



Unite Response to the West Midlands Select Committee Inquiry into the impact of the current economic and financial situation on businesses in the West Midlands Region

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, local government, food, agriculture, education, health, the not for profit sector and hospitality.

Introduction

There are over 180,000 Unite members in the West Midlands region working in all sectors of the economy. Historically the union has had a large membership among workers in manufacturing and in particular the automotive sector. In more recent times Unite's membership has mirrored the diversification of the West Midlands economy. A significant proportion of the union's members are now also found in the public and service sectors.

Unite is one of the driving forces behind the West Midlands Task Force and works elsewhere with local, regional and national Government to represent the needs of workers in the region. The current recession presents a number of challenges for the West Midlands and Unite is committed to working alongside other interested parties to protect and secure decent jobs in the short to medium term and prepare the region to compete effectively in the future.

1. Executive summary

1.1 Unite believes that it is imperative that action to tackle the recession and its effects is coordinated on a local, regional and national basis. Unions are integral to this process and should be included at all stages. Unite is uniquely placed to make a valuable contribution because of its strong presence in the West Midlands region and its history of engagement with efforts to develop the regional economy.

1.2 Unite is lobbying strongly for the implementation of a number of measures nationally to tackle the economic crisis in the short term and to preserve and strengthen the economy in the long term.

1.3 At a national level Unite is calling for:

- A short-time working subsidy to enable businesses to survive the recession without losing skilled workers.
- Government intervention to defend manufacturing, drawing on the action being taken in other EU states.

- Immediate action to ensure easier access to credit from the now state-owned banks
- Measures to restore consumer confidence and to stimulate consumer demand, such as a scrappage scheme for older vehicles
- An immediate overhaul of UK redundancy law to provide fair pay and treatment for UK workers and to create a level playing field with other European countries.

1.4 At a regional level Unite endorses many of the initiatives that have been put in place to tackle the particular challenges faced by the West Midlands. Unite supports the work of Advantage West Midlands and is a key player in the West Midlands Task Force. These agencies should be supported through continuing government funding.

1.5 While Unite has had positive experiences of engaging with regional partners, support from national government could be improved. There is a clear need for targeted assistance for areas such as the West Midlands and for sectors such as the automotive industry. It is essential that BERR and other national government departments and agencies work collaboratively with local representatives and unions to deliver the most effective strategy for dealing with the recession.

1.6 The automotive industry in the West Midlands requires urgent and substantial financial assistance. A high proportion of companies and the supply chain are based in the region. A number of these companies are on the verge of collapse, which could have devastating consequences for the local economy unless intervention occurs immediately. Assistance from national government should be appropriate to the immediate needs of the region and should preserve current employment levels.

1.7 A number of other sectors in the West Midlands are also being severely affected by the downturn, including the aerospace, retail and logistics industries. Many profitable firms in all sectors are in difficulties because of restricted access to finance. Access to credit must be improved immediately and steps must be taken to improve access to new funding streams such as the Enterprise Finance Guarantee.

1.8 Retention of skilled workers should be a priority for any strategy to cope with the recession. Previous recessions demonstrate that large scale lay offs of skilled workers inevitably leads to a skills deficit when trading conditions improve. The West Midlands has a strong concentration of skills in its manufacturing industries which must be retained. A short time working scheme is the best means of achieving this and should be implemented as soon as possible.

