



**Unite response to Treasury Select Committee  
Evidence session on  
Northern Rock and Bradford and Bingley**

**This response is submitted by Unite the Union. Unite is the UK's largest trade union with 2 million members across the private and public sectors. The union's members work in a range of industries including manufacturing, financial services, print, media, construction, transport and local government, education, health and not for profit sectors.**

**Structure and governance**

1. Unite are keen to engage in a meaningful and constructive relationship with Northern Rock at a strategic level, however are disappointed that more meetings have not taken place. Regular dialogue with employee representatives and employers is essential to alleviate rumour and speculation among staff. Keeping employees in the dark does little to improve morale among the workforce or to build bridges between staff and senior management.
2. The whole area of Government debt repayment and exit from Temporary Public Ownership has been linked to a bonus scheme which, whilst welcomed by staff who have seen promotion and internal grade wages frozen, is viewed as over generous towards senior management. A number of senior level managers have left the organisation, however many still remain. This has led to resentment among staff as many of them are still receiving bonus.
3. The bonus scheme, which was recently announced by the Treasury, covers a 3 year period. This would seem to contradict the government's recommendations that long term strategies should be sought where possible to eliminate short term gain based on high risk.
4. Staff will receive 10% of salary in the first year. However it has been reported that senior managers are likely to receive up to 30% bonus this year. This has outraged employees who see the senior managers as responsible for the present position of Northern Rock including the redundancy of one third of their colleagues.
5. The majority of staff employed with Northern Rock do not earn huge salaries. In fact some of our members top up their salaries with

government benefits including working tax credits. The bonus provided to staff has caused a number of individuals to request that they forego their bonus as they are likely to lose the tax credits they receive which are worth more to them in the long term.

### **Financial Performance and impact on competition**

6. Unite is keen that the Northern Rock is returned to the private sector as a going concern and notes that more than half of the funds provided by the Government, have since been repaid. However Unite has concerns that the reason for this rapid repay is that the same target based systems remain in place as before.
7. Unite is concerned that whilst Northern Rock pursues a rapid repayment programme, its business practice may lead to a deterioration in the quality of its mortgage loan book. This is due to increases in arrears and repossessions from its 'together' mortgage, which, following repayment of the loan, may result in an less attractive company to potential buyers.
8. For Unite it would unfortunately appear that while Northern Rock has been nationalised and is subject to limited Government restrictions and controls, many of the practices which led to the crisis in the organisation remain in place.
9. Employees remain tied to incentivised selling driven by the strategic objective of repaying Government borrowing. This perpetuates and may indeed encourage mis-selling of products to consumers.
10. A further development that Unite would like to bring to the Committee's attention is the 1.5% cap operated by Northern Rock on UK deposits. Whilst this was originally in place to prevent Northern Rock having an unfair market advantage over other banks due to Government guarantees, events have now changed. With the Governments guarantee now extended to other institutions, the cap has resulted in Northern Rock being placed at a disadvantage and having to withdraw some of its saving products.
11. The uncertainty over the banks future and security of employment during this time are of great concern to many of Unite's members who remain employees of the bank.

### **Relationship with customers since nationalisation**

12. Unite are pleased that Northern Rock intends to pass on recent Bank of England base rate changes to consumers. However, notes that a previous rate cut was not passed on in full. It could be argued that for Northern Rock to retain the difference when rates are cut, is re-financing the balance sheet at financial cost to consumers.

13. It has also been reported to Unite that customers whose mortgages are in arrears are being pressured into moving their debt elsewhere, again to relieve the debt burden and reduce Northern Rock's debt repayment obligations.
14. It was Northern Rock's lending criteria which lent 125%+ mortgages to customers, and who are now not prepared to assist these same consumers get themselves out of their financial difficulties. The Government must challenge Northern Rock on these issues if they are in any way committed to properly managing Northern Rock's new business strategy.
15. Unite has concerns that the quick repayment of the borrowing to government and a return to the private sector is the main objective of Northern Rock, not long term sustainability. This will then allow the target based practices and short term decisions which led them to the position they now find themselves in to continue and a reoccurrence of the liquidity crisis in the future could therefore happen again. Sustainability should be sought at all costs over a financial quick fix.
16. As a nationalised company Northern Rock's business decisions must have some level of social bearing and must be seen to be treating customers fairly. The Government must ensure that good sense and moral obligation prevails under their stewardship.
17. This has been evident in the retention of the Northern Rock Foundation which provides significant benefit to the local communities in the North East of England. Unite very much welcomes this obligation and the Bank's commitment to the scheme in the long term.

Unite would however wish to add a further bullet:-

### **Relationship with employees**

18. Unite has produced a Social Contract for Financial Services which lays out recommendations for Government and employers in the sector to adhere to.

These recommendations are:

- Recognition of Unite as a key stakeholder in the future of the financial services industry.
- To ensure the employment security of employees in the finance sector.
- To protect and improve the terms and conditions of employees, including pension arrangements.
- End the remuneration packages of senior executives which reward short-termism and irresponsible risk taking.

- Overhaul of the regulatory structures of the financial services sector to include trade union involvement in order to enhance the accountability of finance institutions.

19. In the present economic and social climate Unite believes that a social agenda must be adopted by employers in the sector to regain consumer and employee confidence and to ensure the future success of the sector. The Unite Social Contract for Financial Services should form a basis for dialogue with employers in the sector at every opportunity.

Graham Goddard  
**Deputy General  
Secretary**

Rob MacGregor  
**National Officer**

Cath Speight  
**National Officer**

For further information on this submission please contact:

Liz Cairns  
**Research Officer**  
Unite the Union

[Elizabeth.cairns@unitetheunion.com](mailto:Elizabeth.cairns@unitetheunion.com)

0141 222 6515

November 2008