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RADIO 4

TRANSCRIPT OF "FILE ON 4" - INSOLVENCY

CURRENT AFFAIRS GROUP

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REPORTER: Allan Urry

PRODUCER: David Lewis

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THE ATTACHED TRANSCRIPT WAS TYPED FROM A RECORDING AND NOT COPIED FROM AN ORIGINAL SCRIPT. BECAUSE OF THE RISK OF MISHEARING AND THE DIFFICULTY IN SOME CASES OF IDENTIFYING INDIVIDUAL SPEAKERS, THE BBC CANNOT VOUCH FOR ITS COMPLETE ACCURACY.

“FILE ON 4”

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URRY: Now it's all over for Rover, is there more to know about what went wrong?

ACTUALITY OF RADIO 4 NEWS BROADCAST

NEWSREADER: BBC Radio 4, it's six o'clock. The government has launched a full inquiry into the collapse of MG Rover ...

URRY: Today's announcement follows an inquiry by a new regulator, the Financial Reporting Council, which has been scrutinising company accounts and suggests there were a number of questions the government might want to look at. Neither will say much more. But what sort of questions might there be to answer about the way these sorts of businesses fail? File on 4 has investigated other company collapses, which have cost workers their jobs, compromised pension funds, and left a trail of bad debt, threatening the survival of smaller firms they traded with. Should more have been done by those who provide the checks and balances on boardrooms? Have the accountants and auditors been too fast and loose with their interpretations of complex rules and regulations governing company behaviour?

SIGNATURE TUNE

ACTUALITY IN FACTORY

URRY: I'm on the factory floor of a company in South Wales, making packaging for the ready-made foods industry.

KHOSROW: This is where our products basically are made. Raw material is fed from the back of the press. The aluminium container is formed there, and then the packers basically pack it up, put it in a box.

URRY: How many aluminium trays are you making?

KHOSROW: Annually I would say in millions, hundreds of millions.

URRY: This is one of the bigger employers in this part of Wales. This firm got a contract to supply a group in the UK called Hibernia Foods Ltd. Hibernia was behind businesses primarily in the north of England and looked to be expanding, so it was a big opportunity for the packing company, which they jumped at. But it soon became apparent to the firm's financial controller, Steve Blaken, that Hibernia weren't the most prompt of payers.

BLAKEN: It was always difficult to get money from Hibernia. They would easily take 90 days to pay an invoice and then, you know, it could possibly go on to 120, even in some cases 150 days.

URRY: And what was the sort of agreement that you had notionally struck? When did their bills have to be paid by?

BLAKEN: It was a notional agreement that we would allow 60 to 90 days for payment, but I can't remember a time that they ever kept to their payment terms.

URRY: You cannot remember a time when they kept to their payment terms?

BLAKEN: Not off the top of my head, no.

URRY: For how long did this go on?

BLAKEN: I've been here since May 99 and it's always been difficult to get money off them.

URRY: But Hibernia were growing rapidly, helped by big loans from banks, so the Welsh packing company stuck with them. They bought a rival, part of the American desserts group, Sara Lee, which supplied gateau and other products to supermarkets. Sara Lee was a strong brand, and after some earlier problems had begun to turn its fortunes around, having invested big money in its factory at Bridlington in East Yorkshire. When Hibernia took it over in 2001, some of the local managers were asked to help with running the rest of the UK operations. One of those managers, who we have agreed not to name, says he was shocked at the state of Hibernia's business.

MAN: The Hibernia Foods guys, they left the former Sara Lee very much to run itself and then started to get some of the key players involved in their businesses to try and sort of help deliver a turnaround there. When we started doing that, we were actually surprised at the condition of Hibernia Foods. We believed it was a profitable business, because it had been the business that we'd been competing against that had, on paper, done better than us and forced us into a couple of years of losses. But actually it turned out that they were actually less profitable than we are and they'd suffered a number of years of significant losses.

URRY: As far as this particular manager is concerned, it was the discounting policies of the company, the loss leading on some products, which wasn't making good business sense.

MAN: For every pound's worth of cake that we were selling to the supermarket, we were losing 67 pence, so it was costing us £1.67 to gain one pound's worth of revenue, and the more you make of that product, the more losses you make on that product.

