



**European Commission Investigation
State aid C 14/08 (exNN 1/08)
Restructuring Aid to Northern Rock**

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.

Introduction

1. Unite is the largest trade union in the UK and represents members in most high street banks and building societies including Northern Rock. Unite is therefore well placed to respond to this investigation.
2. Unite is supportive of the steps taken in this instance by the UK Government to intervene in the nationalisation of the Northern Rock Bank which, Unite would argue, has lessened the potential for large scale job losses for our members.
3. While 2000 employees face redundancy from Northern Rock, 4000 jobs remain and this must not be forgotten in the rush to criticise or look for a scapegoat.
4. Despite Unite's support for state aid, it is nevertheless clear that this outcome was not predestined and that early and effective intervention at Northern Rock could have prevented the near collapse of the bank in September 2007. What is more, Unite has over a period of time raised concerns that the company was expanding too rapidly too quickly, and that that level of growth was unsustainable.

5. Unite believes that following the failure to secure a buyer for the company, the prospect of the wholesale collapse of Northern Rock without government intervention was real and would have had a far greater impact on job losses within the bank. There was also the potential for 'spill over' if the bank collapsed, which would have further undermined confidence, financial stability, job security and customer confidence in the sector more generally with seriously damaging consequences for the wider UK economy - state intervention was the only solution available that would limit the damage.

Background

6. Northern Rock is heavily involved at many levels within the North East of England. This region of the UK has suffered disproportionately from the decline of heavy industry and manufacturing, with higher than average levels of unemployment, and the highest levels of multiple deprivation both urban and rural, in England.
7. In 2006 the employment rate (for people of working age) in North East England was 71.7%, one of the lowest in the UK. The region also has a declining population.¹ It was therefore vital to retain jobs and people in the North East.
8. Since 1997, Northern Rock has contributed around £175 million across the region to good causes through its charitable foundation and is the main sponsor for a number of local organisations including rugby and cricket teams, Newcastle United football club and small community groups.²
9. The collapse of a large employer from the area would have hit the region hard, both financially and socio-economically.

Failings in processes and procedures

10. The situation within Northern Rock has focused attention on regulatory and auditing systems within the UK finance sector. It would appear that there was a systemic failure within Northern Rock and in particular the failure of the Financial Services Authority's (FSA) supervisory team to deal sufficiently rigorously with the company's management in questioning the vulnerability of the bank's business model, with its over reliance on wholesale funding to support its rapidly expanding mortgage book at a time when other banks were adopting a much more cautious approach.
11. The impact of the near collapse of Northern Rock was further prolonged by the inability of the tripartite authorities, Her Majesty's Treasury (HMT), Bank of England (BoE) and the FSA, to act swiftly and

¹ ONS Changing Regional Economies: North East (2007)

² Northern Rock Annual Report and Accounts 2006

decisively in response to the crisis. Consequently, it could be argued that this situation may have been avoidable had the powers envisaged under the Special Resolution Regime been available to the authorities last September.

Recommendations

12. Government intervention through state aid was right in this case. However Unite would not wish to see this situation continue indefinitely and as soon as Northern Rock is restored to a commercially viable position, it should be returned to the private sector, either as an independent bank, re-mutualised as a building society, or transferred to a suitable private buyer.
13. Unite believes that there needs to be a process in place to require banks to provide evidence at short notice that they are meeting threshold standards between supervision meetings and supports proposed UK legislation which will enable information to be exchanged more freely between the tripartite authorities to allow for a more prompt and co-ordinated response to any indications that a bank is potentially in difficulties.
14. This process could further be enhanced through a strengthening of the Information and Consultation Directive which would provide the facility for recognised stakeholders to consult with management on any business strategy which may impact on the terms and conditions of our members.
15. The intervention by government has stabilised the situation, halted the outflow of customers and restored some level of confidence back to the sector at a time when other financial institutions are also feeling the pressures from a global credit crunch.
16. Northern Rock employees have been seriously let down on a number of fronts: by the Bank's Board of Directors and Executive managers who were responsible for adopting a high risk lending policy; by the tripartite authorities for failing to have an effective regulatory regime in place which could have prevented the crisis; the subsequent need to place the bank into public ownership; and the forthcoming loss of so many jobs. As the largest trade union for finance sector workers, Unite must be fully consulted on all measures proposed to strengthen risk management, enhance supervision and extend regulatory intervention to avoid any repetition of the events which led to the near collapse of Northern Rock.

June 2008

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