round the table.

Q166 Chairman: I am also intrigued by this £6.5 million but I am going to rule myself out of order from asking further questions. If you feel able to

provide a note, this question of whether it provided value for money is still interesting. I know they could have bought the company more cheaply under administration, but whether one week would have made a difference . . .? If you feel able to provide a note, we should be grateful, but I suspect that we have really gone into this as deeply as we can this afternoon.⁶

Sir Brian Bender: May I suggest that we shall look at the transcript when it is available and see whether there is anything we can sensibly add which was not read into the record today.

Chairman: Thank you; it has been an excellent hearing. We have gone into great detail. Thank you Sir Brian for coming—of course it is your duty to come—but thank you Ms Bell for coming; your evidence has been very useful indeed and I congratulate you on the way in which you have explained matters to us so fully. I am very grateful.

⁶ Ev 23-24

 Supplementary memorandum submitted by the Department of Trade and Industry

Question 31 (Sadiq Khan): The last time 6000 employees were made redundant at one company

We have reviewed comparable large scale redundancies over recent years. From this it appears that, in recent times, MG Rover was the largest mass redundancy at a single plant by some margin.

Larger numbers of employees were made redundant by British Coal for example in the years 1983–04—17,805 1985–86—30,095 1986–87—27,131 1987–88—16,800 1993–94—21,300 but these will have typically been spread over a number of different pits

From our research, we believe the last time a single site saw a closure resulting in a loss of 6,000 jobs or more was when British Steel closed the Shotton steelworks in 1980.

Of course, neither British Steel nor British Coal went into receivership like MG Rover so it is difficult to draw a direct comparison with 2005, as the redundant workers in these instances did receive some support from the companies.

Question 38 (Mr Sadiq Khan): Additional information on the re-employment of former Rover workers

The rates at which all jobseekers recorded by West Midlands Jobcentre Plus: a) stopped claiming JSA from March 2005; and b) returned to work, compared with the outcomes and projected estimates for MG Rover workers are shown below:

From date of claim	Birmingham District and Solihull		West Region	Midlands	MG Rover estimates ¹	MG Rover actuals ¹
	Stopped claiming JSA	Returned to work ²	Stopped claiming JSA	Returned to work ²	Returned to work	Returned to work
Up to 13 weeks	48%	41%	65%	55%	20%	29%
Up to 26 weeks	70%	60%	78%	66%	50%	46%
Up to 52 weeks	89%	76%	93%	79%	75%	73% ^a

¹ Figures for those finding new work, excluding those ceasing to claim JSA for other reasons (at March 2006 MGR workers finding new work represent 85% of all those leaving JSA).

² Based on 85% of those ceasing to claim JSA.

^a Projected (63% actual at 14 February 2006).

The estimate in July 2005 (*Closure of MG Rover—Economic Impact Assessment—Interim Report*, Regeneris Consulting, July 2005) was that, taking into account the outline support package in preparation at the time, 75% of MG Rover and supplier workers would be back in work within 18 months. This was based on the assumption that even with this additional support many would move out of unemployment more slowly than ‘an average group of all jobseekers.’

After an initial slow start up the projected figure at 52 weeks (mid April 2006) is now 73%, which is close to the average. The reasons for the initial slower movement out of unemployment have been well documented and outlined in the Regeneris Economic Impact Report commissioned by the MG Rover Task Force.

- MG Rover employees lived in a concentrated area within South West Birmingham and outlying districts;
- Lack of notice to enable workers to come to terms with job loss and to plan for the future;
- Shock and the need for time to get over it;
- Lack of knowledge about the labour market and how employers recruit;
- Time required to put an extensive programme of training in place.

The unprecedented scale and circumstances of the closure at Longbridge made it difficult for Jobcentre Plus to estimate the comparative speed at which workers would cease claiming JSA. A study prepared for the then Department for Education and Employment³ in 1996 looked at five case studies of large-scale redundancies. This study found that at the time of the survey, on average 23 months later, 20% of people were unemployed. More recent national data on the rate at which workers in major redundancies go into new jobs are limited to the standard tracking period of 13 weeks after redundancy and show that 22% are known to be in new jobs after 13 weeks.

Question 149 (Mr Richard Bacon): Fees charges by the Administrators

1. At the time the fees were confirmed DTI did a check on the fees and the hours and concluded that they were not at odds with what might be expected or considered reasonable in the circumstances. We have reviewed this since the PAC hearing and the results of a comparison with another large administration in 2005 are shown below. The figures support the original conclusion regarding the fees for PwC.