URRY: The more you make, the more you lose?

MAN: Yes.

URRY: And how long did that go on?

MAN: That went on for most of the time I was there. I mean, the meeting I came across it was a meeting that we were supposed to de-list the significant loss leaders, and basically we spent a half hour debating whether we should delist the minus 67% margin cake and take it off our portfolio, but as far as I know we never actually did.

URRY: How significant a fact did you think that was in the way that the company eventually collapsed so completely?

MAN: It's very significant, because it was the cultural way of running the business. I think there was a view that, yes, if you had low volumes, yes, you would lose lots of money, but if you drove the volumes up and you sold low, you would make money. But actually it didn't work that way, because you still had the extra labour costs to go on, the extra costs of the ingredients. You had to put the price up to make a profit.

URRY: Running at a loss meant cash was drying up and credit was hard to find. At the former Sara Lee factory, now owned by Hibernia, staff started noticing worrying signs. Malcolm Gadsby was an electrician helping to fix production line and other problems. It wasn't long before those who'd supplied him regularly over the years with goods on credit started getting tough. It got so bad he even struggled to buy replacement light bulbs.

GADSBY: We were ordering electrical stuff for the maintenance of the factory. We would order it by maybe a couple of thousand pounds at a time, and then we noticed that we weren't getting the stuff. You'd order a box of fluorescent fittings, we was waiting for a week: nothing. We'd make enquiries and then we would get told that sorry, but Hibernia are on hold, non payment of bills. Pay your bills and we can give you the goods.

URRY: They weren't paying for light bulbs?

GADSBY: Basically, I suppose yes. Fifteen years we'd been ordering with them and I'd never known us be on hold with them at any time, apart from this time. We started to hear things like, well, a lorry load of sugar came in and he turned round and took it straight back again. Then we got told that they'd bring it back, but they'd only let us have it if

GADSBY cont: they got paid for it there and then. Then we heard that this was happening with all the ingredients that we needed to make our products, and we were told that they were turning round at the gate. If they weren't getting paid for what they were delivering, they were taking it away again.

URRY: Hibernia Foods was under huge amounts of stress, propped up by bank loans, unable to turn in a real profit. But the consequences of that stress were largely borne by those Hibernia was trading with. Companies like the packaging firm in South Wales, whose financial controller, Steve Blaken, was by now being asked to accept post-dated cheques by Hibernia, which said it was trying to restructure its finances to help it move forward.

BLAKEN: We had done as much as we could with delay in payment, and yet promises were not being kept to. We were continually receiving cheques that weren't clearing. At one stage we had a BACS remittance that obviously wasn't even sent to their bank to transmit the funds.

URRY: Could that have been an honest mistake?

BLAKEN: Possibly, but combining with the number of cheques that failed to clear the bank, it possibly was that we were being misled on payments.

URRY: The sort of hard-headed view of this would be, well, look, that's business and perhaps you were being a little naïve in giving them the latitude that you did.

BLAKEN: I suppose a lot of people would say that that's business, but you find yourselves in a difficult situation with quite a strong customer, possibly the largest customer we had at the time, and you take a commercial risk with how you deal with that customer, and we feel as if we'd done everything in our power to help the customer through his difficulties, which every company goes through. But I don't think we were told the full extent of their problems at the time.

URRY: Hibernia Foods Holding UK Ltd, the British-based trading group, went into receivership in October 2003, owing at the time an estimated £29 million to the businesses it had been trading with, which were unsecured. In other words, they had no prior

URRY cont: arrangement with Hibernia for the recovery of debt. The Receiver's official report said those companies were not expected to get any dividend out of what remained. The Bridlington factory, which was formerly Sara Lee, shut. The electrician, Malcolm Gadsby and his colleagues lost their jobs, and in Malcolm's case the chance to retire early with a good pension.

GADSBY: It was a final salary pension and if you haven't got a company to keep it running, then it just collapses. And when Hibernia went bust, that went as well. They've certainly left me financially crippled. I was planning to retire in a couple of years time, buy somewhere in Spain and put my feet up. I'm saying goodbye to that now. It'll be 65 before I can retire.

