



Centre for Sustainable Work and Employment Futures

New Industry on a Skewed Playing Field: Supply Chain Relations and Working Conditions in UK Garment Manufacturing

Focus Area - Leicester and the East Midlands

Contents

Preface

Report Authors

Acknowledgements

List of Acronyms

List of Tables and Figures

Executive Summary

1. Introduction

The Research Focus

Key Terms

Methods and Samples

Quantitative and Qualitative Information

How to read the report effectively

2. An Incomplete Picture of the Garment Industry in the UK and East Midlands

Off-shoring and the Decline of Apparel Manufacturing in the UK

An Emerging New Industry?

Employment and Wages

Apparel Manufacturing in the East Midlands

3. Supply Chain Practices

Business Strategies, Price and Capacity

Purchasing Practices

Beyond Purchasing Practices

Fragmentation and Integration

Unauthorised/Undeclared Subcontracting

Monitoring, Auditing, Enforcement

4. Employment and Working Conditions: A Case-study of the Leicester Garment Sector

Non-payment of the National Minimum Wage and Under-recorded Working Hours

A Lack of Employment Contracts

Exploitative Working Conditions

Workforce Segmentation as Business and Labour Management Strategies

Monitoring, Auditing, Enforcement

5. Towards Fundamental Labour Rights and a Level Playing Field

Supply Chain Transparency and Labour Costing

Supply Chain Accountability

Monitoring, Auditing, Enforcement

Empowering Workers, Developing Industrial Relations

6. Recommendations

References

Appendix – FOI Request

Preface

The UK apparel manufacturing industry, after significant decline, has experienced renewed growth in recent years as many retailers and brands have commenced or increased sourcing from local suppliers. This presents significant opportunities for regional economies as it can offer local garment manufacturers entry points into global value chains as well as employment opportunities for their community. At the same time, as this industry revives, anecdotal evidence has emerged about considerable risks in the form of violations of work and employment regulations.

Recent media reports have highlighted serious labour rights issues and other concerns such as unauthorised subcontracting within UK apparel manufacturing. Particular concerns have been raised about working conditions in the garment manufacturing hub of Leicester and its surrounding areas, relating to both registered factories and smaller unregulated production units. Alleged workers' rights issues included excessive working hours, poor health and safety conditions in the workplace and night shift subcontracting, among others. It was also thought that some registered factories may be subcontracting to unregistered units to meet high volume and short turnaround order commitments within tight cost constraints.

These concerns came to the attention of the Ethical Trading Initiative (ETI), a UK-based alliance of lead firms, trade unions and NGOs that promotes respect for workers' rights around the globe. ETI members include many well-known UK fashion brands and retailers, for whom Leicester represents a sourcing destination for some product lines. Poor working conditions often result from a wide range of political, social and economic factors. ETI's work is grounded in the belief that to truly bring about sustainable change to workers' lives, the root causes of labour rights issues need to be identified, understood and tackled collaboratively.

ETI identified the need for substantive research to better understand supply chain relationships and working conditions within the UK garment sector, with a focus on Leicester, before deciding on what action to take. The University of Leicester's Centre for Sustainable Work and Employment Futures was commissioned to lead a research study, due to its focus on industrial relations and labour rights and strong connections with local stakeholders. Dr Nik Hammer and his research team brought a wealth of knowledge and experience to the project, and worked closely with a wide spectrum of stakeholders through the research process. The following report represents the outcome of this commission.

Report Authors

University of Leicester

The University of Leicester is a leading UK University committed to international excellence through the creation of world changing research and high quality, inspirational teaching. Leicester is consistently one of the most socially inclusive of the UK's top 20 universities with a long-standing commitment to providing fairer and equal access to higher education. Leicester is a three-time winner of the Queen's Anniversary Prize for Higher and Further Education and is the only University to win seven consecutive awards from the Times Higher. Leicester is ranked among the top one per-cent of universities in the world by the World University Rankings.

Centre for Sustainable Work and Employment Futures

The Centre for Sustainable Work and Employment Futures was established in 2013 within the College of Social Sciences to position the University of Leicester at the forefront of analytical and policy research on work and employment futures.

The Centre aims to shape and improve work and employment policy analysis and inform practice by bringing together a team of networked researchers to produce systematic theory and a secure evidence base to address existing knowledge gaps.

Research is initially concentrated on six inter-connected themes:

- Age, productivity and employment change;
- Financial capitalism and employment relations;
- Labour markets: structural change and transitions;
- Workplace industrial relations in the shadow of recession;
- Shrinking the state: the shifting boundaries between public and private sectors;
- Globalisation, technology and new international divisions of labour

The team that produced the report include: Dr Nikolaus Hammer as the lead researcher, together with Dr Réka Plugor, Professor Peter Nolan, and Professor Ian Clark.

Acknowledgements

This research has drawn on the support and contributions of a wide range of actors in UK apparel manufacturing. First of all, the research team would like to thank ETI, in particular Debbie Coulter-Head of Programmes and Alessa Rigal- Programmes Officer, who not only commissioned the research but set the scene beforehand in building relationships with industry actors in the East Midlands. We are indebted to John Miln and the UK Fashion and Textiles Association (UKFT) for their support of the research, particularly in facilitating a successful supplier forum to gather views of suppliers and manufacturers as part of the research. We are also grateful to the trade union, Community, and the Centre for Sustainable Work and Employment Futures who have supported different aspects of the research.

Most importantly, the research would not have been possible without the respondents' willingness to contribute as candidly as they did. The research team would like to thank the range of different actors, from brand ethical trading managers to garment workers, for their efforts in sharing their experiences. Given the commercial and personal sensitivities of the research, all respondents remain anonymous. In this light, it is even more pertinent for us to record our deep appreciation. We have sought and aimed to represent all relevant stakeholder views appropriately in the context of this report.

We would like to extend our gratitude to the Pakistan Youth and Community Association for their professionalism in conducting a small scale survey amongst garment workers and managers.

Furthermore, the research team is indebted to all those who helped to facilitate various parts of the research, including introducing or referring further participants, as well as setting up meetings and focus groups with suppliers, managers, and workers. Finally, we would like to thank Dr. Anita Hammer for providing interpretation and translation where needed during conducted interviews.

List of Acronyms

aGVA – approximate Gross Value Added

FLSA – Fair Labor Standards Act

FOI – Freedom of Information

GMB – General, Municipal, Boilermakers and Allied Trade Union

HMRC – Her Majesty's Revenue and Customs

KFAT – Knitting, Footwear and Allied Trades Union

NI – National Insurance

NMW – National Minimum Wage

MFA – Multi-fibre Arrangement

OTB – Open to Buy

PAYE – Pay As You Earn

PTS – Predetermined Time Standard

SMETA – Sedex Members Ethical Trade Audit

SMV – Standard Minute Value

TUPE – Transfer of Undertakings (Protection of Employment) Regulations

PYCA – Pakistan Youth and Community Association

UKFT – UK Fashion and Textile Association

WHD – Work and Hour Division

List of Tables and Figures

Table 1: Decline and Growth in Apparel Manufacturing in the UK and the East Midlands

Table 2: Immigration Enforcement in Leicester

Executive Summary

UK garment manufacturing is at a crossroads. It has seen the emergence of new business models that are competitive in a globalised industry, integrated into global supply chains and developed relevant management systems. In contrast, the regulatory environment is largely geared to a model that has gone out of business. The average size of a garment manufacturer has declined by more than 60% over the last two decades, with 82% of firms employing less than 10 employees in 2013. These two drivers – sourcing and purchasing practices as well as product and labour market regulations – have in many ways resulted in a new, very different, industry which is dominated by small firms, fragmented supply chains, a largely vulnerable workforce, and the absence of enterprise-level industrial relations and worker representation.

Those drivers constitute pressures and opportunities that characterise the new garment manufacturing industry. In the process, however, they have skewed the playing field in the workplace as well as in product markets and have led to adverse outcomes. For example, extensive research within Leicester as a UK sourcing hub found that the majority of garment workers are paid way below the National Minimum Wage, do not have employment contracts, and are subject to intense and arbitrary work practices. Equally, a number of manufacturers have made considerable investments to meet rising demand, only to find themselves undercut by competitors that violate minimum work and employment standards. An important piece in the puzzle of the skewed playing field is that new industry structures have rendered existing forms of private and public regulation unfit for purpose. Selective monitoring is not able to address factory level practices in the context of the push of sourcing and purchasing practices, as well as the pull of a vulnerable labour supply and weakened labour market regulations.

The avoidance of statutory regulations, however, is dysfunctional in many respects: it exposes lead firms and the local economy to considerable reputation risks, disadvantages compliant manufacturers, and thoroughly fails to protect workers. Nonetheless, garment manufacturing in the UK has good prospects, evidenced in increasing turnover and employment, if it can address the challenges that result from the avoidance of business and employment standards. These challenges pose fundamental questions for practices of supply chain management, related issues of transparency and accountability, as well as the public and private regulation of inter-firm relations and employment standards.

This report has gathered sufficient evidence to suggest the highlighted practices are significant within the industry. A range of methods and data sources was used in order to triangulate and assess the validity of different data, from official statistics and news and Lead firms House databases to information from whistleblowers; from lead firms' (retailers and brands), suppliers' and manufacturers' experiences to a small-scale survey of garment workers. This variety of methods allowed the research to assess and even out the disadvantages any single approach has when investigating hidden aspects of the supply chain, the employment relationship, or the production process. The research design aimed to optimise depth (a case study of apparel manufacturing in Leicester as a major hub) and access (investigating the supply chains of 10 lead brands). Against the background of industry and labour market statistics as well as stakeholders' UK-wide experiences, the data can be considered valid and robust with regard to the UK's dynamic Fast Fashion industry.