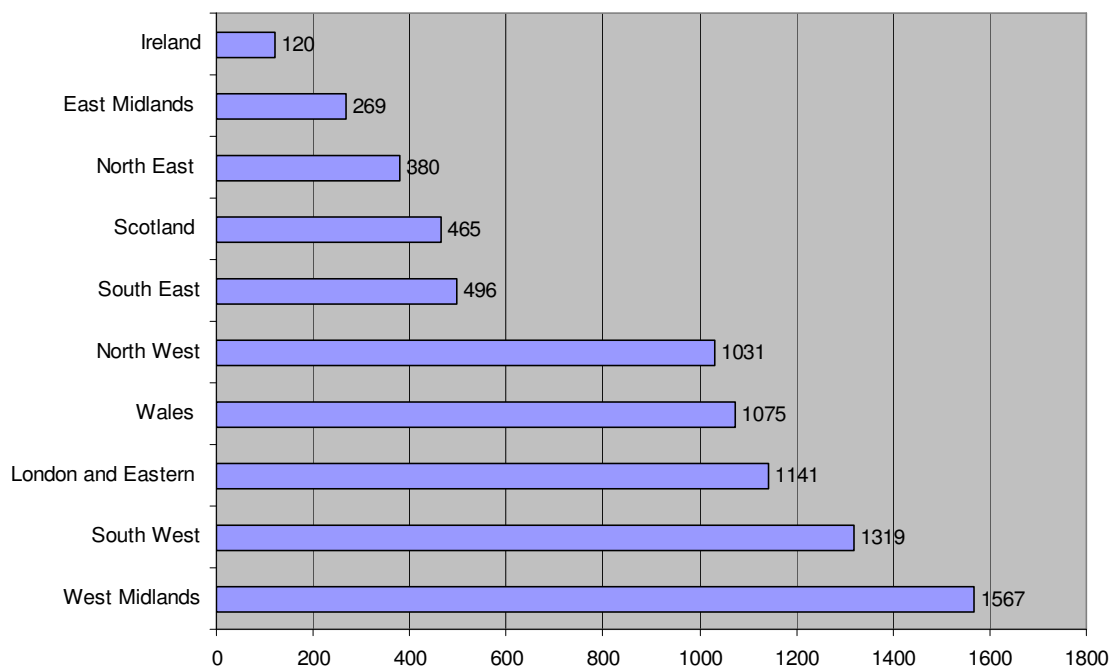
2. The effect of the financial and economic situation on the West Midlands economy

2.1 The immediate outlook for the whole of the UK economy is grim. Forecasters expect UK GDP to fall substantially this year. Price Waterhouse Coopers have predicted that GDP will fall by more than 3% this year, followed by average growth of around 0% in 2010.

2.2 In the West Midlands, GDP is expected to fall by 3.6%, slightly more than nationally. This is mainly due to the sharp fall in the manufacturing sector. PWC has also predicted that businesses in Coventry and Warwickshire will be disproportionately affected by the recession.

2.3 Unite has been collecting its own data to monitor the effects of the recession since mid 2008. The project draws together information sourced from members, activists, workplace representatives, officers in the field and the media. The latest information, from March 2009, shows that the West Midlands region is the worst affected UK regions with regard to redundancies in companies where Unite has a presence.

Job Losses by Region, March 2009



3. Manufacturing

3.1 Manufacturing is a key part of the West Midlands economy. It is the region's most productive sector and the biggest creator of wealth. Manufacturing accounts for 27% of regional Gross Value Added and generates GVA per employee 30% above the regional average. The West Midlands has the third highest manufacturing turnover in the UK, just behind the northwest and southeast, both of which are more densely populated

areas. The region is home to some of the most important manufacturing brands in the UK as well as an extensive regional supplier infrastructure.

3.2 Manufacturing has historically been one of the West Midlands' major strengths and is essential for its future prosperity. Given that the current economic crisis is challenging the once prevailing view that the UK should focus on the financial services industry as a driver of growth, now is an opportune time to rebuild the real economy and re-establish a competitive advantage in manufacturing.

3.3 In recent times manufacturing industries have been sorely neglected. The latest figures from the Office for National Statistics show that manufacturing output has fallen by 0.9%¹. A report published at the start of April 2009 by the West Midlands Chambers of Commerce found that 68% of businesses in the region have experienced a decrease in domestic sales, the highest figure since 1970s.

3.4 The West Midlands survey also reported that 40% of respondents in the manufacturing sector had made cuts to their workforce in the past three months. This is borne out by data collected by Unite in its recession monitoring project. Results for the West Midlands region show that over 9,000 workers have been made redundant since September 2008. 88% of the region's job losses have been in manufacturing. Of this, nearly half of the redundancies have occurred in the automotive sector and its supply chain.

3.5 There is a clear need for a national strategy for manufacturing. The strategy should aim to create secure, skilled work for those displaced during current recession and should protect those industries already established in the UK. The West Midlands is at the core of the UK's manufacturing capability and should remain so. There is a pressing need to create incentives to keep manufacturing employment in the region. Such incentives could include wage subsidies for short time working, which will be discussed further in a later part of this submission.