URRY: How old are you now?

GADSBY: I'm 53. Seven hundred people, possibly even a few more, because there were other people, they've actually never worked for Hibernia, but did work for Sara Lee previous to that. Those people have also lost their pensions.

URRY: We wanted to interview the former chairman of Hibernia's Irish parent company, who was also a leading director of its UK group, about the collapse of his business and its consequences, including the way credit was stretched with those who supplied his companies, but he refused. He did, however, strenuously deny any wrongdoing. Ultimately it was the banks which called time on Hibernia and put it into receivership. Directors also have a responsibility to pull the plug when their companies can no longer meet liabilities when they fall due. So it does beg the question of how Hibernia could have carried on for so long. According to Prem Sikka, Professor of Accountancy at the University of Essex, there's a fundamental problem about insolvency, as it's known. English law isn't very clear.

SIKKA: Most people think it would have a commonsensical meaning, but the UK legislation actually does not really define that very term, even though it says that the company directors who trade through a company and knowing that the business is insolvent can go to jail and can be made personally liable, the term itself is not really defined. But there is a brief hint in the UK's Insolvency Act 1986, which generally says that a company is considered to be insolvent when it is unable to meet its liabilities and obligations on the basis as

SIKKA cont: and when they need to be met, which in many ways begs more questions. What do we mean by liability? Again liabilities are not measured in any commonsensical way, but according to accounting conventions.

URRY: How are directors supposed to know, if there's no actual legal definition of insolvency?

SIKKA: There is obviously a limit as to how far the law can go. The law is ultimately written in a language which is open to interpretations and there is a whole rules avoidance industry, which is happy to place novel interpretations on those laws to sell you rules avoiding treatments, novel accounting methods, and that is how they make their living. So I think in many ways company accounting needs to coincide with the way ordinary people think.

URRY: Perhaps if it did, it would have helped the creditors of another foods company, which also collapsed in spectacular fashion less than four years after it started.

ACTUALITY IN MANCHESTER

URRY: After Hibernia went into receivership, a group called Freshbake, with registered offices here in Manchester, bought one of its factories. Freshbake was split into three – Freshbake Holdings Ltd, the parent company; Freshbake Trading Ltd, a property holding company which, confusingly for some, didn't do any trading; and Freshbake Foods Ltd, which did actually make, distribute and sell food products. Freshbake Holdings later became Rounded Thought Ltd, and so you can see already it's a recipe for confusion. Freshbake Foods has been liquidated, and Freshbake Trading went into receivership. But when it comes to trying to recover your debt, what you get back depends on which bit you traded with. One of those who acts for the trade creditors says that only became apparent to them when these two companies went under. We've agreed not to identify her.

WOMAN: It's quite confusing for creditors, because Freshbake Trading, you would expect to be the trading entity and it isn't, it's the holding company. Its confused creditors, and I'm sure creditors have lost money because they thought they were trading with a different company. Freshbake Trading Ltd holds all the property assets. Both companies

WOMAN cont: are in receivership and Freshbake Foods Ltd doesn't have any assets. So all the trade creditors are trading with Freshbake Foods Ltd, which has no assets and they will not get a recovery.

URRY: That's a lot of small businesses, isn't it? How many have you worked out there are?

WOMAN: 520 of those creditors are owed less than £10,000 and in total 700 creditors, and none of them will get any money at all. There's a slight possibility that there'll be a very small dividend, but it will be so minimal it just won't be worth having.

URRY: But a lot of these are small companies that really can't afford to take that sort of hit.

WOMAN: They certainly can't afford to take that hit.

URRY: Those creditors could have looked at records lodged with Companies House, which would have told them something about how Freshbake had been set up and which bit did what. But it seems most were too busy trying to earn a living. Freshbake Foods Ltd went down owing more than £12 million to its creditors. File on 4 commissioned an experienced chartered accountant to review the published accounts of the Freshbake Group. Richard Murphy found the way the group was structured shifted the balance of risk towards those who supplied it.

