



Amicus evidence to the Trade & Industry Select Committee inquiry into the future of manufacturing - public procurement, skills shortages and marketing UK plc

Amicus is the UK's second largest trade union with 1.2 million members across the private and public sectors. Our members work in a range of industries including manufacturing, financial services, print, media, construction and not for profit sectors, local government, education and the health service.

1. Introduction

1.1 Amicus welcomes this inquiry and the opportunity to present evidence to the Committee. The union has a long history of supporting manufacturing industry and, in recent years, has campaigned for economic and industrial strategies and policy to support the manufacturing sector in the 21st century.

1.2 Amicus notes the intention of the Committee to inquire into a range of specific issues impacting upon manufacturing and we look forward to contributing to each of these inquiries. This submission addresses the three areas identified by the Committee, public procurement, skills shortages and marketing UK plc.

1.3 The submission summarises our views on these areas and we would welcome the opportunity to expand on this written evidence should the Committee feel this would be helpful.

2. Executive Summary

2.1 Public Procurement

- a) There needs to be a greater dialogue and understanding between government procurement agencies and UK business. There is evidence that there is very little interaction. This would be unheard of in France or Germany;
- b) There needs to be a greater understanding by procurement agencies of the manufacturing supply chain, the role of SMEs in that chain and the fragility of local capacity;
- c) The UK Government needs to talk to UK industry and the relevant trade unions to discuss a pragmatic, sustainable, long-term strategy for key industries within the sector;

- d) There needs to be a more systematic approach from the DTI and greater accountability. At present there is little joined-up thinking or strategic working regarding the various Government agencies;
- e) Procurement agencies in the UK need to take on board and give pragmatic advice and support to companies who lose out on bids but are reluctant to use the complaints and appeals process to complain about a decision made in a market they are trying to break into.
- f) Amicus believes that a mentoring system for inexperienced companies who are looking to enter the procurement market would alleviate many of the pitfalls and problems experienced by UK companies all of which are expensive in terms of resources, time and investment. The mentors would be UK companies experienced in the procurement process. This would be particularly effective for SME's wanting to trade with Europe;

2.2 Skills shortages

- a) The mismatch between the skills training provision that is on offer and what is required by employers must be reviewed. There needs to be an open and frank debate including all the stakeholders to ensure that the training on offer is what is required by manufacturing industry;
- b) There needs to be a significant re-direction of funding. At present the majority of funding is directed at FE, to the detriment of Higher Education. If the Government wants to continue in this vein then there needs to be a review of the delivery of training from FE to ascertain whether it is effective;
- c) The work of the Sector Skills Councils has to be subject to a system of quality control if the criticisms of users are to be overcome;
- d) Union Learning Representatives (ULRs) have done a great deal to increase basic skills and open up educational and training opportunities to workers and the current union learning rep programme needs continuing funding;
- e) Government should match its commitment to training and acknowledgement of the contribution made by ULRs by including training in the collective bargaining rights legislation;
- f) There needs to be a detailed analysis of the learning and skills requirement for specific sectors which would include a skills matrix and a career map for specific workers. This would enable career paths to be plotted and enable employers to see what training needs to be provided.
- g) The UK government needs to show a consistent and cohesive approach to education and skills in the UK. At present each new minister brings in different initiatives and reforms, none of which seem to be demand led. Supply led training provision is not acceptable and will not deliver a sustainable manufacturing sector in the future.