The UK Garment Industry

1. The UK garment industry has undergone a fundamental transformation since the 1970s when lead firms increasingly started sourcing from abroad, in particular, the Far East. Manufacturing of apparel has declined by 69% from 1995-2012 and achieved an approximate Gross Value Added (aGVA) of £882 million in 2012. The contribution of apparel manufacturing to total manufacturing has fallen from 2% to 0.6%. In the same period, employment has experienced a plunge of 84% and stood at 27,250 employees in 2012. Female employment has been hit disproportionately, declining by 89% compared to 61% for male employment. Correspondingly, the share of female employment in apparel manufacturing has fallen from 87% to 63%.
2. The changes in the underlying structures of the industry have been so profound that it is more appropriate to consider what has emerged as an entirely new and different industry. The industry has seen the emergence of lead firms with no history of production and a diversification in the type of lead firms (from brands, clothing retailers, general retailers, to online retailers). Equally, the structural transformation is starkly revealed in the reduction in the number and size of firms as well as the particular capabilities and working conditions associated with management practices in smaller firms. In 1998, for example, employment in the 20 largest enterprises alone was higher than the industry's total employment in 2012. From 1995-2012, the number of firms has declined by 61% to a total of 3,384 firms and their average size shrunk equally drastically from 22.2 to 8.6 employees over the same period.
3. Importantly, the transformation of the industry has severely challenged the basis of social dialogue and industrial relations, both, at national and even more so at enterprise level. Data from 2011 put union density - represented by the GMB, Unite, and Community – at just below 8%. While multi-employer agreements exist in textile as well as apparel manufacturing, additional single-site agreements are mainly found in textile manufacturing. Collective bargaining coverage was slightly above 13%, compared to 23% in manufacturing as a whole. The transformation of the industry has left large segments outside any structures of consultation or representation.
4. Since 2007 however, some of these trends have seen a limited reversal in the context of Fast Fashion and an increased attraction of goods produced in the UK. Even in the face of falling unit prices, lead firms have increased orders from the UK (the East Midlands, Manchester, and London constituting the largest hubs) as they see considerable advantages in the fast turnaround and quality they can obtain from UK suppliers. In this context, the industry has seen divergent developments: while the aGVA has increased slightly by 10.9% in 2008-2012, employment decline has continued apace by 23% over the same period.
5. The increase in UK sourcing has led to regional differentiation. While apparel manufacturing continued its decline in some regions from 2008-2012, the East Midlands' aGVA increased by 13.8% and turnover by 12.9% (both above the UK average). These growth rates were exceeded in other UK hubs in the West Midlands, the East of England, and London although their share of the industry is considerably smaller than the East Midlands' which produce 28% of the UK's apparel aGVA. Where the East Midlands are specific is in their above-average firm size: while 47% of firms have up to four employees, this is way below the UK average of 64%. Overall, 85% of apparel manufacturers in the East Midlands have fewer than 20 employees, 13% employ between 20-99 people, and 2% more than 100. However, recent growth rates as well as specific industry structures can only be explained through the concentration of sourcing from

larger regional hubs and the supply of vulnerable labour in those locations. An important finding is that the renewed growth of apparel manufacturing in the context of Fast Fashion is concentrated in regions with a considerable vulnerable workforce.

Working Conditions

6. In the emergence of a 'new' apparel manufacturing industry, two parameters have contributed to a series of adverse outcomes, both, for firms as well as for workers. Sourcing strategies within the UK are based on very small margins, relatively small but numerous orders, and fast turnaround times. At the same time, existing regulatory frameworks that govern relations between firms as well as the labour market are not fit for purpose given the new industry structures and the existence of a sizeable captive and vulnerable workforce. This context has led suppliers to offer differentiated price/quality/social compliance packages that are able to cope with pricing and purchasing practices through unauthorised subcontracting and to make use of the 'opportunities' an under-regulated labour market offers.
7. There is considerable evidence that the above business strategies are associated with severe violations of work and employment rights. Throughout the Leicester case-study, most widespread is the under- or non-payment of wages at the National Minimum Wage (NMW), the absence of employment contracts, late payment of wages, and the official declaration of a portion of wages only. Employers often consider welfare benefits as a 'wage component' and force workers to supplement wages below the NMW with welfare benefits. These problems are endemic in the industry: reports consistently put the average wage at £3 per hour and state that this applies to 75-90% of jobs in the sector. A conservative estimate on the above evidence would put the underpaid wage sum in apparel manufacturing within the East Midlands at £1 million per week.
8. Violations regarding employment contracts are compounded by working conditions that exploit the various vulnerabilities of different groups of workers. This ranges from work practices that result in: health problems, inadequate health and safety standards, verbal abuse, bullying, threats and humiliation, and the lack of toilet breaks, among others. For example, shop floor management often arbitrarily abuse and humiliate workers in front of co-workers for mistakes or missed performance targets that were not in those workers' control (wage deductions were reported in some of these cases). Furthermore, there is a lack of information on workers' employment rights. Workers are not consulted about workplace practices (even more so as there is little to no employee representation) and mostly only have their fellow workers to turn to for advice.
9. Management practices have created a segmented workforce that works under different price/quality/social compliance parameters. Sketched broadly, the highest, and smallest segment, consists of workers who do not have an employment contract but, overall, are paid at NMW rates. This is followed by a much larger segment of mostly female workers whose language and/or socio-cultural capabilities are too limited to work in other industries. These workers earn around £3/hour, are forced to complement their wages with welfare benefits and work under the conditions described above. Finally, migrants on student or visitor visas as well as undocumented migrants who no longer have the legal right to work and remain in the UK constitute the most vulnerable groups. These groups often work for even lower or no wages, work night shifts, and are dismissed at will, amongst other potential issues. Evidence suggests that low points in order fluctuations (or the pretext of such) are used to substitute

less vulnerable workers on NMW with more vulnerable ones working at different wage rates and conditions.

10. While unauthorised subcontracting is difficult to quantify, evidence from different stakeholders suggests that it is a common practice in production for cash and carry operations as well as for leading brands. According to data from a small scale survey conducted amongst garment workers by the Pakistan Youth and Community Association (PYCA), the size of suppliers and factories that produce and subcontract for leading brands ranges from 8 to 250 employees, while order volumes are between 1,000 to 25,000, and turnaround times between 10-14 days. Other stakeholders in the supply chain argue that compliance with subcontracting provisions and ethical standards is a function of price. Unauthorised subcontracting plays an important role in the avoidance of ethical industry standards as well as corporate, national and social insurance tax obligations.
11. The social problems identified in garment manufacturing go far beyond the workplace and supply chain. The underpayment of wages, for example, contributes to in-work poverty, debt problems particularly with regard to rent and Council Tax, and child poverty (Leicester's rate of child poverty stands at 37%), and the exploitation of vulnerable migrants.

Public and Private Regulation

12. A very pronounced finding is the fundamental inefficiency of public as well as private regulatory and enforcement practices. The survey and interviews show that lead firms and, to a lesser extent, immigration, tax, and other agencies do visit workplaces to monitor and enforce respective standards. However, the data also underlines that managers are able to take special measures during or prior to such visits, concealing the gravest violations. Thus, while a large number of external actors are present in the workplace, and given the extent and depth of the problems encountered, they seem to be either: the wrong actors, use inappropriate methods, are in the wrong place, or a combination of the above.
13. Against this background, this report argues that existing systems and practices of regulation, monitoring and enforcement are inappropriate. They provide answers to problems associated with past industry structures insofar as they have largely been developed with a different sector in mind. Existing models are essentially based on the circumstantial evidence of selective monitoring and worker-driven complaints. Vulnerable workers, however, are unlikely to engage with complaints mechanisms. Equally, considerations of the costs and the practices compliant production is based on are only beginning to emerge. The fragmentation of the supply chain, small firm sizes and largely informal employment and payroll systems highlight severe problems of monitoring and enforcement. Yet, the effectiveness of remediation and enforcement is reliant on the leverage that stems from market power, which can be both part of the solution as well as part of the problem.
14. While the focus of this research has been on working conditions within the garment manufacturing supply chain, it is apposite to point to wider implications those supply chain and labour market structures give rise to. The high number of transactions within fragmented supply chains and manufacturing outside any regulatory framework provide conditions for the handling of undocumented money as well as migrant flows. While there is limited circumstantial and anecdotal evidence, these challenges only underline the importance of a consistent framework of supply chain regulation.

15. The evidence presented in this research has highlighted adverse outcomes for compliant suppliers and manufacturers as well as workers, driven largely by lead firms' supply chain practices, and inefficient product and labour market regulations. The resulting spotlight firmly highlights the necessity to catch up with the changes that have reshaped the structure of the industry and to redefine fundamental questions of supply chain transparency, responsibility, supply chain accountability, as well as the more detailed policies and practices associated with it. These issues are developed in more depth in the recommendations.

1. Introduction

The Research Focus

In the context of anecdotal reports, the research was concerned with three aspects: the role of lead firms' sourcing practices; the drivers of unauthorised subcontracting and the extent to which such practices undercut the competitive position of compliant firms; and the extent to which working conditions comply with statutory standards. Thus, the research had a dual focus on supply chain relations, on the one hand, and working conditions, on the other. It thereby took into account global competitive dynamics as well as features that originate in the particular institutional and regulatory context of the UK. Particular emphasis was placed on the nature of supply chain relationships between lead firms, suppliers, and manufacturers; lead firms' purchasing practices; workforce characteristics; and management practices and working conditions at the point of production.