MURPHY: Freshbake could have put everything into one company, but they didn't. If you set up a new company and you actually separate the assets which are likely to retain their value if something goes wrong into one company, and you put all the risk into another company so that the people who are supplying you with food ingredients, your staff and so on into another company so that if it does go wrong, they will have the maximum loss, I question whether that is ethical, even if it is legal.

URRY: But it is legal?

MURPHY: I'm not disputing that.

URRY: It's an astonishing amount of debt to leave behind, isn't it, for a company that was only trading for, what, four years?

MURPHY: Well, this wasn't a small company though. It was actually a reasonable sized company. It made sales, in the last set of accounts that we've seen, of over £50 million in a year. Nonetheless, to turn a situation from being apparently solvent in 2001 into being so heavily insolvent in a short period of time is quite surprising. And remember, although Freshbake Foods were showing a substantial deficit, because about £13 million was owed to its creditors, at the same time Freshbake Trading was sitting on a property asset worth over £8 million. In other words, in theory, if this had been one company, they could have been added together, and if the factory had been sold for the valuation that had been given to it, most of those creditors would have been paid.

URRY: The traders would have got their money back?

MURPHY: The vast majority of their money back, if the property could have been sold at the valuation.

URRY: The banks who loaned money have struck agreements which won't allow the company structure to affect their claim on that which they are owed. But the trading businesses are in a much less favoured position. They can only claim on anything left from the part of the group they did business with. But Richard Murphy discovered that Freshbake Foods Ltd looked to be worth on paper far more than that which the Receiver calculated he was left with after he was called in.

MURPHY: Well, when Freshbake collapsed, the first thing that the liquidator's statement seems to say is that a lot of things which were apparently worth a great deal of money on the accounts of Freshbake Foods suddenly turned out to have very little value at all. They could raise just £422,000 out of the assets of that company. Now the last set of accounts we've got for Freshbake Foods says that it had plant and equipment worth over £3.5 million, it had stocks of food ingredients worth over £7 million and it had people who owed it money from sales it had made of almost £7 million. So something like £17 million worth of assets apparently gave rise to £422,000 which the liquidator had left available to them to pay off the trade creditors, the staff, the Inland Revenue and so on of that company. Now that's an extraordinary turnaround.

URRY: Where's that £17 million gone?

MURPHY: I'd love to know. I can't tell you.

URRY: Is there anything in the accounts which suggests what happened?

MURPHY: Well the only possibility is that this liquidator put everything in at a knockdown price to try and get rid of it. That's obviously one of the possibilities. The other one is that the accounts themselves, which we've seen, which valued things like the ingredients used for the food products, may have been overstated. These assets simply weren't worth the amount of money that was shown on those accounts.

URRY: We wanted to interview the former managing director of Freshbake Trading Ltd, Kelvin Hale, to find out more about the revaluing of assets. He refused, but he told us his accounts had been prepared and signed off in accordance with the law, and that neither he nor his fellow directors had done anything unlawful. The separate analysis by accountant Richard Murphy confirms this. Which is what worries the Professor of Accountancy at Essex University, Prem Sikka. He argues the sort of latitude allowed by the law serves directors, accountants and lawyers, but it doesn't do enough to protect those who are less able to find out what's going on.

SIKKA: This is the big problem. In some ways the institutional structures in Britain still assume that we have this gentlemanly capitalism, where the individuals regulate themselves or the institutions occasionally come along and bark but the reality is entirely different. What we have is kind of predatory capitalism, where often directors are able to help themselves, or the banks and others who have an inside track can get information to safeguard their interests, but others can't. They simply don't have a friendly set of accounts to look at.

URRY: But if structures like Freshbake complicate the accounts, they become virtually unreadable when a group gets much bigger.

HILL: It was a complete shock and a shock to all our customers. It was a company that, wherever you went in the world, people knew Dennis Mayflower, and it stood the test of time.

URRY: Was there anything wrong with the products?

HILL: No. We were world leaders in bus production, we were world leaders in fire engine design and technology.

URRY: 63 year old Hughie Hill thought he had a job for life – and a good pension to go with it – as an engineer with a world-leading bus maker based at Guildford in Surrey.