2.3 Marketing UK plc

- a) UK Trade and Investment (UKTI) is not working as effectively as it could. Amicus recommends a 'one-stop-shop' for UK business, not only for information about procurement but also pragmatic advice about breaking into difficult markets and ways of circumventing insidious bid manipulation;
- b) Amicus would challenge some of the marketing proposals contained within the UKTI strategy document 'Prosperity in a Changing World' which lays out its 5 year plan for reinforcing the UK position at the centre of the global economy.
- c) Amicus would also argue that there needs to be a focus on the support, development and encouragement of small and medium sized enterprises (SMEs).
- d) There needs to be a substantial marketing exercise regarding the value of working within manufacturing and acquiring the skills, education and training to facilitate this. More young people need to be encouraged to go into courses that are science, mathematics or technology based;

3. Public Procurement

- 3.1. In addressing the issue of public procurement, Amicus notes the government commitment to the process of procurement for public services in the UK. The annual spend of £125 million is potentially a significant boost to UK manufacturing.
- 3.2. In determining the criteria for awarding procurement contracts government has emphasised a policy of “best value for money”. The way to achieve this and the regulation that provides for this indicates that it is the tendering bid that offers ‘the optimum combination of whole life costs and benefits to meet the customer’s requirements’. This does not mean the lowest price option, it means an assessment is required regarding the ongoing revenue/resource costs as well as the initial capital investment. Three new considerations also need to be taken into account. These are the social, environmental and health and safety implications of the awarding of a tender contract.
- 3.3. Amicus would wish to see greater emphasis placed upon these latter criteria that to date we believe has not been the case.
- 3.4. Amicus also notes that in 2003 the Kelly Report¹ indicated that there is a potentially wider economic aspect to procurement in the UK. Better capacity planning on the back of government contracts, and more effective competition for these contracts should not only provide value for money for the UK tax payer, but could show overseas procurers how effective UK companies are, and encourage them to offer contracts to UK companies².
- 3.5. The public market across the European Union is worth in excess of €1,500 billion per annum, representing 16% of European Union gross domestic product (GDP)³. For UK companies interested in pursuing new markets in Europe, the tendering process should offer them an opportunity to realise their potential expansion in a new market in Europe. This could enable them to sell their product, create the opportunity to fulfil contracts in other countries, or enable them to become a significant player in this new market place. However, less than 10% of public purchasing in the European Union is accounted for by direct cross-border trade; where one company based in a member state sells to a buyer in another state. This is half the amount found in the private sector⁴. Indirect cross-border trade where a company sells via a subsidiary located within the same member state, with their headquarters being in another member state or outside of the European Union altogether, represents 30% of European public procurement⁵.
- 3.6. However, market liberalisation in the UK is far in advance of other European Union countries. As a consequence of this, the UK market has been opened up extensively to the companies of the European Union and many other international companies who want to tender for the contracts are also benefiting. For example, Damovo, the American global services company has been awarded a three year contract with the British NHS purchasing and supply agency worth £18 million.

¹ OGC Report to the Chancellor of the Exchequer-Increasing Competition and Improving Long-term Capacity Planning in the Government Market Place, December 2003

² Ibid

³ Internal Market Strategy, Priorities 2003 – 2006, May 2003.

⁴ Ibid

⁵ The Functioning of Public Procurement Markets in the EU: European Commission, February 2004.

- 3.7. In many respects the procurement process can have an advantageous effect. In the pursuit of 'best value', the opportunity should arise for the most diverse and innovative companies to tender for contracts, and the opportunity for extensive competition should ensure that the 'best' companies come to the fore and are awarded the contracts. However, Amicus believes this is not happening and is an oversimplified and naïve view of what is actually occurring in the European and global market. Coupled with this is the government's firm commitment to the free market, competitive tendering and international competition⁶.
- 3.8. UK market liberalisation is seen as one of the key issues affecting UK companies. This is particularly acute when foreign firms competing in the UK market are state-owned or state subsidised and therefore not exposed to the same competitive pressures as UK companies. The degree to which public procurement markets in Europe are open to UK companies is significantly affected by a number of key factors. These include cultural differences, political influence, industrial policy, slow or non-existent market liberalisation and the decentralised nature of many of the largest European Union member states. France and Germany both present problems regarding all of these factors, yet are two of the biggest markets in the European Union. There also seems to be indicators that Spain systematically flouts the EU regulations regarding procurement⁷.
- 3.9. Cultural differences are particularly prevalent where procurement is concerned, where buying locally is the norm and no amount of legislation or regulation from Brussels will change this. For many UK companies recognising this cultural barrier has forced them to find alternative ways of working. There is evidence that a large number have either acquired a smaller company in the locality to enable them to work within the region, or have employed agents in the region or industry to smooth their path or enable them to overcome specific cultural, social or language barriers. For example, a European Union report found that local firms win on average 35% of tenders in their home market even if they are under foreign ownership, while 30% are won via nationally owned companies and only 25% are won by companies bidding from a different country with no local connection⁸.
- 3.10. It is against this background that Amicus believes the UK Government has to address the UK procurement market in a more innovative way which supports UK plc and UK jobs.
- 3.11. Given the structure of the UK manufacturing business economy and the preponderance of small and medium size enterprises, (SMEs), Amicus believes that much more needs to be done to assist SMEs in accessing the procurement market both here and in Europe.
- 3.12. The UK Government has invested a great deal of money and resources into promoting public procurement. However, despite this investment the failure of the government to address domestic procurement opportunities is vividly displayed in its approach to the railway industry and train building. In a recent report⁹ Europe Economics present a clear case for a more strategic approach from government