Key Terms

Lead firms are defined in this report as brands or retailers that are leading their supply chains, setting standards and shaping working conditions, while having no formal or direct relationship with factories. These firms are thus often in a position of having more leverage than other lead firms in this area.

Suppliers constitute the intermediary between lead firms and apparel manufacturers. They can be multinational firms and can have a wide range of functions and capabilities, from design to logistics or finance. For the purpose of this report, at a minimum, suppliers select manufacturers for lead firms' orders and coordinate the organisational side of those orders. Suppliers have a responsibility to be transparent about the factories they produce in and/or source from. They engage with manufacturers on operational matters, distribute order volumes, and pay manufacturers for garment units produced.

Factories or manufacturers designate those units that produce garments. They include cut-make-and-trim operations as well as knitwear and hosiery manufacturers in the first instance but also second tier firms such as printers, packers, etc.

Methods and Samples

At its core, the research conducted an in-depth case study of apparel manufacturing in Leicester, one of the UK's major sourcing hubs. The emphasis of the investigation was on: lead firms' sourcing practices, and their monitoring and auditing policies; the business strategies of suppliers and manufacturers as well as their systems and practices in the buying and ethical compliance process; and finally, the employment and working conditions experienced by garment workers.

To this end, the study has adopted a mixed methods approach, employing analysis of secondary statistical data, content analysis of policy and firm-level documents, corporate research methods using firm-level databases, semi-structured qualitative interviews as well as a quantitative survey. Data gathered through this mixed method has been triangulated in two ways: first, a database was created in order to map relationships between lead firms, suppliers, and factories and to record key events and data on major non-compliances. Second, the range of different methods offered a means to evaluate data gathered on key issues from different stakeholders to assess the evidence on a more rigorous base. This use of mixed methods and the triangulation of different data sources were very useful given the clear challenges research into the hidden economy bears. In particular, triangulation proved invaluable in investigating the extent of unauthorised subcontracting as it

steered an effective middle path between the resources and expertise of the research team, on the one hand, and the willingness of participants to provide access and data on unauthorised subcontracting, on the other. Understandably, given the sensitivity of the subject and the various interests at stake, participants were much more comfortable to share a frank qualitative account, than providing more formal access and/or data. The research is based on four key sources of data. First, industry and enterprise level statistics as well as labour market statistics were complemented by a thorough search of news media and Lead firms House's databases in order to gain a picture of recent developments in a historical context.

Second, in-depth (semi-structured) interviews were gathered from a wide range of industry stakeholders. This was further augmented by internal information lead firms have obtained (e.g. from whistleblowers) as well as information from the Home Office in response to a Freedom of Information request. Any research into commercially sensitive supply chain questions: work and employment issues that might compromise workers' jobs; and potentially unauthorised and/or illegal practices, is dependent on the openness of respondents and stakeholders who might divulge information at a risk. As a result of the potential risks listed above, the study was conducted under observance of strict rules of confidentiality and anonymity, following research ethics guidelines, as upheld and implemented by the University of Leicester and ETI. In line with these research guidelines, the report below refers to any actors by their function. Interviews were conducted with workers, ethical trade managers and buyers in lead firms, suppliers, first and second tier manufacturers, industry associations, trade unions, public agencies, advice/welfare/community organisations, NGOs, and the broader auditing community. Overall, 30 in-depth interviews were conducted with different stakeholders in the industry.

Third, with the support of ETI and the UK Fashion and Textiles Association (UKFT), a forum was held in Leicester with suppliers, first tier, and second tier manufacturers from lead firms' supply chains, no lead firms were present. This forum allowed those actors to confidentially discuss their experience of key supply chain issues, addressing key questions and challenges. The forum was attended by around 30 representatives from suppliers and manufacturers in Leicester.

Fourth, a small-scale survey on working conditions in apparel manufacturing was developed by the research team, and carried out by the Pakistan Youth and Community Association (PYCA). This community engagement assessment involved 30 worker respondents who were selected from PYCA's client list as well as broader referral networks. The analysis of the data was carried out by the research team.

While the adherence to confidentiality and anonymity was central to gathering the data, their triangulation and the evaluation of cross-references formed a crucial part of the analysis. Stakeholders have different experiences of their relationships with each other, including different perceptions of underlying power dynamics and they may not be aware of particular practices of their competitors and/or in other tiers of the supply chain. Through a range of methods, the research team has been able to gain a thorough understanding of the complexities of those working within supply chains allowing further in-depth analysis of the issues.

Preliminary research suggested that workers are mainly from migrant communities of Indian, Pakistani and Bangladeshi origin, some from the UK and possibly other immigrant communities from Eastern Europe. It is perceived that some of these workers could be undocumented, and some could even be in situations of forced labour. Poor working conditions have been highlighted through social audits as well as confidential whistle-blowing. Within apparel manufacturing across Leicester, social

audits and anecdotal evidence have revealed various issues including: excessive working hours, poor health and safety conditions in the workplace, night shift subcontracting, and other factors. It was thought that there may be up to an estimated 250 unregistered factory and supplier units within the Leicester area.

The case study has been evaluated against industry structures, firms' practices, and labour market dynamics at a UK level. Over the last 5-7 years, apparel manufacturing in the UK has seen some divergence across regions. While some have continued the long-term decline, others have successfully linked into emerging business models of high-street retailers, evidenced in considerable growth in regions around Leicester, Manchester, and London. Based on our assessment of the context of apparel manufacturing, we are confident that the findings on Leicester also, where appropriate, be applied to similarly dynamic UK sourcing hubs.

Quantitative and Qualitative Information

The research examined the supply chains of 10 lead firms that have a strong presence on the high street. Still, there are important differences in size and business model, from high street own-brand fashion retailers to general retailers, from online brands to online general retailers. While qualitative interviews were conducted with respondents in lead firms and their supply chains, further data on manufacturers was gained through the survey on working conditions and the firms those respondents were working in.

The manufacturing firms that employed the surveyed workers had on average 46.8 employees, which is significantly above the 8.6 employees for apparel manufacturing in the UK. This average, however, hides a considerable spread, ranging from 6 employees in one factory to 250 at the other end. The survey respondents indicated that their factories normally receive orders of around 10,000 units, although there is a significant variation in normal order sizes that ranges from 500 to 25,000. The average turnaround time was estimated at 11.6 days. Slightly fewer than 10% stated that their factory subcontracts further to other manufacturers, although not to home workers (qualitative interview data, however, mentioned the existence of home work elsewhere). None of the workplaces of the survey respondents has any form of worker representation.

The workers in the survey consisted of 17 women and 13 men which do not fall clearly within the 63:37 age split in the industry. The average age was 42 which is consistent with common trajectories according to which South Asian women who migrated to the UK enter the garment industry only after their children have reached a certain age and when their care responsibilities allow. On average, respondents have been in the UK for 15 years that is, arriving as adults rather than in childhood, and just over half of them hold British citizenship. By contrast, qualitative interview data pointed to another group that was made up more by younger men who had arrived on student visas. The respondents' ethnicity was overwhelmingly Pakistani, reflecting PYCA's reach into the community, but also included 7 Indians and 2 Bangladeshis. All of the respondents received their education abroad and, on average, have 9.3 years' of education and 70% speak English with difficulties. Almost all the survey respondents (28 out of 30) come from cut-make-and-trim manufacturing, while two further respondents work in knitwear and hosiery respectively. With an average working week in this job of 28.30 hours, their last monthly wages came to £584. The survey respondents have 3.1 children on average, 3.7 people living in their household, and report a weekly household income of £229.

How to read the report effectively

This research is not based on statistically representative data of apparel manufacturing. In fact, given the widespread use of hidden subcontracting and employment practices, a representative investigation would not be feasible.

Instead, theoretical considerations have informed the choice of the case study: anecdotal reports on issues of concern came out of Leicester; the latter constitutes a major hub; and is linked into Fast Fashion supply chains. At the same time, the design of the research has, as far as possible, optimised access to key stakeholders in order to reach sufficient depth. Thus, the evidence in the report allows the research to robustly capture the driving practices of supply chain relations, unauthorised subcontracting, and working conditions. At the same time, though, it might include over- or under-estimations of particular aspects in the industry. For example, given that the research has begun from 10 lead firms' supply chains, their commitment to responsible sourcing principles, along with their support of the research might be reflected in above-average conditions. Equally, the method of recruiting survey respondents also might lead to an under-representation of undocumented workers (it certainly bypasses workers from Eastern Europe who recently have entered the sector).

The following sections are based on two types of data: industry statistics on apparel manufacturing in the UK and the East Midlands within Section 2 of the report, and survey and qualitative interview data from lead firms' supply chains and the local labour market in the remainder of the report. The available statistical data and qualitative data, as well as those from PYCA's small-scale survey, have their own respective advantages and disadvantages. While industry statistics in Section 2 are certain to underestimate the hidden parts of the industry, the survey and interview data should be read under the proviso that they come out of a specific set of lead firms and their supply chains, particularly focused within Leicester. Nonetheless, we can reasonably assume that all the data gathered is valid and robust with regard to the majority of the UK's dynamic Fast Fashion industry.