ACTUALITY OUTSIDE DENNIS FACTORY

URRY: You've probably seen their name on the front of double deckers and on fire engines up and down the country. The Dennis factory, where I am now, had become a world leader, swallowed up by a group called Mayflower, and this group had more than sixty subsidiaries. It was partitioned into different divisions. Last year it collapsed amid accounting irregularities and plummeting profits.

In the months which preceded this spectacular fall, Mayflower realised they needed more money from their banks and other lenders to keep them going. £30 million was under negotiation. Then, according to papers filed by the administrator at Companies House, questions were raised about the accounts.

READER IN STUDIO: The position worsened when, on 22nd March 2004, possible accounting irregularities were brought to the board's attention. The irregularities revealed a deficit of approximately £17 million.

URRY: In fact, this turned out to be the tip of a very chilly iceberg and it sunk them, owing more than an estimated £330 million to creditors. David Greene, a lawyer acting on behalf of shareholders, says there are further questions about the way some accounts were prepared. They'd left out what later emerged as liabilities, which had the effect of making the profits look bigger.

GREENE: There appeared to be a number of potential liabilities that were not being taken into account over the years, and one of those identified, for instance, was warranty claims that, for instance, in that particular instance, left a hole of about £5.8 million. They give a warranty that the bus will run for a number of years, and if that doesn't happen, then

GREENE cont: obviously the company can come back and say, 'The bus isn't running, please give us some compensation,' and that was bound to lead to payments out or liabilities arising for warranty claims. Those hadn't been properly taken into account in previous years.

URRY: You say they hadn't been properly taken into account - in what way?

GREENE: The potential warranty claims hadn't been taken into account at all, and therefore this cost to the company was not being properly accounted for.

URRY: It hadn't been written onto the books?

GREENE: It hadn't been written onto the annual accounts, that's the problem.

URRY: The warranty issues was one of a number of black holes in the accounts, according to David Greene. What made it worse for investors was that they also relied on unaudited statements from the company to the markets. The glowing picture they presented is also being questioned. The Mayflower Group was listed on the London Stock Exchange. Those who'd bought shares included Naseem Dawood, the owner of a small publishing firm. He'd been dabbling on stockmarkets for more than thirty years and felt confident enough to put some of his own company's pension fund into Mayflower shares, especially when he saw a former Prime Minister had been brought in to help advise the executive.

DAWOOD: It looked to me a very good company from the way I read the annual reports, their public statements, I could see nothing wrong. The fact that a former Prime Minister, in the shape of John Major, became one of its directors certainly reinforced my confidence in the company.

URRY: So you were looking at the annual reports really and the company's public statements. What did they actually say that impressed you?

DAWOOD: Their reports were normal, promising, and I could not sense any impending disaster. Either the management of Mayflower did not pass on to their auditors the true facts of their business or the auditors didn't bother to find out what was happening. It was the shareholder who was left with the baby at the end of the day.

URRY: Mr Dawood lost about £75,000. He'd put his faith in what the markets had been told by the company, and final accounts audited by the firm Arthur Andersen. Mayflower had a special committee, whose role was to negotiate with Andersen about the final presentation of company accounts. According to the lawyer acting for shareholders, David Greene, it's not uncommon for these sorts of talks to put investors at a further disadvantage, because deals are struck behind the scenes.

GREENE: The problem is that what the public don't see is this negotiation going on between the company and the auditors as to the way that certain points should be reported. The company has its interest to present as good a picture to the public as possible. The auditors want to ensure that that's an accurate picture, and clearly there's a potential conflict between the two. And I think what the public don't see is the substantial negotiation going on in which the company is saying, 'I'd like to report this one particular way,' and the auditor is saying, 'No, you'll have to report it in some other way.' So clearly there's a discretion there, and what is not seen is how that's resolved and the way it's resolved. It may be resolved in the company's interest, but that's not necessarily in the public's interest.

URRY: In Mayflower's case, any discretion appears to have been working in its favour. It took a change of auditors from Andersen's to PriceWaterhouseCoopers before black holes started to come to light. By this time it was 2003, and in the new climate created by the collapse of energy giant Enron, PWC began to insist that Mayflower account for their previous liabilities, the black holes. While this was going on, Mayflower were negotiating with lenders, including banks like HSBC, for money to keep them afloat. It was a double whammy, which began with write downs of profit forecasts.

