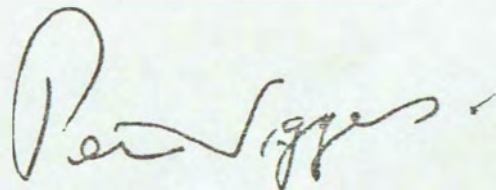


SECRETARY OF STATE

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I cannot support this recommendation that James Mackie be acquired by Government as a social case. There are too many imponderables and in particular I do not have confidence that the management could handle the transfer to the Woodvale site; and if Government were to be the shareholder it would find it difficult to avoid responsibility of any additional cash requirements.

My preferred line is to seek a third party, preferably a company, with depth of management, which would take over Mackies. Preferably there would be a commitment to maintain the business of Mackies on the Woodvale site. The shareholding arrangements of such a proposal would be complicated, but I would support Government financial assistance, in appropriate circumstances.



PETER VIGGERS

9 September 1987

cc PS/SOS (B&L)  
PS/Ministers (B&L)  
PS/PUS (B&L)  
PS/Sir K Bloomfield  
Dr Quigley  
Mr Fell ✓  
Mr Burns  
Mr Chesterton  
Mr Hopkins  
Mr G McConnell - ESL  
Mr J McConnell - PAB  
Mr Alexander  
MC

*cc Mr [unclear]  
Mr [unclear]  
Mr [unclear]  
Mr [unclear]  
Miss [unclear]*



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Messy  
to note a file

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a Mr Egan  
Mr Wilson 11/9

Am to review - to discuss  
Para. 17 and me

Mr Stitt

J. Fell  
4/9

- cc: PS/Ministers (B&L)
- PS/PUS (B&L)
- PS/Sir K Bloomfield
- Dr Quigley
- Mr Fell
- Mr Burns
- Mr Chesterton
- Mr Hopkins
- Mr G McConnell - ESL
- Mr J McConnell - PAB
- Mr Alexander
- M/C

- 1. PS/MR VIGGERS (B&L)
- 2. PS/SECRETARY OF STATE

**JAMES MACKIE & SONS LIMITED**

1. The purpose of this submission is to inform the Minister of the outcome of Mackies' search for further funding in the context of funding proposals put forward by Mackies to IDB for the company's rationalisation and modernisation programme and to seek guidance as to how this case should be taken forward.

**BACKGROUND**

2. Mackies is a long established Northern Ireland engineering company which currently employs 1,000 people in West Belfast in the manufacture of machinery for the jute, linen, polypropylene, wool and synthetics industries. In April 1986 Mackies submitted a Business Plan to the IDB which proposed the implementation of a rationalisation and modernisation programme based on a relocation to the company's Woodvale site. The peak funding requirement under the Plan was £27.5m which included the then bank facility of £8.5m of which £1m was guaranteed by IDB. The Plan was appraised for IDB by Coopers and Lybrand. Summaries of the consultants views on the technical standing of Mackies products (Annex 1), Marketing and Sales (Annex 2), Manufacturing (Annex 3) and Management and Employment (Annex 4) are attached together with details of subsequent developments in those areas. Coopers and Lybrand concluded that while the company was not commercially viable, there was a core business and that if the investment programme was undertaken the core business could be secured. To fund the proposed expenditure the consultants considered that the future capital structure of the company should be based on a requirement to finance an additional £20m over and above the current banking facility.

3. In June 1986 after obtaining Board endorsement the IDB Executive put forward a proposal to the Minister that on social grounds the Government should take control of the company and provide up to £20m.

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These proposals were to be reviewed if the company managed to attract significant private sector investment. Significant was defined by IDB as an investment of as little as 35% of the required funding by another company which would also bring management benefits to Mackies or an investment of more than 50% of the funding by financial institutions, bringing little or no management benefits.