⁶ 2004 Budget, Gordon Brown, Chancellor of the Exchequer, 'competition promotes efficiency, controls inflation and creates choice for consumers'.

⁷ The Wood Review, November 2004, p.27

⁸ The Functioning of Public Procurement Markets in the EU, European Commission, February 2004.

⁹ Bombardier Transportation: the future of the Derby plant: A report by Europe Economics Nov 2005

(Department for Transport) in the whole procurement process. The report is critical of the government for failing to have a single body which takes a strategic overview of the new vehicle purchasing profile. The net effect of which is huge fluctuations in orders for new trains, resulting in massive changes in the workload for rolling stock manufacturers. As a result, the report finds, manufacturers have been asked to produce some 4500 cars over the last 10 years and this has now dropped close to zero for the next 3 years. The only way for manufacturers to handle the “feast” and “famine” order placement is to plan their workload across national boundaries and rationalize the number of manufacturing sites on a global basis, thus placing UK jobs at risk.

- 3.13. The Wood Review¹⁰ identified some examples of where EU regulations on public procurement were clearly flouted to the detriment of UK companies seeking to obtain procurement contracts abroad. Coupled with the strategic policies adopted by government in respect of UK procurement, the overall position for UK manufacturing in benefiting from public procurement in the UK is seriously understated.

4. Skills shortages

- 4.1. The UK government has clearly indicated that their manufacturing strategy is designed to create a globally competitive manufacturing sector, focussed on the production of high value goods and services, and employing a highly skilled and flexible workforce. The success of this strategy however is dependent on how the government transposes its training and education policies into the reality of the world of work.
- 4.2. At present the delivery of further education courses, which are the central plank of government provision for the manufacturing sector, is supply led and not demand led. UK employers have said time and again that they need to be involved in the decision making process regarding the vocational courses on offer and this is not happening. Huge amounts of funding are going to the further education sector for the provision of vocational courses, at the expense of the higher education sector, which is currently being starved of funding and where the number of students opting to take science based degrees is at an all time low. There is an obvious mismatch of what is on offer and what is required by manufacturing industry.
- 4.3. The government believe that the FE system is the foundation for a high skills economy, whilst the funding is biased towards level 2 qualifications. Employers are being encouraged to raise the level of skills within their workforce to improve performance and increase productivity. The consequence of government strategy is the attainment of lower skills at the expense of higher-level skills evidenced by the Further Education White Paper published in March 2006 which stated “even if we achieve all our current targets for raising skills and qualifications amongst young people and adults, the UK would still end up in 2020 no better than mediocre in the international rankings”¹¹.
- 4.4. At the moment research suggests that employers’ expenditure in workforce training is four times that of the government. The opinion of many stakeholders that this would not guarantee a future for the manufacturing sector is justifiable. The trend across all manufacturing industries shows that demand for level 3 qualifications is becoming the minimum standard. There is at the same time a drift

¹⁰ The Wood review, November 2004

¹¹ Dfes, Further Education Reform White Paper: Raising Skills, Improving Life Chances, p4

of potential workers away from the sector. This could be as a result of continuous availability of jobs in other sectors at the level where most young people are eligible for funding resulting in cases of skills shortages in the manufacturing sector.