GREENE: The expectations of the market were something in the region of a profit before tax of about £20 million. That, by mid February, it looked as though that had completely disappeared and they were looking at a possible profit of about £3 million, but they had exceptionals of over £20 million, and so there was going to be a very substantial loss, and

GREENE cont: suddenly it appeared that there was a £20 million hole of money owed to HSBC. Eventually the bank said, 'That's it, that's the last straw, we're out of here.'

URRY: For Hughie Hill, the engineer who worked at the Dennis factory at Guildford, it had serious consequences. With 46 years of service behind him, he discovered his pension was worth far less than it should have been.

HILL: We'd gone into administration, but of course there was no talk of loss of pensions. And then, in papers, in the headlines, it said our pensions were very vulnerable, and of course the figures came out that we were £24 million, I think, in deficit, the pension fund. We even had one chap who missed his pension by two weeks, and he was absolutely gutted.

URRY: Is there anything to be done now about your pension or not?

HILL: Well now my pension is in the hands of the government and that's about it really. At the end of the day I'm going to lose out one way or the other, so I've sort of resigned to the fact now that I'm going to go into retirement not as secure as I was.

URRY: The Accountancy Investigation and Discipline Board, which is part of a new regulatory regime, is holding an inquiry into the collapse of Mayflower, the conduct of its audits and of one of its directors. It's expected to report shortly. The directors of Mayflower themselves say the board had behaved properly throughout, basing decisions on legal and accounting advice. Prem Sikka, Professor of Accountancy at the University of Essex, who's studied the work of auditors in Britain, argues that they should be doing more to check company accounts.

SIKKA: The auditors are hired to give an opinion on the accounts which directors have prepared. If we could all trust what the directors were telling us, we wouldn't want an audit anyway. The auditors have more rights than the police. Without a specific court warrant, they can go into a company, they can look at any record, any set of accounts, any file, any document, they can interview directors, they can interview employees, but that is not what they appear to be doing. Auditors are simply coming into a company and often

SIKKA cont: appear to be simply rubberstamping the accounts which the directors have prepared. Published academic research shows that probably as much as 60% of the audit work is falsified. In other words, this audit work has never really been done.

URRY: 60%?

SIKKA: Yes. It is as high as that.

URRY: Well hang on a minute, how do you know that's true? I mean, that's your supposition, isn't it, rather than ...?

SIKKA: No, that is as per published academic papers, which shows that that is a very very common phenomena.

URRY: Who does the auditor have a responsibility to then?

SIKKA: Auditors generally owe a duty of care to the company as a legal person only. In other words, they don't owe a duty of care to any individual shareholder, any individual creditor, employee, pension scheme member. It is only to the company as a legal person. The problem is that often we find audit failures after a company has collapsed, in other words, the company itself is dead or dying, and it is frequently in no position to sue the auditor unless the liquidators so decide. But generally the individuals, who think they are protected, have actually been totally disenfranchised.

URRY: We wanted to interview the Audit Quality Forum, which speaks for the profession, about the issues raised in this programme, but we were told no one was available. In fact, the role of auditing is becoming even more important. The accountant Richard Murphy argues that, with the extra complexity created by different entities within a company's group structure, the accounts end up making even less sense.

MURPHY: Since the 1990s, people have been creating vastly more complex group structures, because they've been – frankly – trying to manipulate tax laws more often. Companies set up just to do one deal to get a tax advantage. And we're seeing more and more complex forms of financing. Each of them creates a new layer of group structure, which is

MURPHY cont: far from transparent, and in some groups it certainly is created to obscure what's going on. There's a balancing act to this. If you set yourself up in business and you transfer the vast majority of the risk in your business onto other people, that's not a fair balance of risk. That's exploitation.

URRY: And is that what's going on in the UK now?

MURPHY: It's too easy for that to happen in the UK now. It's too easy inside the UK accounting environment, it's too easy inside UK company law to create complex structures which are simply not transparent enough to minimise that risk.

URRY: This group complexity has emerged as one of the issues around the failure of an icon of British car-making.