2. The administration of the MG Rover Group of companies has been the largest insolvency (in terms of the number of employees affected) and one of the most complex in the UK for a number of years. It is therefore extremely difficult to make meaningful comparisons between the remuneration charged by the administrators of the MG Rover Group with that charged by insolvency practitioners in other insolvencies.

3. Insolvency legislation, seeks as far as possible, to leave the agreement of the remuneration to be paid to administrators and other insolvency office-holders (eg liquidators) with the creditors. Where this does not happen the office-holder may have recourse to statutory scale fees (in bankruptcies and liquidations) or apply to the court to fix their remuneration (in administrations).

4. The basis for fixing the administrators’ remuneration is set by legislation⁴ as a percentage of the value of the property that the administrators have to deal with, or by reference to the time properly given by the administrators and their staff dealing with the administration. The creditors determined that the remuneration of the administrators of the MG Rover Group of companies should be fixed on a time-cost basis.

5. Statement of Insolvency Practice 9⁵ (Remuneration of insolvency office-holders) sets out the information that administrators are required to provide to the creditors when seeking the approval of their remuneration, including the charge out rate for the various grades engaged in the assignment where the administrators remuneration is on a time-cost basis. The Statement includes a suggested format for production of information so that those receiving requests can make ready comparisons between cases and an informed assessment of each application. The request for approval is sent to the creditor (or other approving body). It is not required to be filed with the Registrar of Companies.

6. Administrators are required⁶ to send creditors a progress report every six months that includes an abstract of their receipts and payments account. A copy of the report is filed with the Registrar of Companies.

7. In the case of the receipts and payments accounts filed in the MG Rover Group of companies the amounts paid to the administrators in the 6 months from their appointment to 7 October 2005 (the only one due and available) show payments totally £6.6 million, of which it is understood £1.2 million was incurred in the first week.

³ Moore and O’Neill, *Impact of Redundancies on Local Labour Markets*, 1996.

⁴ Rule 2.106 of the Insolvency Rules 1986.

⁵ Statements of Insolvency Practice are adopted by the insolvency regulatory authorities and set out procedures with which insolvency practitioners are required to comply.

⁶ Rule 2.47 Insolvency Rules 1986.

8. In terms of the number of employees, other recent large administrations have been that of the Allders Department Store group (involving about 2,300 employees) and Courts Plc (1,200 employees). In those cases the administrators, who were partners in Kroll and KPMG respectively received the following remuneration during the periods given below:

Company/Administrator	Period	Remuneration paid £ million
Allders (Kroll)	27.01.05—26.07.05	£2.7
Courts (KPMG)	30.11.04—30.05.05	£3

Data is not available as to how much was drawn in the immediate week or so following the administrations. Note the amounts in the table represent the amounts paid to the administrators for the period, which do not necessarily equate to the time costs incurred.

9. The charge-out rates of Kroll and KPMG compared to those of PricewaterhouseCoopers were as follows:

Grade	Kroll @ 01.01.05 £ per hour	KPMG @ 01.01.05 £ per hour £	PwC @ 11.04.05 per hour
Partner/Director	425	475-540	425
Associate Partner/Director	395	N/A	N/A
Senior Manager	350	390	320
Manager	325	310	247
Experienced senior	270	N/A	N/A
Senior	240	220	N/A
Administrator/Executive	185	170	157–200
Analyst	N/A	N/A	137
Support staff	75–125	100	68

10. Whilst as indicated above it is very difficult to make meaningful comparisons between the remuneration charged between administrations, particularly when the companies operate in different sectors, the charge-out rates of PwC insolvency professionals and staff in the MG Rover Group appear comparable with those of Kroll in Allders Department Stores and KPMG in Courts Plc.

Question 153 (Kitty Ussher): Breakdown of the costs of the loan to the administrator

On Sunday 10 April, the Department agreed to pay the operating costs for keeping MG Rover and Powertrain operational for one week. These costs were estimated at £6.5 million and this amount was paid as two separate loans of approximately £5.2 million to MG Rover and £1.3 million to Powertrain. In the event not all of this money was needed and as a consequence approximately £1.3 million was repaid to the Department. The following table sets out in broad terms the costs and the grounds for the subsequent repayment.