4. The then Minister, (Dr Boyson) after discussions with DFP and IDB decided that the company should actively pursue the search for private sector investment following which the way forward for Government would be reconsidered. Dr Boyson met the Trustees to emphasise the importance of securing private sector investment. Mackies subsequently appointed N M Rothschild & Sons Ltd to assist in the search for investment, but before serious discussions began with potential investors it was agreed that IDB should arrange for an independent appraisal of Mackies' choice of the Woodvale site in order to ensure that the proposed move was based on sound economic considerations and not on what could be perceived as a relocation in a Protestant area of West Belfast. The appraisal concluded that the choice was justified on economic grounds and in November Ministers indicated that the selection of Woodvale would not influence the availability of Government assistance towards the associated costs. Rothschilds then undertook an in-depth assessment of Mackies, decided to proceed with efforts to raise private sector investment and in May, together with the company, presented funding proposals to the IDB.

#### FUNDING PROPOSALS

5. The current proposals from the company assume a funding requirement of £16m although the IDB believes that some £20m is still likely to be required. The £16m funding requirement assumes the company will substantially reduce its working capital requirement and maintain this reduction. In addition there is little provision for contingency. IDB considers that it would be prudent to budget for a £20m funding requirement because of the size of project envisaged and the likelihood that there will be unforeseen funding requirements which will arise as the modernisation programme is implemented. In IDB's view it is impractical to try to reduce the amount of funding required by considering a partial modernisation programme. Coopers & Lybrand, when appraising the company's choice of the Woodvale site, confirmed that there was a base requirement for future facilities, below which the company would cease to function as an efficient operation. Thus if the core business is to be secured it will be necessary for the full proposals to be implemented. The consultants considered a number of options available to the company to secure the core business including a minimum facility to support a lean manufacturing unit at Albert Foundry, and concluded that the Woodvale proposals represented the most cost effective option and also the preferred option when other non-quantifiable criteria were taken into account. The £16m was to be raised as follows:



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- 3.5 Under Business Expansion Scheme
- 1.0 Additional secured banking facility
- 11.5 IDB (On our figures £15.5m)

It should be noted that BES investment does not bring with it the normal controls which other private sector investment would bring ie of shareholders giving direction to the company. Control of the company would remain with the Trust. In addition when allowance is made for 60% tax relief under BES the real investment of private risk capital reduces to some £1.4m. For its part the IDB is being asked to provide some 72% of the total funding.

6. During discussions with Rothschilds the possibility of venture capital was mentioned. The IDB was informed that such investment would at best raise only some £4.5m and all the equity would have to pass to the private sector. This proposal would present the Trustees with insurmountable difficulty as they would have to give up all their holdings in a way which would be detrimental to the Trust. IDB would still be required to put up a minimum of £11.5m and more likely the £15.5m.

#### TRUST

7. In November 1976 ownership of the business was transferred from the Mackie family to an employee Trust known as "The Mackie Foundation". The ordinary share capital in the company is held by the Trust for the benefit of the workforce, past and present and their dependants. The Trust is administered by four Trustees:-

Northern Bank Executor and Trustee Co Ltd  
(Mr McClelland, General Manager acts as Trustee)

Mr J Hughes - Retired Vice Principal  
Stranmillis College

Prof. B Crossland - QUB and Board Member IDB

Lord O'Neill

These four individuals are not involved in the management of the company. They have no access to funds to invest in Mackies and although they hold the shares in the company they do not provide the normal shareholders' control mechanisms which operate in companies. This is because the Trustees have a conflict of interest between their legal role as shareholders and their obligations under the Trust Deed where their role is to act on behalf of the beneficiaries of the Trust. The inclusion of past employees and dependants as beneficiaries complicates

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matters. We understand that the Trustees have obtained legal advice (through the Midland Bank Trustees Department) which indicates that they have little scope for manoeuvre if the proposals envisage dilution of their shareholding. This is an uncommercial view and both Rothschilds and IDB's advisers (Coopers & Lybrand) believe that the Trustees should act commercially. The Trustees have obtained a second opinion from Counsel in London (Mr Tom Ivory QC) which confirms that dilution of the Trust would require discussions with the employees followed by the approval of the High Court. Until firm proposals are put to the Trustees they are unable to take the matter forward. It is clear that whatever decisions are taken about funding, there will have to be appropriate provisions for the Trustees to fulfil their responsibilities to all classes of beneficiaries ie past as well as present employees and their dependents. The IDB regards the Trust as being unable to provide the normal control mechanisms in a company and believes that the only satisfactory funding arrangements for the future will have to take the Trust out of their current position of holding all the ordinary shareholding in Mackies.