ACTUALITY FROM NEWS REPORT

NEWSREADER: And our top story tonight is the crisis at the car maker, MG Rover.

MAN: It's not our intentions to see this plant become a supermarket and disappear overnight.

NEWSREADER: Six thousand jobs are under threat at the Longbridge plant in Birmingham ...

URRY: When MG Rover collapsed last month, having failed to find a partner, few were surprised. The people who'd bought it for £10, known as the Phoenix Group, had inherited a business with problems stretching back decades. But there were also some profitable bits, which had been bolted on over the years, and the group began to restructure those assets. Those who followed closely MG Rover's fortunes during its final five years say they found it hard to determine what was going on. Dr David Bailey, an economist at the University of Birmingham, was left wondering about the rationale behind this process.

BAILEY: It was certainly a very complicated structure, not dissimilar to other car companies, but you've got to realise that other car companies are much bigger. Some of the biggest car companies produce five, six, seven, eight million cars a year. MG Rover had a pretty similar structure but was producing 130,000 cars in its last year for which you've got accounts, probably only 100,000 in the year 2004. Whether it needed such a complicated structure for such a small business is open to question.

URRY: Who benefited from that structure?

BAILEY: Well, management would say that they were trying to protect assets and they were trying to portion the company up so that if part of it went under, other parts would be protected, and that's a normal thing to do. At the same time it made it very difficult to figure out how the money was being moved around and what was going on there. Also, of course, management, you could say, they were doing their best to keep the company going, but they did very well out of it as well, in terms of the payments into the pension fund and the loan note that they issued to themselves.

URRY: How well did they do out of it?

BAILEY: Well, it would appear about £16.5 million went into their pension fund, they had a £10 million loan note from which they were all to take interest. Now those aren't massive payments in the context of the car industry, but again remember this is a very small firm and a firm that hadn't turned in a profit.

URRY: Is that amount of money proportional, do you think, to the way the business was run?

BAILEY: That's a good question. Certainly no suggestion that anything illegal took place. Whether or not that's appropriate is open to question and there has been a lot concern over that in terms of this being the unacceptable face of capitalism. I certainly thought it was rather generous, given the performance of the firm.

URRY: It wasn't just academics who were unsighted. MPs started to become concerned in the months leading up to Rover going bust. But when a Parliamentary committee, then chaired by MP Martin O'Neil, was trying to assess how the business was being run, MPs simply couldn't see past Rover's corporate veil.

O'NEIL: When it was released by BMW, it has to be said that it was, in some respects, a shambles. There were bits of it which didn't really relate to other bits, and it has to be said that the Phoenix management separated out the varying parts. And there were two views about that. One was that they had dealt with it in a rational manner, identifying and isolating assets. But others had said, well, they were enabling themselves to have, as it were, an exit strategy, which would have resulted in them walking away from car assembly and manufacturing, but at the same time having one or two still lucrative options elsewhere.

URRY: There has been broad concern, hasn't there, about the structuring of the group that didn't give any real transparency? Could you tell what was going on from the published accounts of MG Rover and the audit reports?

O'NEIL: What actually wasn't clear was whether or not the profit-making areas were going to feed into the ailing manufacturing ones.

URRY: What's the key question, looking back now, that you wished you'd asked at the time?

O'NEIL: I think probably, had we gone more deeply into the sales figures and said, you know, 'You're not selling very many of the cars that you're producing at the present moment. Do you think that there's any circumstances in which you can sell more?'

URRY: But at the time you didn't really pick up on that, is that what you're saying?

O'NEIL: Perhaps we were over-protective of the Rover concept, that we thought there was still a chance, and that if we were too gloomy and too pessimistic that we could have sunk it even earlier than it was ultimately that they went aground.

URRY: We tried to contact John Towers, who led the Phoenix Four, as the directors have become known. Our calls were unreturned. The cases we've looked at in this programme raise questions about the way companies organise themselves, which may shift the balance of risk away from those who own and run them onto those who supply and buy shares in them. Credit can be stretched so far it puts many other businesses under stress. The present system of audit appears seriously flawed and inadequate. We wanted to interview a minister at the DTI about the issues raised in this programme, but no one was prepared to take part.

SIGNATURE TUNE