2. An Incomplete Picture of the Garment Industry in the UK and East Midlands

The off-shoring of apparel manufacturing from high-wage economies has been a defining feature of the industry over the last decades. In the last 8 years, however, UK apparel manufacturing has reversed this long-term trend and, certainly in some key manufacturing hubs, achieved substantial growth. This clearly constitutes a significant development that requires careful reassessment of the prospects of apparel manufacturing in the UK. Equally important, however, as analysis of the available data suggests, the contemporary growth areas have relatively little in common with the industry of the past. The structures of the industry have changed, as have its business models and employment practices. At the same time, this emerging new industry is still subject to private and public forms of regulation (through lead firms and a range of state agencies) that were designed with the structures of the old industry in mind. In this context, a range of dysfunctional issues has arisen, which result in a skewed playing field to the detriment of workers and compliant manufacturers. The remainder of this section provides an outline of changes in the industry, at UK level, then with a specific focus on the East Midlands as one of the major (historical and contemporary) hubs for apparel manufacturing.

Off-shoring and the Decline of Apparel Manufacturing in the UK

The off-shoring of production to the Far East in the 1970s has triggered a fundamental transformation of UK apparel manufacturing that has, in the first instance, manifested itself in a considerable shrinkage of the industry. Manufacturing of apparel has declined by 69% between 1995-2012 and achieved an approximate Gross Value Added (aGVA) of £882 million in 2012¹. Total turnover has fallen by 64% in this period and stood at £2,617 million in 2012. The state of the industry is equally well captured by the decline in investment, measured as total net capital expenditure. Investment is by its nature volatile but even when comparing the averages from 1995-1998 to those from 2010-2012 statistics show an 81% decline. In the period 1995-2012, the number of enterprises has declined by 61% and now stands at 3,384. The contribution of apparel manufacturing to total manufacturing has fallen from 2% to 0.6%.

In the same period, employment in apparel manufacturing has experienced a plunge of 84% and stood at 27,250 employees in 2012. Female employment has been hit disproportionately, declining by 89% compared to 61% for male employment. Correspondingly, the share of female employment in apparel manufacturing has fallen from 87% to 63%. The contribution of employment in apparel manufacturing to total manufacturing employment has fallen from 4.9% to 1.1% in the period 1995-2012.

The decline in output and employment is linked to more profound structural changes² that showed that established business models were no longer viable as they were not able to offset declining unit prices. These developments were reinforced by the phasing out of the multi-fibre arrangement (MFA) at the end of 2004 which ended the quotas on textile imports from developing countries. At

¹ Note that the data comprise a break in the series: data 1995-2007 are based on the SIC rev 2003 classification of 'Manufacture of wearing apparel; dressing and dyeing of fur', whereas data for 2008-2012 are based on SIC rev 2007 classification of 'Manufacture of wearing apparel'.

² Lane, C. and Probert, J. (2009) *National capitalisms, global production networks. Fashioning the value chain in the UK, USA, and Germany* (Oxford: OUP); Gibbon, P. (2001) *At the Cutting Edge: UK Clothing Retailers and Global Sourcing* (Copenhagen: Centre for Development Research)

the same time, improvements in transport and logistics have changed parameters of competition such that production and airfreight from China can now be achieved within 4-7 weeks.

An Emerging New Industry?

The changes in the underlying structures of the industry have been so profound that it is more appropriate to consider what has emerged as a largely new and different industry. The industry has seen the rise of lead firms with no history of production and a diversification in the type of lead firms (from brands, apparel retailers and general retailers, to online retailers). Equally, the structural transformation is starkly revealed in the reduction in the number and size of firms as well as the particular capabilities and working conditions associated with management practices in smaller firms. In 1998, for example, employment in the 20 largest enterprises alone was higher than the industry's total employment in 2012. From 1995-2012, the number of firms declined by 61%, and their average size has shrunk equally drastically from 22.2 to 8.6 employees over the same period. Another way of highlighting this transformation is through the contrast that 64% of all firms have fewer than 5 employees as opposed to only 2.2% that employ more than 50 staff.

At the same time, a large part of support services in the supply chain have disappeared as well, (e.g. engineering support, thread suppliers, trimming suppliers, material suppliers, fabric suppliers). Compared to the previously more considerable integration in the industry, this transformation represents a significant loss of capabilities in (now much smaller) firms as well as the supply chain as a whole.

Since 2007 however, some of these trends have seen a limited reversal in the context of Fast Fashion and an increased attraction of goods produced in Britain. However, the structural change during the period of decline has set the scene for today's industry to specialise in fairly basic garments and volume production. Even in the face of falling unit prices, lead firms have increased orders from the UK (the East Midlands, Manchester, and London constituting the largest hubs) as they see considerable advantages in the fast turnaround and quality they can obtain from UK suppliers. In this context, the industry has seen divergent developments: while the aGVA has increased slightly by 1.5% in 2006-2012, employment decline has continued apace by 26% over the same period.

Employment and Wages

As mentioned above, one of the sector's characteristics concerns the massive fall in employment that affected women workers in particular. From 1995-2012 female employment fell by 89% to 17,750 whereas male employment dropped by 61% to 10,250. Interestingly, while female part-time work fell by 76% in this period, male part-time work actually increased slightly. Still, even as these figures fade in the historical context, comparing the 368,000 workers in apparel manufacturing in 1978 to the 28,000 in 2012, employment can still be significant for particular regional economies (that is, the East Midlands as well as parts of London and Manchester). As will be shown in more detail, apparel manufacturing is based on a significant hidden economy which means that (survey-based) official statistics are likely to understate actual levels of employment.

A similar problem can be found with regard to wages as it is difficult to find statistically reliable data for apparel manufacturing. Total employment costs divided by the number of employees show a volatile but slowly upward creeping trend. Similarly, the statistics show that the aGVA per Pound of employment costs has risen over the years, from £1.60 in the late 1990s to £1.82 in 2011. However, as this data relates to employment costs rather than wages, as employment costs are not adjusted

for inflation, and as actual employment in the sense of hours worked is likely to be inaccurate³, it is not possible to infer real wage or productivity increases from the data. By contrast, the decline in investments in the industry (as evidenced in official statistics) together with qualitative data from worker interviews point towards work intensification and a deterioration of working conditions after 2004 (which coincides with the end of the MFA). Overall, these statistics need to be interpreted cautiously as there are likely data gaps with regard to undeclared employment.

The massive decline in employment, firms as well as firm size has to a large extent taken away the basis of social dialogue and industrial relations. Carley (2013)⁴ reports union density for 2011, represented by the GMB, Unite, and the Community Trade Union, at slightly below 8%. While multi-employer agreements exist in textile as well as apparel manufacturing, additional single-site agreements are mainly found in textile manufacturing. Collective bargaining coverage was slightly above 13%, compared to 23% in manufacturing as a whole. While the extent of homework might have been greater in the past, qualitative interviews did find some evidence of homework in the present apparel manufacturing industry in the East Midlands. In the 2000s a number of local groups (organised in the National Group on Home-working) have conducted outreach work to support home-workers. The local group in Leicester worked jointly with the Knitting, Footwear and Allied Trades Union (KFAT); a garment worker union now part of the Community Trade Union, though this work was stopped due to lack of funding. The transformation of the industry has left large segments outside any structures of consultation or representation.

Leicester's labour market is specific in that it has a growing and above-average share of residents from different ethnic groups with 33.6% born outside the UK (e.g. from India, Pakistan, Bangladesh but also Somalis and Eastern Europeans).⁵ While it is difficult to generalise, apparel manufacturing has for a long time provided employment opportunities to workers from South Asia. This workforce suffers multiple vulnerabilities in the labour market, evidenced, for example, in higher unemployment rates or a higher concentration in low-paid manufacturing jobs that require few language or formal skills. This workforce is continuously replenished by new arrivals through different routes as well as from changing ethnic backgrounds. Lack of language skills and undocumented right-to-work and/or residency situations are the main factors that contribute to those workers' vulnerability at the workplace.

Apparel Manufacturing in the East Midlands

Around 2007, apparel manufacturing saw a clear reversal of the decline. After the decade between 1998-2007 mostly recorded a 10% decline in key parameters, the years between 2008-2012 experienced more than 10% growth in those same parameters (see Table 1 below). While very few lead firms source more than 1% of their apparel from the East Midlands, the increase in sourcing has clearly contributed to renewed growth in the industry. The notable exceptions in these

³ See Section 4 for more detail on the extent of undeclared employment.

⁴ Carley, Mark (2013) UK: The representativeness of trade unions and employer associations in the textile and clothing sector,

<http://eurofound.europa.eu/observatories/eurwork/comparative-information/national-contributions/united-kingdom/uk-the-representativeness-of-trade-unions-and-employer-associations-in-the-textile-and-clothing>

⁵ East Midlands Councils (2014) The impact of international migration on the East Midlands (Melton Mowbray: EMC, Nottingham Business School); Stiell, B. and Tang, N. (2006) Ethnic minority women and access to the labour market in Leicester (Sheffield: Sheffield Hallam University); PYCA (2002) Research into the needs of the Pakistani Community in Leicester 2002 (Leicester: Pakistan Youth and Community Association); PYCA (2007) Pakistani Community Cohesion Report 2007 (Leicester: Pakistan Youth and Community Association)

improvements are the reversed but very low growth in the number of enterprises and the continued decline in employment. Thus, whereas UK wide turnover and aGVA increased by 11.7% and 10.9%, employment in apparel manufacturing declined by 23.2%. In 2013 485 enterprises operated in apparel manufacturing in the East Midlands with about 13,200 workers (2010 data).

The increase in UK sourcing has led to regional differentiation. While apparel manufacturing continued its decline in some regions between 2008-2012, the East Midlands' aGVA increased by 13.8% and turnover by 12.9% (both above the UK average). Broadly, the East Midlands performed above the UK average, with the West Midlands, the East of England, and London exceeding those growth rates; the latter regions' share of the industry, however, is considerably smaller than that of the East Midlands. Since 1995, the East Midlands have cemented their position as the largest apparel manufacturing hub in the UK, increasing its share of the UK's apparel aGVA from 17% to 28%.