- 4.5. The further education system is continuously being expanded to accommodate diverse interests of learners and employers. This has resulted in many courses and qualifications that are not adequately mapped to reflect clear progression routes to higher level qualifications. There is also a high emphasis on the NVQ assessment as the basis. The opinion of many stakeholders, supported by some academic literature, is that the NVQ is a measure of the proficiency of the learner on the current job but does not equip learners with skills for future challenges on their job and the theoretical background they required for innovative activities. This has been used to highlight the weakness of the intermediate level technical workforce compared to their counterparts in Germany.
- 4.6. Union Learning Reps (ULRs) have put learning and skills right back at the top of the agenda in workplaces across the country. Working with employers, learning providers and other organisations, they are trained in advising members on learning needs and opportunities ranging from basic skill needs to promoting continuous professional development. Union Learning Reps are providing the opportunity for many thousands of workers to develop new skills or update existing ones.
- 4.7. Analysis of the 1998 Workplace Employment Relations Survey shows that in workplaces where training was negotiated, almost 40 per cent delivered an average of five or more training days a year per employee compared to just over 20 per cent of workplaces where training was only subject to consultation (quoted in *The Learning Curve*, TUC, 2006)

5. Marketing UK plc

- 5.1. 2005 proved to be an exceptional year for FDI across many of the world's economies, for the UK it represented an unprecedented level of FDI to the tune of \$165 billion¹² beating the US to the head of the table for inward investment and representing the largest ever recorded figure for FDI for the UK. Whilst the benefits of this level of inward investment are clear the government needs to give consideration to the social, economic and employment impacts of FDI.¹³
- 5.2. The role of providing the UK with ever increasing levels of FDI and the championing of UK companies abroad is undertaken primarily by the DTI offshoot, UK Trade and Industry (UKTI). In its key document 'Prosperity in a Changing World' UKTI lays out its 5 year plan for reinforcing the UK position at the centre of the global economy. However, Amicus would challenge some of the marketing proposals contained within the strategy document.
- 5.3. Amicus would be keen to know why UKTI has chosen the City of London and the financial institutions of the UK as its main focus for marketing. A cynic would say that UKTI has chosen this sector because they cannot fail to succeed. The UK financial services sector is an outstanding success story across the world and the City of London is renowned across the UK for its generation of wealth. Does it really need further marketing? Does it really need to be the main focus of UKTI for

¹² OECD-Trends and Recent Developments in Foreign Direct Investments, p6

¹³ Amicus – Manufacturing Strategy 2006.

the next five years? Amicus would question the veracity of this situation and ask why UKTI is not concentrating on manufacturing and the promotion of UK manufacturing industry. UK workers in the manufacturing sector are some of the most productive in the world and companies such as British Aerospace and Nissan show what UK workers have to offer to global companies.

- 5.4. Amicus would also argue that there needs to be a focus on the support, development and encouragement of small and medium sized enterprises (SMEs). These organisations, while being encouraged to bid for procurement contracts and overseas contracts, are often excluded from the awarding of contracts due to the lack of support from organisations such as UKTI.
- 5.5. UKTI has been specifically set up to help and assist all UK business, not just those that are already successful and which promise an excellent outcome in any monitoring process. This needs to be acknowledged and addressed by Government.
- 5.6. Amicus would also want to see certain industries within the UK manufacturing sector promoted and supported by UKTI. These would include those that are currently employing high skilled workers such as the aerospace and defence industries or the telecoms and 'sunshine' industries¹⁴.

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¹⁴ Industries based around science, innovation and technology