Table of costs for w/e 15 April 2005 to which the loan to the administrators was applied (figures are £000s)

		MG Rover	Powertrain	Totals
Employee Costs	Gross wages	1,334	432	1,766
	Gross salaries	1,003	225	1,228
General operating expenses	Utilities	77	20	97
	ICT	139	108	247
	Site maintenance	61	26	87
	Production	143	0	143
	Administrators' time costs	1,036	145	1,181
Professional costs	Legal fees	288	34	322
	Agents' fees	43	34	77
	Total	4,124	1,024	5,148
Value of loans		5,200	1,300	6,500
Repayment made		1,076	276	1,352

Question 166 (Chairman): Decision on making a loan to the administrators

The key factors that the Department had to take into consideration when deciding on whether to make a loan to the administrators to cover one week's operating costs at MG Rover and Powertrain included:

Administration mean a completely new situation as regards liabilities

Purchasers would be able to choose assets they wished to buy whilst leaving behind substantial liabilities, running to hundreds of millions of pounds. SAIC had told us that this issue was their biggest concern regarding the proposed joint venture, so the opportunity for bidders to secure assets and leave several hundred millions pounds of liabilities with the administrators was a very material development.

Significant value in a “going concern” sale resides in keeping the workforce together

The value of the business and the prospects of production re-starting at any point would have diminished considerably had the majority of the workforce been laid off on the Monday morning.

Net impact of a deal on Government expenditure

We knew that Ministers had already decided that if Longbridge closed, they would want to bring forward a package of measures, broadly modelled on what had happened in 2000, costing in the order of £150 million—£175 million. This was an important consideration in weighing the net risks. Our rule of thumb was that each job loss would cost the taxpayer £10—15,000. The certainty of these costs needed to be weighed in the balance against the risk and potential benefits associated with the loan.

Bidders other than SAIC were showing interest in all and parts of the business

Potentially interested parties had made contact with both the administrators and the Department over the weekend of 9/10 April. Powertrain still had a contract to supply Land Rover with engines and MG marque was a strong brand that had attracted many in the past interested in producing sports cars. But these bidders had had very little time to put bids together. A week would give the administrators time to ascertain whether there were any serious bids for the company or parts thereof as a going concern.

Positive soundings from diplomatic contacts

The Department was receiving some mixed information but there did seem to be some encouragement from the Chinese Government to SAIC to look positively at the new situation.

Administrators' position

The administrators had to be cautious in their approach. They had only been in place for 48 hours and lacked clarity on the cash position in the company. They therefore felt unable to stake any of the creditors' funds on a going concern sale. The Department had on the other hand been following the company's progress for months and in particular was sighted on the progress that had been made in negotiation with SAIC and the Chinese generally. The position adopted by the administrators certainly could not therefore be considered definitive.

Benefits from the orderly resolution of the workforce's position

Although the Department had worked with the various public bodies concerned to prepare for the contingency of MGR's collapse, those bodies had inevitably not had the opportunity to co-ordinate with the administrators regarding the practical delivery of their various services. The additional time provided by the loan ensured that those made redundant immediately received the high quality, joined-up support on the Longbridge site that had received such positive feedback.

SAIC's negotiating team had been stood down

Whilst we knew that officially the SAIC team had been stood down for a few days this had not prevented SAIC still carrying on talks at a working level. The stance could also of itself been a negotiating position designed to secure a better place.

Uncertain nature of situation

We were still in the very early stages of a new situation. Much was uncertain over the weekend, but some of those uncertainties were likely to resolve themselves over the coming week, particularly the position of SAIC.

Ongoing need for support

The Department was clear that providing funding to keep the company going for an indeterminate period was neither legal nor desirable. This in itself would have been encouragement towards a quick deal. However, if a genuine interest in purchase was expressed there were alternative funding options available. The administrators could have acted to reduce the costs of keeping the plant ready to go back into production well below £70—£100 million estimate made at the weekend. Clearly a niche part of the business would require less funding, which the administrators might have been prepared to support either from their own funds or on the basis of a loan secured against the assets—indeed the administrators did not give up on the prospect of recommencing production at Powertrain until they were unable to secure unanimous supplier support at a meeting on 29 April. A bidder may also have wanted to advance monies to protect the investment and the assets it wanted, and the PVH directors themselves had made an offer of some limited assets, which the administrators may have been able to utilise.

The Department therefore concluded that the measured risk of a loan to cover the operating costs for one week only was a valid option in value for money terms.