**TRADING POSITION OF COMPANY**

8. Over the last six years the company's trading position has been as set out below:-

(Per Audited Accounts)

Year ended 31 March	1982 £000	1983 £000	1984 £000	1985 £000	1986 £000	1987 £000
Turnover	25,321	23,801	21,761	24,819	27,934	20,793
Trading profit/(loss) before grants taxation and extra-ordinary items	(1,826)	(2,049)	(2,024)	(1,143)	6	(1,051)
Grants	763	2,292	2,249	941	837	679
Taxation	420	13	-	-	-	-
Extra-ordinary items	1,342	234	-	-	638	50
Net Profit/(Loss)	(1,985)	22	225	(202)	205	(422)

The increased turnover in 1985/86 was due to a large order from a Northern Ireland flax spinning company. In April 1986 trading prospects were gloomy and the company was forecasting a trading loss for the year

ending 31 March 1987 of over £2.1m (before grant). By September the order position had improved significantly and the Directors were hopeful that the trading loss could be reduced to £0.4m on the year's trading. In February the year end figure was revised to project a trading loss of £1.1m and as noted above the audited accounts for 1986/87 show that the company incurred a trading loss of £1.05m resulting in a net loss after grant and extra-ordinary items of £0.422m. For the period to 31 March 1988 the company is forecasting a trading profit of £0.55m on machinery sales of £21.8m and spare sales of £5.7m. At this point in time £16.3m of the £21.8m machinery sales are firm orders and a further £1.5m are at advanced stages of negotiations.

#### TIMING ON BES

9. When Rothschilds presented the funding proposals to IDB they indicated that it would not be prudent for the company to try to raise BES funds in September (as had previously been envisaged) because Mackie's Directors were unable to give a firm forecast of the company's trading position at 31 March 1988. Instead they proposed to wait until February 1988, (the more usual time of the year to seek BES investment) by which time it should be possible to give a firmer indication of the year end trading figures.

#### IDB's VIEW OF THE PROPOSALS

10. As noted above Rothschilds' proposals would involve IDB providing at least 72% of the new funding. The ownership of the company would remain unchanged and thus Mackies would continue to lack the normal control mechanisms which exist in other companies. With a loss of £0.4m (after grant) for 1986/87 there has been no improvement in the company's trading position. The investment of up to £20m to fund the modernisation programme is expected eventually to enable the company to generate profits of only some £2m on a turnover of £25m and thus most of the investment will have to be non-debt bearing and non-repayable. Coopers and Lybrand have recently reaffirmed the opinion they expressed in their appraisal of the Business Plan that the latter does not demonstrate commercial viability because of the difficulty in attracting the additional investment from commercial sources at the levels required by the Plan to make up for the lack of investment over the last 15 years. Rothschilds' proposals confirm this assessment. Without the prospect of commercial viability the company is not eligible for selective financial assistance except on social grounds.

#### ALTERNATIVE PROPOSAL

11. In the absence of commercial viability the IDB suggests that Ministers should consider supporting Mackies on social grounds. Assistance on social grounds may be provided in cases where there is no commercial justification for selective financial assistance but the social and political factors are such that Ministers wish to provide

assistance to avoid closure and the associated total loss of jobs. The company currently employs 1,000 and although this would be reduced to some 650 under the modernisation programme, 650 remains a significant number of jobs, particularly in West Belfast. Without IDB assistance the company is almost certain to close eventually and it would be well nigh impossible to replace those jobs in that area. Mackies is the only large engineering company left in that part of Belfast and if it closed those skills would be lost. Another large scar of industrial wasteland would be left and there would be implications for industrial morale in the whole Province. Mackies has held a position in Ulster life far beyond its present economic strength or position as an employer. For many years the Mackie name was seen locally as a flag ship company which exported abroad all that exemplified Ulster's excellence in engineering. That mythology lingers on and as a result decisions relating to the Company will be interpreted as a signal of the Government's intention in a perspective far beyond that of any simple economic or commercial judgement.