Table 1: Decline and Growth in Apparel Manufacturing in the UK and the East Midlands

	Turnover		approx Gross Value Added			Number of enterprises	
	UK	EM	UK	EM		UK	EM
1998 - 2007	-10.1%	-8.3%	-10.7%	-10.2%	2004-07	-7.1	-10.3%
2008 - 2012	11.7%	12.9%	10.9%	13.8%	2008-13	0.7	1.2%

Sources: ABS Regional 1995-2007; ABS Regional 2008-2012; UK Business Register 2004-13 (No of local units in VAT and/or PAYE based enterprises)

Compared to the UK average, apparel manufacturing in the East Midlands takes place in comparatively larger units: while 47% of firms have up to four employees, this is way below the UK average of 64%. Overall, 85% of apparel manufacturers in the East Midlands have fewer than 20 employees, 13% employ between 20-99 people, and 2% more than 100. However, larger firm sizes and a comparatively larger capacity constitute only one of the factors that led to a concentration of sourcing in larger regional hubs, and the East Midlands in particular. As Section 4 will show, the supply of a captive and vulnerable labour force in those regional hubs plays an equally important role in the way competitive advantage is currently set up.

The East Midlands have grown as a major hub in the rise of Fast Fashion, evidenced in a significant reversal of growth trends. At the same time, a number of new lead firms have emerged on the basis of new business models. The competitive position of apparel manufacturing in the East Midlands is shaped by relatively small firm sizes, relatively low wages and a large vulnerable workforce. These aspects constitute key parameters in the use of unauthorised subcontracting as well as wages and working conditions below statutory minimum standards.

The above picture of apparel manufacturing in the UK, and in the East Midlands in particular, needs to be consumed with caution. As there is evidence of considerable non-compliances concerning manufacturers as well as workers, it is not possible to assess the number of unregistered firms as well as workers. Qualitative interviews were able to gather evidence on undocumented working hours and workers, however, respondents generally would have put the number of enterprises in apparel manufacturing above the 485 VAT and/or PAYE based enterprises. Equally, judging by HMRC's analysis, there is a high probability for tax gaps to emerge in apparel manufacturing as high risks overlap: by customer group (SMEs), by behaviour (hidden economy), as well as the type of tax

(income tax, national insurance tax)⁶. Thus, this serves as a further warning to be careful in the interpretation of official statistics on apparel manufacturing.

⁶ HMRC (2013) Measuring tax gaps. 2013 edition. Tax gap estimates for 2011-12 (HMRC Corporate Communications)

3. Supply Chain Practices

The ways product and process standards in apparel manufacturing are governed are important factors to be considered within this analysis. In particular, this concerns the specific relationships and interests between lead firms, suppliers, and manufacturers. A key parameter in supply chain relations and practices, while collaborative and ethical practices should be beneficial to all participants, is that the costs and benefits (the value added at a particular part of the value chain, any reputational and/or legal risks, etc) along a range of dimensions – volume, price, quality, lead times, production scheduling and planning, working conditions – are not evenly distributed. In this regard, purchasing practices always form an important part of the equation. In order to assess lead firms' purchasing practices, however, they have to be seen in the context of the defining business model or value chain strategy. Here is where Fast Fashion has led to a fundamental change and differentiation in business models and sourcing strategies.

Business Strategies, Price and Capacity

While speaking of rapid and fundamental change in apparel manufacturing can quickly sound like a cliché, looking back over the last 10-15 years shows two crucial trends. First, the market has seen the rise of new and successful business models such as online brands and online retailers. In addition, in the context of the success of discounters, general retailers have entered the fashion market and built up their own branded lines⁷. Second, these new business models have put pressure on existing sourcing strategies and led to the development of new ones, Fast Fashion constituting a central plank.

The requirements of Fast Fashion have made sourcing from the UK as well as a range of near-shoring locations in Eastern Europe, the Middle East, and North Africa attractive as they can offer quality production as well as repeat business under short lead times and at relatively competitive prices. For example, transportation from the Far East takes around 6 weeks on water while manufacture and airfreight takes between 4-7 weeks, though this might not be possible on a continuous base. Transport from Eastern Europe and the North African rim would take between 2 days and one week, and with the 'landed price' from Turkey and the UK being similar, it is this near-shoring option UK manufacturers are competing with. By comparison, speed to market is a crucial factor for sourcing from the UK as manufacture to store can be achieved within 2 weeks.

The East Midlands sourcing patterns of the lead firms sampled in the report vary significantly, ranging from work with 2 established factories to more significant engagements with around 20 suppliers and 40 factories. Importantly, while some lead firms have been or are in the process of consolidating their supply base, with regard to volume all of them are looking to expand sourcing from the UK further. Confirming the statistical data presented earlier; Leicester, Manchester and North London, constitute key hubs as they have production as well as design capacities (to varying degrees). In most cases, lead firms source less than 1% of the global garment range from the UK, though this still represents a significant figure for the UK hubs. For some lead firms Leicester accounts for 90-100% of UK based garment sourcing, for others Leicester makes up to 20% of their global orders in the case of some product categories.

⁷ Gibbon, P. (2001); Taplin, I.M. (2014) Global Commodity Chains and Fast Fashion: How the Apparel Industry Continues to Re-Invent Itself, *Competition and Change*, 18(3), 246-64

Local sourcing gives lead firms significant benefits, such as a much greater ability to react to short-term fashion trends and seasonal changes; a reduced need to plan and to cost extensive logistics or to keep stock, as well as the risk that items have to be sold at a discount in the sales. Short lead times, quick turnaround and response constitute the central attractions of the UK supply base. However, particularly in comparison with near-shoring options, there are further important advantages. For example, lead firms appreciate the close relationships and considerable flexibility of suppliers in the development process as trials can be run more amenably, adaptations are easier to make than elsewhere (e.g. fabric changes are more complicated elsewhere). Nowhere else would suppliers be in a position to accept any last minute fabric changes so often or so late in the process than in Leicester; this aspect comes as both a selling point, but also a strong disadvantage to the supplier who often has to absorb the cost. Equally important are quality and the possibility of fairly small production runs. To some extent, these advantages vary across business strategies. For example, for online retailers, average order sizes would be well under 1,000 units and reliable quality is very important in order to reduce the returns rate.

Considered as a production system, Fast Fashion can be seen as a just-in-time system that pushes lean production methods down the supply chain. Its core consists of a constant link between order and sales (cutting out the need to hold inventories) as well as a reduction of the time period between them. In addition, Fast Fashion in the UK is characterised by its national specificities. Apparel manufacturing in the UK is focused on fairly basic garments as production costs become less competitive the more operations have to be performed on a garment (e.g. zips, pockets, etc). The drivers identified by suppliers and manufacturers were quality/skills, price/margins, as well as volumes/throughput. These aspects are closely interlinked and each of them has specific pressure points.

While lead firms appreciate the quality that can be sourced from the UK, suppliers and manufacturers repeatedly highlighted significant skills shortages, both, with regard to the more technical side as well as CMT machinists. Manufacturers have reported difficulties in recruiting skilled garment workers (having worked in the industry for 3-4 years) and argued that there has been little government support in attracting new EU labour to the industry.

A key point that has come through from all stakeholders interviewed is that Leicester garment manufacturing is particularly price competitive. Prices can be amongst the lowest buyers encounter, reflecting the broader dynamics of small business size and Fast Fashion. There is considerable opacity in price formation from both sides, lead firms' buyers as well as manufacturers. Buyers tend to rely on top-down pricing, deriving costs by starting from what their margin should be (around 60% in the UK) and relying essentially on their industry knowledge of what constitutes a 'going rate'. This is mirrored on the other side with suppliers reporting, for example, that their manufacturers had 'no concept of costings' and that they had to support them in developing appropriate costing practices. What is most often missing in top-down costings are the labour costs in producing particular garments.

Thus, in relative terms, apparel manufacturing in the UK is based on producing large volumes of basic garments at fairly low margins in relatively small enterprises. Such high volume/low margin orders, as argued by a supplier, can work if they cover the business's overheads for long periods, thereby ensuring that all further orders this supplier secures, contribute to its profit. However, the combination of price pressures and high volume production contains ambiguous prospects for suppliers in that the attraction of large orders needs to be weighed up against the risks of working

with very low to no margins. While this strategy looks feasible in the first instance, it is based on two important assumptions: first, it requires a viable low(er) volume/high(er) margin market as a complement that effectively redistributes profits from one part of the fashion industry to another; second, it assumes that high volume/low margin strategies are sustainable for manufacturers as well.

In this light, it becomes clearer how the business model based on Fast Fashion is conducive to unauthorised subcontracting as the key elements – margins as well as timelines (turnaround and continuity of production) – are also amongst the key issues suppliers and manufacturers have raised. The need for ‘more money in the system’ as well as basic levels of predictability and continuity have been emphasised as crucial in the Supplier forum as well as further qualitative interviews. As the pressures of this system become too much, it might be fairly tempting for some to exploit the existing opportunities in the labour and product market; in other words, to push a vulnerable workforce harder, to subcontract to less compliant enterprises, and to calculate with a (relatively low) risk of the consequences following detection.

Purchasing Practices

A relatively stable workflow is crucial for suppliers and manufacturers in order to cover their fixed costs and plan beyond them. However, intense competition and the logic of the production system within Fast Fashion militate against that. Suppliers and manufacturers highlighted that lead firms’ commercial arrangements still undermine their ability to improve working conditions. Production path management, terms and conditions in the buyer-supplier relationship, sourcing and merchandising all affect how suppliers manage their production, workforce, and working conditions.