3.6 Unite has demanded an overall stimulus package for manufacturing amounting to £13bn strategic assistance package to provide commercial loans and support to alter working patterns through the downturn, similar to the action taken by other car producing nations to defend their industries.

3.7 The weakness of UK employment and labour law means that UK workers are among the most vulnerable in Europe during the recession. It is currently much easier to make large scale redundancies and offshore manufacturing in the UK than in most other European countries. Redundancy pay in the UK is among the lowest in the EU and is capped at £350 per week. This represents just 56% of average earnings.

3.8 It is imperative that changes to the law occur quickly to create a level playing field with competitor countries. In these hard times, workers deserve

¹ ONS figures are for February 2009

fair compensation for losing their jobs after years of loyal service. It is time that redundancy pay caught up with the real cost of living.

4. The Automotive Industry

4.1 This sector employs 180,000 workers nationally and contributes some £10.2 billion value-added to the UK economy, equivalent to 6.4% of the total for the whole UK manufacturing sector. In the West Midlands more than 100,000 workers are employed in vehicle manufacturing and the components sector.

4.2 The car industry has been particularly badly hit by the recession with UK sales down 22% and car production falling by 59% compared to the same time last year. There have been a number of large scale redundancies in the sector. Unite's recession monitoring suggests that over 4000 workers have been made redundant in the West Midlands automotive industry since mid 2008.

4.3 Long established businesses such as LDV, which provides 850 jobs and supports thousands more in the supply chain, are threatened with closure. Substantial job cuts have also taken place at GKN, TRW and Cummins.

4.4 Jaguar Land Rover has experienced significant difficulties and had to cut 450 staff in January 2009. A further 300 jobs are currently at risk. Approval for a loan of £340m from the European Investment Bank has recently been granted for JLR, as part of a £2.3billion package for the UK car industry. Unite welcomes this timely intervention and would urge the Government to make funding available as soon as possible to secure not just those jobs at JLR but also the additional 50,000 jobs in the supply chain.

4.5 Nationally Unite is calling for further funding from the European Investment Bank to kick start investment in low carbon vehicle manufacturing. Unite is also in favour of a "scrappage" scheme similar to that introduced in a number of European countries, including Germany.

4.6 A scrappage incentive scheme is a popular and practical means of providing support for the automotive industry. It also represents good value for money for the tax payer as VAT revenue through increased car sales offsets the cost of the scheme for the Government. Results from a recent independent survey commissioned by the SMMT² found that 76% of consumers are in favour of the UK government introducing a scrappage incentive scheme similar to those currently running across Europe.

4.7 A scrappage scheme could also help to increase consumer confidence, which would yield benefits for the rest of the economy. A similar scheme already operating in Germany has successfully boosted the new car market,

² Society of Motor Manufacturers and Traders Ltd

increasing registrations by 21.5% in February - the first year-on-year monthly rise since July 2008.

Access to Government funding and bank finance

Government intervention to stimulate lending and open up access to credit has been broadly welcomed by Unite however the union has a number of concerns about the delays in freeing up finance for manufacturing companies and their suppliers.

4.8 In January 2009 the Enterprise Finance Guarantee (EFG) replaced the now suspended Small Firms Loan Guarantee Scheme. The EFG scheme provides a 75% government guarantee on individual loans of up to £1m to viable businesses with an annual turnover of up to £25m. Unite welcomes the fact that the guarantee can be used to support new loans, refinance existing loans or to convert part or all of an existing overdraft into a loan to release capacity to meet working capital requirements.

4.9 However, there are a number of concerns about how the new schemes are being administered and advertised. In March a survey of 250 UK companies conducted by the British Chambers of Commerce found that 90% of respondents had no idea that their bank offered the scheme. The same survey also reported that businesses are finding it difficult to identify which banks are taking part in the scheme.

4.10 A third of respondents also feared that applying for EFG assistance would create negative perceptions about their company. A quarter of respondents believed that their bank would demand further security, additional fees and view them as 'high risk' if they applied for one of the loans.

4.11 A number of companies that Unite is engaged with are also concerned that the 75% limit on the guarantee scheme is not enough and many businesses are struggling to access additional necessary finance. Unite recommends that the EFG scheme be increased to provide a guarantee of 90%.