12. The Mackies case does offer better prospects than are normal for social cases. There is a core business, the Mackie name is still well respected in industry and the company is re-establishing itself in the market place. Although the modernisation programme will be expensive, it does offer the prospect of long-term viability for the company providing the financing of the programme is predominantly non-debt bearing and non-repayable. In essence the modernisation proposals are making up for lack of investment over the last 15 years and if considered on an annual basis over this period, the sum involved is relatively small. It should also be noted that in the past Mackies has not been a recipient of large amounts of selective financial assistance. Since 1976 the Company has received £6,000 building grant in 1980/81, £160,000 equipment grant in 1981/82, £1.3m employment grant in 1982/83, a similar amount in 1983/84, plus a "topping up" guarantee of £7.5m on a bank overdraft facility of £7.5m since 1985. The company has however made extensive use of the R&D grant scheme to develop new products and in the period since 1976 has received R&D assistance totalling £5.06m.

13. As Government would be required to provide the majority of the funding for any social case, the IDB believes that the best approach would be for the Government to take control of the company, carry out the investment programme with the objective of effecting a turnaround and return the company to the private sector as soon as possible for a reasonable disposal price. The Trust's position might be catered for by converting its ordinary shares into preference shares issued at a modest coupon, with IDB acquiring a new issue of ordinary share capital. If such a mechanism can be negotiated this would avoid Government having to compensate the Trustees for their loss of control. If Government did acquire Mackies it would have to review the existing Board and Management team. As noted above Coopers & Lybrand's comments on management are summarised in Annex 4.



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#### IMPLICATIONS OF CONTROL

14. By taking control the Government would become liable for the company's liabilities - both specified and contingent and would have to provide most of the funding requirement for the modernisation programme (up to £20m). On a going concern basis the company has net balance sheet assets of £11.5m but the "off the balance sheet" contingent liabilities (including IDB clawback entitlement), which would crystallise if the company closed, are estimated at £8.5m. This estimate of contingent liabilities would have to be confirmed by investigating accountants before Government proceeded to take control of the company. Acquisition would involve the employees voting on the proposals and the Trustees having to seek High Court approval. It would also be necessary to seek an understanding with the Trade Unions on both redundancies and wages and to secure the commitment of most of the existing Board and management team to the new ownership arrangements as a condition precedent of any purchase agreement. Failure to obtain a satisfactory agreement or understanding with any of the parties could lead to Government having to re-consider its position with regard to providing assistance. Negotiation would in any event be difficult and in the latter stages they would most likely be reported in the media which could result in numerous deputations to Government. As owner of Mackies, the Government could become involved in management issues such as the flying of flags and emblems on the shopfloor. Employment practice would be scrutinised and if there was a failure to continue efforts to achieve a more balanced workforce, the MacBride lobby would accuse the Government of supporting a company which is perceived as having followed a sectarian policy for many years. Mackies could prove to be difficult to return to the private sector. Even if its value was written down, its location might be a deterrent to finding a suitable buyer. If for some reason the modernisation programme did not succeed in securing the future of the company, it could become a drain on public funds if Government found it politically difficult to close Mackies.

#### POLITICAL IMPLICATION OF NOT PROVIDING ASSISTANCE

15. The company's Bank (Northern) in April 1986 requested Mackies to find alternative banking sources. The Bank has not pressed for such action pending decisions by the IDB on Mackies' Business Plan. If Government refuses to provide selective financial assistance the Bank is likely to seek to extinguish the overdraft or to appoint a Receiver to realise its security. Either course would undoubtedly lead to eventual closure of the company. In the past the company has had a predominantly Protestant workforce and thus there might be some in the nationalist community who would draw perverse pleasure from the demise of one of the bastions of the Protestant ascendancy. However Mackies has made considerable efforts to increase the number of employees from the minority community, although this has been a difficult task as employment has dropped from 2,600 in 1981 to the current level of