A number of buyers have argued that competition in Leicester’s garment manufacturing industry is particularly intense with the implication that there are always push and pull factors behind even lower prices in order to get first orders with large lead firms. Suppliers and factories would subsequently try to recover appropriate margins later on through follow-up orders. There is, however, a range of purchasing practices that makes it very difficult to achieve a sustainable level of stability.

For example, in the current production model, it is crucial that trials and first orders lead to larger follow-on orders. Significant costs are involved in developing a particular garment, setting up production, and understanding specific requirements (e.g. of labelling and packaging), and it often is only through repeat orders that suppliers and factories can achieve their profits. Only one lead firm was found to pay a premium for trials (which would constitute best practice), thereby recognising the costs involved in developing and setting up small production runs. The impact of volatile production flows and the role of bulk orders were underlined by a supplier who reported a case where they developed a garment and did a trial of 800 units, only for an order of 40,000 units to be given to a competitor.

A further key issue highlighted in numerous interviews as well as the supplier forum concerned payment timelines and terms. As UK apparel manufacturing leans fairly heavily towards small and medium-sized businesses cash flow is critical. In this context, lead firms paying for orders within 60-90 days can put significant pressures on those businesses and it is important to keep in mind that it is the suppliers who bear this in the first instance. In some cases it would take even longer for those payments to make their way down the supply chain. Often, power relations become clear in the discounts that are part of payment terms: if suppliers want to get paid sooner than the standard

term, they have to accept a certain discount. An example of best practice was from a lead firm that paid the supplier within 7 days which, in turn, allowed the supplier to pass on this cash flow to their factories within 14 days.

While lead firms, in particular, as well as suppliers and factories appreciated the flexibility in their working relationships last minute ordering, retrospective changes to orders already placed, lack of communication about production plans, or cost price reductions for missing deadlines were also argued to put additional pressure on margins. This is against a background where most of the sector in the UK starts delivering in week 3 of a 7 week production cycle. Thus, it was held that the actual benefits are being delivered long before the completion of an order while, at the same time, the financial benefits are distributed at a much later stage. Generally, suppliers and manufacturers embraced the flexibility of this system, therefore, orders that do not achieve projected sales, could be adjusted or stopped before completion; equally, garments that sell well can be re-ordered immediately, thereby extending the sell-through. It is accepted that this lies at the core of the industry's competitive advantage within Fast Fashion; the more important, though, are repeat orders and a certain sense of stability. Interestingly, a number of lead firms reported the use of open-to-buy (OTB) orders (which commit to future order values without specifying the garment) with Turkish suppliers but held that they rarely use this practice in Leicester. Presumably, intense competition as well as the high speed-to-market in Leicester does not necessitate OTBs, particularly as one of its key functions for retailers is to reduce inventory.

An important finding is that respondents from all stakeholder groups acknowledged the pressures exerted through a number of the existing purchasing practices but argued at the same time that the underlying flexibility and short lead times are a key factor in the growth of apparel manufacturing in the three major UK hubs. Respondents also recognised that pricing needs to be addressed in this context. While there seem to be hardly any productivity projects in Leicester which would increase margins for suppliers and manufacturers without raising prices, there are a number of lead firms that operate or currently develop open costings. Such systems, however, highlight the complex links between pricing, productivity, and costings, and require relationship building and stability in order to function effectively (see further information in the next section).

Again, though, a number of respondents have pointed out the inherent ambivalence in the existing production model: open costings, or any other productive supply chain relations for that matter, require trust between suppliers, manufacturers and lead firms. In practice, manufacturers' main contacts are with buyers and auditors whose performance criteria and remit often makes it difficult to develop relationships that go beyond the narrow remit of buying. In addition, a number of informal information and support practices clearly show that trust amongst lead firms and trust amongst suppliers and manufacturers is much higher, than trust between those sets of stakeholders.

Presently, pressures to achieve some degree of stability, quality, low price, and ethical compliance, have led lead firms to consolidate their supply base resulting in some fairly captive relations with suppliers and manufacturers in a very competitive environment (e.g. where the latter produce up to 80% for one particular lead firm). The resulting closer relationships offer much needed planning security to suppliers and manufacturers but also reduce their margin of manoeuvre. In the absence of systems that establish production costs such relations carry great risks for suppliers and factories: the reliance on historical values of a 'going rate' plus assumed productivity increases tends to reduce their margins at the same time as their captive relationship makes them dependent on the fortunes of the lead firm they supply. What remains, is that the costs and benefits of lean production need to

be made more explicit and transparent with a view of ensuring that workers receive their due share (defined as NMW in the first instance).

Beyond Purchasing Practices

As mentioned above, respondents across stakeholder groups identified open costings as crucial for the way forward and acknowledged the role of trust on both sides in order to put such systems into place. In practice, however, interview data shows considerable frustration on both sides, as some lead firms are unable to obtain open costings from suppliers, and some factories feel that buyers do not have a sufficient understanding about how their costs are calculated. A number of issues were reported in this respect. First, open costing has previously been used by lead firms as a way of stripping out costs; at the same time, some lead firms do not seem to trust their suppliers sufficiently to provide an accurate picture of costs, with labour costs constituting the most problematic aspect. Second, and related, is the difficulty of obtaining factory costs as opposed to supplier costs which is an issue for lead firms that have few captive relations with suppliers and factories. Third, it is notoriously difficult to establish factories' capacity. As part of a broader approach to relationship building and changing their auditing model, some lead firms are developing practices whereby capacity can be gauged at numerous points in the production cycle by experts with an industry background.

Open costings reveal the ambiguities in the relation between pricing, costing, and productivity. It is very difficult to establish realistic producer prices as inefficient production and widespread violations of wage and employment regulations do not allow the determination of an accurate price. In consequence, this puts pressure on compliant manufacturers. Their benchmarks are time and motion studies, thus the question is to what extent buyers are guided by what is the 'going rate' for particular garments, a rate that is inevitably subsidised by wages below NMW levels and associated working conditions, or by costing systems that do not treat wages as a residual cost.⁸

One manufacturer, for example, argued that the transparency of an open book policy and an understanding of how suppliers derive prices would put great pressure on those undercutting statutory minimum standards (through unauthorised subcontracting amongst other practices). In this context, some form of time-and-motion study seemed essential in order to demonstrate the baseline labour costs at NMW rates. Unfortunately, though, buyers are not normally receptive to such demonstrations, though, it was argued, lead firms might be surprised to see how low factories' margins actually are.

Against this background, open costings tend to be associated with productivity projects which fulfil a range of functions. As open costings would lead to significant increases in prices, there is an emphasis to achieve productivity increases which would allow higher wages without necessarily raising prices and thereby affecting the competitive position of a manufacturer. Clearly, the leverage (a) lead firms have in this respect is an important factor: some of these elements are part of the negotiations following the Rana Plaza tragedy in Bangladesh, though this concerns high-level tripartite relations. In some cases, large lead firms have made it a requirement that all their suppliers share open costings on human labour. However, lead firms with less leverage or suppliers and factories with less support will find it more difficult to develop appropriate costing models as well as productivity measures.

⁸ See the recommendations on predetermined time standard (PTS) systems in Section 5.

There seems to be an emerging shared understanding that open costings are critical to transparency. Sustainable margins have to be arrived at through trust and open dialogue. At the same time, open costings can only constitute one plank of broader collaborations between lead firms (as well as between their ethical trading and buying functions), labour representatives and civil society. It requires mechanisms to ensure that open costs are appropriately distributed as wages as well as that sourcing decisions are taken on the base of quality in the form of production efficiency and ethical compliance.

Fragmentation and Integration

The overall structure of apparel manufacturing in the East Midlands is characterised by small firm sizes and comparatively little vertical integration. Against this background, recent growth in the wake of Fast Fashion has triggered efforts to integrate different value chain functions, efforts that have yielded mixed results, so far.

A large number of suppliers work with a widely spread set of factories within the UK as well as Eastern Europe, the Middle East, Northern Africa as well as South Asia. They cultivate the various trade-offs between off-shoring, near-shoring and on-shoring locations and tailor solutions for particular orders accordingly. At the same time, suppliers as well as factories, even factories in the second tier of the supply chain, have aimed at creating additional efficiencies by integrating different functions, from printing, packaging, to design functions. It is difficult to discern clear leaders here as, both, suppliers and/or factories can lead such strategies, depending on the particular case. The construction of purpose-built and largely integrated factories is still rare, though, meaning that production often needs to be divided up over a number of different sites. More common are cases where a garment manufacturer develops their own printing facility, a printer developing downstream value chain capabilities (different types of printing, labelling, packaging, closer supplier linkages), or a supplier aiming to support their factories' upgrading, e.g. through soft loans, as well as investment in their own automated cutting equipment (which would save 5-10% on fabric cost) and a heat press. The latter plans, however, were upset by order fluctuations and the loss of key customers.

A clear trend over the last years is that lead firms have been working to rationalise and simplify their supply base. In line with standard quality management principles, they aim to work with fewer, more efficient, larger suppliers and factories. In this respect, a number of respondents noted the lack of public policy support in developing and promoting further the competitive restructuring of the industry. This concerns more strategic aspects of supporting integration, the perception of the location as a competitive production location, supporting skills development, or support in establishing a level playing field for efficient and compliant manufacturers. The lack of public policy support tallies with new representation needs that have emerged in the process of restructuring over the last decades: on the one hand, the driving lead firms do not have any historical knowledge of production; on the other hand, the interests of a large number of small manufacturers are not integrated in existing forms of representation.