4.12 At a national level Unite has been campaigning for an industrial policy that can provide funds for poorly capitalised businesses in the automotive, high technology and low carbon manufacturing sectors, on a par with action already taken by the French and German governments. The union also believes that this is an opportune time to make use of the social, economic and environmental caveats in public procurement rules to stimulate demand for the existing UK manufacturing base.

4.13 In the case of the West Midlands it is essential that national intervention is targeted properly and is available immediately to rescue struggling companies. There are concerns that national aspirations to channel funding and assistance into the development of new and emerging technologies may compromise existing employment in traditional industries. It is therefore essential that policies to support manufacturing strike a balance

between retaining existing capabilities, skills and employment and developing new industries.

5. The impact of Regional agencies and the West Midlands Task Force

5.1 Unite is actively engaged in the West Midlands Task Force and supports the work of Advantage West Midlands. The WMTF has an integral role in preserving and expanding the region's manufacturing capacity, evidenced by a recent report by BERR.³ The report found that Advantage West Midlands adds £4 to the region's economy for every £1 it spends. The report also stated that AWM had created or "safeguarded" nearly 78,000 jobs and helped create 3,000 new businesses.

5.2 The Rover Task Force, which was set up to limit the damage to the economy caused by the closure of Rover's Longbridge factory in 2005, was also singled out in the report as "a major success".

5.3 Regional Development agencies have an important role to play in delivering national objectives and in balancing these objectives with the needs and capabilities of the local area. AWM has effectively balanced the need to support existing industry alongside creating new opportunities. Between 2002 AWM spent £987million between 2002 and 2007 on projects ranging from support for the automotive industry to attracting high technology businesses into the region and subsidising training

5.4 Unite has been concerned that the national response to the current economic crisis has been poor in terms of addressing local needs. Unite recommends that national interventions should be based on sound evidence that new measures are going to benefit regionally based companies and the supplier who depend on them. Now more than ever it is vital that national government works collaboratively with regional representatives and unions to deliver the most effective interventions.

6. Skills Retention and Short Time Working

6.1 When workers are made redundant it is vital that they are given the means to retrain and re-enter the labour market. Unite is also aware that one of the main barriers to accessing training is the 16 hour rule. This prevents jobseekers from studying or training for more than 16 hours a week without becoming ineligible for JSA and housing benefit. A higher degree of flexibility is required in this provision to enable more people to upskill.

6.2 The West Midlands has a good record of skills development. It is the highest performing region in terms of Train 2 Gain and through previous recessions and the collapse of MG Rover has developed a number of initiatives to tackle unemployment and skills retention. Unite is an active

³ Available from: <http://www.berr.gov.uk/whatwedo/regional/regional-dev-agencies/Regional%20Development%20Agency%20Impact%20Evaluation/page50725.html>

partner in the ESF⁴/LSC⁵ funded Better West Midlands Project which has been supporting 5,000 workers who live or work in the West Midlands and who are affected by redundancy from within the manufacturing sectors.

6.3 Despite these efforts a considerable skills shortage persists in the West Midlands. The West Midlands Chamber of Commerce has also recently reported that a quarter of manufacturers are cutting back on training because of a combination of falling workforces combined with falling profits and cash flow. In the current economic climate Unite is also concerned that targets for increasing apprenticeship numbers will not be met.

6.4 A number of firms in the West Midlands have implemented or are proposing to introduce short time working in an effort to avoid redundancies. Short time working can enable employers to avoid immediate redundancies and retain essential staff and skills. Short time working schemes can also increase economic demand by limiting the income reductions faced by workers during the recession and, if linked to training, it would support longer-term workforce development.

6.5 Comparisons with the USA and other European countries, notably Germany, Austria and Italy demonstrate that direct support can be made available through the National Insurance Fund or through increasing the Statutory Guaranteed Payments for lay-offs scheme and further increases in the Train to Gain budget.

6.6 Unite is seeking government financial support for workers whose hours are reduced so that these workers can retain a level of earnings which maintains a reasonable standard of living. For most workers this will mean at least maintaining basic pay levels during the period of short time working. A joint proposal from the TUC and the Federation of Small Businesses (FSB) has provided costed plans for a £1.2bn package of wage subsidies, which would save an estimated 600,000 jobs.⁶

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⁴ European Social Fund

⁵ Learning and Skills Council

⁶ Available from <http://www.tuc.org.uk/extras/wagesubsidies.pdf>