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1,000. At present the management estimate the balance of the workforce to be 75% Protestant and 25% Catholic and although the modernisation programme will result in further redundancies (at least 300) the continued existence of the company in West Belfast will provide employment opportunities for the minority community as a result of retirements, natural wastage etc (the current workforce age profile is 45+). Thus a decision not to provide support to Mackies would be opposed by thinking voices in the minority community in view of the efforts made to increase Catholic representation in the workforce, and also because it would add to the industrial wasteland of West Belfast and further reduce the active working environment, thus lessening the likelihood of attracting new industries to the area. The Government could be accused of deserting "Catholic" West Belfast and comparisons might be drawn with the massive financial assistance that has been provided to engineering companies in "Protestant" East Belfast. The impact on the majority community would be even more significant. It would be seen as a particularly harsh decision by the Government and one that signalled indifference to the plight of workers in Northern Ireland generally and Protestants in West Belfast in particular and there would be accusations that the decision had resulted from Dublin interference through the Anglo-Irish conference. Political Affairs Branch has indicated to IDB that the political consequences of failure to support Mackies are all negative and sufficiently serious for PAB to argue purely on political grounds that Mackies should be supported by Government funds.

#### IDB CONCLUSION

16. Rothschilds proposals indicate that although some minimal private sector finance can be raised, the vast bulk of the funding for Mackies' modernisation programme will have to come from the Government. The injection of private sector finance in the form envisaged by Rothschilds would not bring any change to the control mechanisms in the company. As the case does not meet IDB's normal commercial criteria any assistance provided would have to be on social grounds. The IDB believes there are strong arguments for social support and has concluded that the most cost-effective means of providing such assistance is by taking control of the company, implementing the modernisation programme and subsequently returning the company to the private sector.

#### DFP VIEW

17. This submission has been prepared in consultation with DFP. The latter accepts IDB's conclusion that the proposals for the modernisation of the factory, as they are presently framed preclude the company from obtaining renewal or maintenance assistance since the proposals will not meet IDB's criteria for commercial viability. It notes that in IDB's view there is no scope for a partial modernisation programme, which would secure on a sound commercial basis a smaller number of jobs. It does not believe that it would be appropriate to provide social assistance of the order of £20m, involving the taking of the company into public ownership.

The IDB's proposal runs counter to the Government's privatisation and industrial policies and hence is likely to be strenuously opposed particularly by Treasury Ministers in any Cabinet Committee discussion of the proposal. It is also contrary to the DFP Memorandum of Reply to the PAC report on De Lorean which indicated that following a change in Government policy "Industrial Support is made available only for projects in which a substantial part of the financial resources is provided by the private sector". Moreover the level of assistance envisaged is greatly in excess of what was ever envisaged in social cases. Treasury approval would be required and any proposal in principle to support Mackies to the extent of £20m would signal to the Treasury that the Block was overprovided with resources and reinforce their wish to review industrial support measures in NI in line with the Chief Secretary's recent Survey letter to the Secretary of State. In addition, to meet the cost of the proposed assistance to Mackies, IDB has indicated that it would need additional resources and these could only be provided at the expense of other programmes. The proposed package would also give the wrong signals to local industry at a time when the Government is seeking to secure a reduction in industry's dependence on public funds as envisaged in the DED Pathfinder report.

Finally DFP believes that the opportunity cost of the proposed social package merits careful examination. If the money was available there are many potential alternative users of the funds in question including, for example, the employment of ACE workers - a top priority of DED. A preliminary economic assessment suggests that there would be an eight-year period before the jobs maintained in the company at a cost of £20m would be balanced by the alternative of an equal number of ACE jobs, assuming that the social package was successful in maintaining jobs in Mackies for this length of time.

To provide no further assistance at this time would certainly result in the company going into Receivership and it could impact further on what IDB estimate is 200 jobs equally divided between NI and GB which are indirectly sustained by Mackies' purchasing. Some 200 jobs might survive for a limited period making spares.

Nevertheless DFP reluctantly concludes that, in the absence of substantial private funds or a feasible low cost solution which would safeguard in the longer term as many as possible of the 650 jobs identified as saveable, IDB's proposal to provide assistance on social grounds should not be supported.

#### RECOMMENDATION

18. The Minister is asked to consider IDB's proposal, that on social grounds it should acquire Mackies and provide up to £20m to enable the



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Company to implement its modernisation programme. If the Minister is prepared to support the proposal he will no doubt wish to discuss it with Mr Stanley prior to seeking the agreement of the Secretary of State. It would be necessary to obtain Treasury and probably also collective Ministerial approval before the proposal could be implemented.

*John B. McAllister*

JOHN B McALLISTER  
4 September 1987

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