The research has found limited attempts, based on existing networks within the industry, to rationalise the fragmentation of production and integrate different value chain functions. Such strategies would allow developing greater efficiencies and meet the requirements (in terms of volume, quality, and speed) of the rising Fast Fashion segment. At this point, though, this industry restructuring has probably not reached a critical momentum, and individual initiatives have not been

carried through. Thus, more concerted efforts might be necessary to shift integration and upgrading strategies from individual firms to a larger set of key players in the industry and to make these restructuring processes sustainable.

Unauthorised/Undeclared Subcontracting

The research has gathered sufficient evidence to confirm unauthorised subcontracting as a standard practice in apparel manufacturing. Evidence was gathered from all stakeholder groups and based on lead firms' own monitoring practices, interview and questionnaire data of workers' experiences, whistleblower reports, as well as supplementary audit reports. Unauthorised subcontracting is not confined to jersey products but also extends to knitwear, certainly where different knitted parts are sewn together (which is the practice in the UK). There is also limited evidence of subcontracting networks to go beyond Leicestershire as, for example, in linkages between Leicester and Manchester, or in a peculiar case of a Romanian subagent subcontracting an order into the UK that was meant to be produced in Romania.

Unauthorised subcontracting denotes the contracting of orders beyond those factories that were designated to produce goods or services for a particular order. The key problem is that supply chain transparency is lost in this process and garments might be manufactured in factories that have not met the necessary audit requirements. While it is mostly suppliers who choose factories and allocate orders across their factories, lead firms often mentioned that suppliers are free to declare additional factories they intend to work with if, for example, demands for greater capacity arise.

Industry and lead firm respondents at times link unauthorised subcontracting to capacity problems and order fluctuations in the first instance. However, while fluctuations in order volumes and a lack of information about fluctuations often pose problems for suppliers and factories, it is unlikely that decisions to subcontract to undeclared second tier factories are taken simply to cope with capacity problems. In practice, undeclared subcontracting not only constitutes a violation of a commercial contract but often goes hand in hand with violations of tax, social contribution, workplace, work and employment and/or immigration regulations. Mostly, undeclared subcontracting comes with different degrees of partial compliance. Some factories might comply with some of the above dimensions only; other factories might draw a line between different groups of workers but not others. The latter seems to apply to night shifts in which more vulnerable parts of the workforce produce orders that were not declared to the lead firm (and, in some cases, the supplier).

The evidence gathered from a range of stakeholders suggests that unauthorised subcontracting reflects the pressures within the Fast Fashion value chain as well as the opportunities regulatory gaps offer. Unauthorised subcontracting occurs in established firms and is part of mainstream practices. For example, one lead firm has spoken of two-tier offers where manufacturers have quoted a compliant factory price as well as a non-compliant factory price. Again, while fluctuations in the production flow have a great impact on the economic viability of manufacturers, the opportunities to increase profits through unauthorised subcontracting must not be underestimated. One manufacturer, for example, gave an example of very basic women's leggings and argued that £1.10 in labour cost would require a very efficient set-up but would be doable. The same product, however, is produced with labour costs of £0.60-0.70 in some factories, reflecting the wages and conditions described in the section on working conditions below.

Unauthorised subcontracting is a central element in skewing the playing field against compliant as well as efficient manufacturers. As the underlying drivers are multifaceted, strategies to tackle

unauthorised subcontracting will have to be smarter, not harder, for example emphasising broader collaborative approaches instead of more intense auditing.

Monitoring, Auditing, Enforcement

Apparel manufacturers have to comply with a range of audit models which can be fairly onerous. Interestingly, while lead firms do have a reasonable picture of the non-compliances in UK apparel manufacturing, the 'soft', circumstantial, and one-off nature of the evidence contributes to unsustainable and inefficient remediation. Against this background, however, lead firms have been developing new audit approaches over the last 2 years, encompassing a broad shift from third-party auditing to a more substantive in-house involvement.

In the minimum version that was fairly dominant until recently, it is manufacturers' responsibility to ensure they are audited and up-to date with their documentation. Often carried out by third-party auditors working toward the Sedex Members Ethical Trade Audit (SMETA) format, suppliers and lead firms use such audits to give a green light for business relations from an ethical compliance perspective. In order to strengthen audit mechanisms, particularly in larger lead firms, in-house teams tend to visit new sites, audits might be semi-announced, might only be accepted from specifically approved auditors, or could be conducted by in-house inspectors. Smaller lead firms might accept in-house audits conducted by larger lead firms, thereby contributing to a process in which factories who engaged with lead firms and might have received support to achieve compliance attract new customers. Broadly, it was felt that in-house auditing leads to a better ownership of the problems found; the insistence on transparency in the context of a closer relationship with the factory is seen to work better than a straight prohibition of subcontracting.

The disadvantages of these auditing practices have been discussed for some time. For manufacturers, multiple audits, often to different standards and mostly at their own cost, are very time-consuming and onerous. For lead firms, one-off audits, conducted within a set remit and often announced, are not able to give a meaningful picture of the management practices in particular factories. For example, as capacity can give important clues to unauthorised subcontracting, auditors ideally should have knowledge in garment production processes (which they often do not). Furthermore, even if interviews are conducted with workers, the latter's interests lie in having job and income continuity. They therefore have to overcome considerable barriers to open up beyond the story they are supposed to tell. Equally important are the capacity and leverage of lead firms, for example the frequency of factory visits conducted, the mostly insufficient integration of buying and ethical compliance concerns, and the share of a particular factory's production.

Notwithstanding these issues with audit practices, lead firms generally seemed to be aware of the key non-compliances in East Midlands apparel manufacturing, even if this awareness was based on circumstantial evidence or suspicions that minor violations only constitute the tip of the iceberg. The problems mentioned include the under-recording of hours, wages below the NMW, lack of employment contracts, inadequate right-to-work checks, and insufficient health and safety provisions. While being addressed in places, non-compliances are difficult to tackle by lead firms on an individual basis, particularly as there are a large number of lead firms sourcing from the East Midlands, a large number of relatively small manufacturers, and a labour market with considerable enforcement gaps. Non-compliances in this context are systemic issues that require industry-wide responses.

Key questions have arisen in this respect around the evidence on non-compliances as well as the action following such evidence. Often, information on non-compliances is circumstantial or stems from whistleblower accounts that are difficult to follow up. In many cases, for example, manufacturers' information provided to auditors and lead firms is implausible (e.g. the majority of the workforce working 16 hours per week) but timesheets and wage records are internally consistent. The same holds for whistleblower accounts as this information also needs to be triangulated in order for auditors to report them and for lead firms to follow up on it. Lead firms have also mentioned that data protection legislation requires workers' consent to check their identification documents and that competition regulation does not allow them to share a whole raft of information about their factories. Some lead firms have also approached public authorities but found that their information was not pursued any further. In general, however, lead firms rarely liaise specifically with any public authorities nor do they work with community organisations in tackling the identified non-compliances.

What lies behind those issues are competing logics within compliance strategies: one that works through detection and punishment, one that is based on a more long-term developmental approach, and one that looks at the financial costs and benefits of enforcement action. This is to the ultimate detriment of vulnerable workers. Particularly in the case of undocumented migrants, the existing regulatory framework makes it virtually impossible to find an aspect that aids the enforcement of employment standards while protecting workers: detection normally leads to deportation and the question to what extent undocumented workers have a right to work at NMW levels is de facto left aside.

Clearly, there is considerable variation in lead firms' management practices. However, in many cases the focus is on assessing suppliers' performance against their audit criteria and aiming to shape suppliers' and manufacturers' understanding. At an operational level, this is one of the key reasons for ineffective monitoring and auditing mechanisms as factories are assessed by ethical trade teams and approved to be used by buyers whose terms of reference are essentially to ensure a continuous supply of garments against tight budget lines. Thus, after a 'conversation' on ethical production and working conditions, the force of market pressures are brought to bear again. This is far from model processes of continuous three-way engagement on learning and improvement with suppliers and manufacturers. It is also far from tackling the more structural constraints that stand in the way of decent working conditions in apparel manufacturing at the sector level.

Against this background, lead firms have tried to evolve their audit approaches as they sourced more extensively from the East Midlands or the UK more broadly. Essentially, two approaches can be made out that differ due to the different capacity, market power, and leverage lead firms have vis-à-vis factories. For example, when a lead firm's orders consist of samples and small repeat orders, its leverage in influencing factories' compliance might be limited. Both approaches aim to develop closer and more continuing working relationships with suppliers and factories and build their auditing procedures around that. The difference lies in the form these approaches take in practice.

The first approach focuses on extending the breadth of existing auditing processes through a panel consisting of a trade union, the lead firm, as well as a social auditor. Here, the aim is not only to involve expert and interest representation in worker interviews but also to, more broadly, work in partnership between the lead firm and the trade union, and to subsequently build a similar approach at factory level (with skills training playing a central role in this partnership approach).

The second approach focuses on extending the continuity of existing audit processes and is favoured by lead firms that have less capacity and market power than others. One important element is to provide ongoing resources on the ground, to cultivate ongoing relations with suppliers and factories, and, while having an audit function, to support factories in their compliance strategies. This model is essentially that of ethical trade managers in the field, rather than auditors, and is considered an integral part of the ethical trading team. A number of lead firms are focusing on extending the roles of those who tend to visit factories on a continuous basis: the quality assessors in technical teams. As quality assessors so far have mostly looked at health and safety, needle policies and the like, developing their capacity involves them to check paperwork (e.g. on right-to-work) and to follow production within the factory with a view to identifying unauthorised subcontracting. As paperwork checks have an important role here, factories would be required to keep 3 months worth of records on site.

Clearly, each of these approaches has different strengths and challenges, not least around an appropriate space for worker voice. Above all, though, while pointing to the importance of collaborative approaches, they underline that it might be inappropriate to develop a one-size-fits-all model. For the time being, size, capacity and market power impact on the capabilities of lead firms as well as suppliers and factories, meaning they favour different approaches to similar problems.

Both approaches, however, require the development of trust between lead firms, suppliers and manufacturers, as well as a clear understanding of the costs and benefits of compliance processes. Judging from discussion at the supplier forum, many existing audit procedures are considered 'pure fire fighting' by manufacturers who also held that supply chain relationships need to be nurtured, developed, and enhanced as at the moment they are nearly non-existent.

There is a shared understanding across different stakeholders that the models of the past need to be adjusted and some actors have been very engaged in putting their supply chain relations on a new basis and developing their audit processes. Also, while different firms might find different approaches more suitable to their specific requirements, it will be crucial not to develop different approaches in isolation but to engage about their advantages and disadvantages. However, as lead firms' sourcing strategies overlap considerably, irrespective of their market leverage and compliance approaches, it will be crucial to actively build complementarities and bridges between the various monitoring and compliance approaches that might emerge.

4. Employment and Working Conditions: A case-study of the Leicester Garment Sector

Research into employment and working conditions reveals a stark picture of noncompliance with fundamental standards such as statutory minimum regulations as well as more far-reaching commitments lead firms might have subscribed to. In particular, with a reported average wage of £3 per hour, widespread violations of National Minimum Wage (NMW) regulations stand out and make any discussions of living wages seem rather academic. Regarding the historical context of working conditions in apparel manufacturing, a number of interviews pointed to a watershed in 2004, marked by the end of the MFA (which imposed quota on developing country imports), when conditions in the industry, notably the payment of NMW, deteriorated considerably. Our research points to a number of aspects that do not comply with UK labour legislation as well as broader issues of concern, and that these practices are widespread across the industry and not concentrated in particular market segments.

The evidence in this section draws on a survey conducted by PYCA among 30 garment workers in Leicester. As emphasised in Section 1, this survey is based on a convenience sample and thereby not representative for the population of garment works in Leicester. In fact, it is likely that those data understate the actual problems workers face. In order to balance the survey data, semi-structured interviews were conducted with workers, advice/welfare/community organisations, trade unions, and NGOs. Together, this provides a robust base for the picture of employment and working conditions in Leicester's apparel manufacturing industry.

Non-payment of the National Minimum Wage and Under-Recorded Working Hours

The starkest finding of this research; severe violations of NMW regulations; have been confirmed through, both, survey as well as interview data. Evidence demonstrates that the majority of workers are paid significantly below the NMW rate⁹, at a much-quoted industry norm of £3.00 per hour (by contrast, the NMW currently stands at £6.50¹⁰). Wages are mostly paid cash-in-hand and working hours are grossly under-recorded. The informality of the employment relationship stretches from the contractual aspect through to how wages are calculated and paid. This situation further intensifies an already skewed power relation at the workplace: not only are workers not paid the wages they are due under statutory minimum regulations, as shown below, they are also dependent on their employer as to their ability to access public welfare benefits.

The survey data is difficult to interpret with regard to respondents' statements about their wages, as this is often perceived to be a very sensitive issue. Many workers are aware of the sensitive nature of this data and are likely to overstate their take-home pay in order to be consistent with their stated working hours; others, once asked wage related questions, then aborted the interview. However, even if we accept the data as provided, only about 20% are being paid close to the NMW and this includes 3 supervisors/managers. In addition to the survey sample, further information was gathered through one-to-one interviews with garment workers and those supporting them in

⁹ Note that evidence in this section is not based on statistically representative data of apparel manufacturing. In fact, given the widespread use of hidden subcontracting and employment practices, a representative investigation would not be feasible.

¹⁰ <https://www.gov.uk/national-minimum-wage-rates>

community organisations. According to those sources, an average wage of around £3 per hour was confirmed as industry norm. Further differentiation is dependent on the type of job (e.g. packers tend to get paid less, those with little experience even less) as well as right-to-work and residency status (those without a right to stay in the country can earn as little as £1 per hour). There has been a suggestion that women workers are on a slightly higher rate than men which is possibly to do with higher CMT skill levels and/or a perception that they tend to challenge managerial authority less. In factories, all wages are paid by the hour whereas home work is paid by the piece. However, the wage rates described above do not provide a good sense of take-home pay as there are other intervening variables that underlie low wages such as deductions, working time variations or public welfare benefits.

Overall, wages are determined significantly by the amount and rhythm of hours worked. The average weekly working time of the survey respondents is 28 hours per week, though this includes 7 workers who work less than 20 hours per week, and is likely to under-record actual working times. Notably, there is considerable flexibility in the length and scheduling of work: about two thirds of all respondents state that they do not work the same number of hours every day, the same number of days every week or the same number of hours every week. Nor do they have fixed starting and finishing times. 40% of the survey sample is on call. What is more, 60% report considerable variations in their working time and wages as people are sent home due to a lack of work. In those workplaces, workers have been sent home between 3-4 times per month due to a lack or fluctuation of orders. Given that workers mostly are already below NMW levels, this has a further profound impact on their income continuity.

A further problem arises out of the norms and practices of wage formation. A widespread practice is to consider the weekly income as a composite form of remuneration. On the one hand, workers receive a wage from their workplace (at the rates described above) and, on the other hand, are told to 'make up' the remainder to the NMW through public welfare benefits. In fact, almost 50% of the survey sample reported that they received some form of benefit: working tax credits, child tax credits, and housing benefits.

Often, instead of the NMW, wages from workers' country of origin are taken as the reference wage. For example, one worker interviewed in the research previously worked in a factory in Gujarat earning 3,000 rupees per month. When looking for a job in the UK, this worker was asked: "Would you like to earn 3,000 rupees per week?" Even taking into consideration that this event lies back a couple of years and that the job might formally be classed as an apprentice's job, this comes to around £30 per week and a dismal hourly rate for a whole week. The reference points described, composite wages as well as those from workers' country of origin underline two key points: a lacking awareness of workers' statutory rights as well as insufficient power to enforce those rights at the workplace.

A factor that underlies low wages as well as the informal composite nature of wages is that virtually all wages in apparel manufacturing are paid cash in hand (as was mentioned by lead firms, manufacturers, and workers' in the industry). Out of the survey sample, only 3 respondents said that they receive their wages through bank transfer. Associated with this practice are inaccurate wage slips and the payment of considerable wage sums off the books. The overwhelming majority of sampled workers do regularly receive a pay slip that records PAYE and national insurance contributions. Some of those workers state, however, that the wages on the pay slip do not reflect the total hours worked.

Information from qualitative interviews indicates that PAYE and national insurance contributions are generally paid by employers up to a certain level (which currently seems to be around 16 hours per month) for all workers who have a right to work. Leaving aside the issue of correct wage payments, however, workers' requirements with regard to public welfare benefits are in tension with those of their employers. For example, as the latter's PAYE and NI liabilities depend on their employees' earnings, they have an incentive to record working hours below that level. These calculations and trade-offs between tax liabilities and public welfare benefits to 'top up' wages are what drive the number of hours stated on wage slips as well as the exact make-up of workers' composite wages.

Further areas of concern include the late payment of wages, their outright non-payment or the non-payment of holiday pay. Workers from a large factory, for example, reported that as a matter of routine, pay slips were issued with one week in hand, whereas the wages were only paid with two weeks in hand. A number of sources told of workers being employed as 'apprentices' with the promise of full employment and wages after two weeks, only to be told afterwards that they would not be taken on; these workers did not receive any wages for their two weeks of work.

So far, the evidence above highlights problems with wages below NMW rates, working times, practices of wage formation, and the widespread practice of cash-in-hand payments. While these issues put significant pressure on workers, they tie in with their ability to claim public welfare benefits and insofar as different benefits have different requirements, there is a second level of dependency and negotiation in the employment relation. For example, in order to claim working tax credits, the recorded working hours and earnings must not be too low or too high; in addition, they also depend on their partner's working hours. Community organisations reported cases where workers fall foul of such regulations (e.g. where they do not always receive their weekly or monthly pay slips) and are faced with repayment demands of working tax credits (because their recorded working hours were below the threshold), even though they have, in fact, worked far longer hours. As previously stated, claiming maternity benefits requires a certain length of continuous employment, and applying for leave-to-remain in the UK also requires proof of a certain number of hours worked.

The evidence gathered from the survey as well as different sources within the industry leads us to believe that problems around hours/wages (that is, understated hours at NMW rates on paper, and much higher working hours averaging at £3 per hour) are endemic in the industry. It is worth pointing out that this is, while a clear violation of employment law, an industry norm, and does not necessarily constitute evidence of the most abusive work and employment practices as faced by those without right-to-work and/or residency permits (see the section below on workforce segmentation). The evidence above throws up key questions as to how to assess the data, the most pertinent of which will be discussed subsequently.

To what extent is noncompliance with NMW norms to do with the complexities of garment production? Often, key issues cited with regard to NMW compliance revolve around problems of translating piece rates and appropriate productivity levels into an hourly minimum of £6.50 (the adult rate as of 1 Oct 2014). If that was a key reason for workers not reaching NMW rates, policies would need to focus on information and advice on how to set piece rates in accordance with NMW regulations. However, evidence from the workers interviewed suggests that the payment of low *hourly* rates is widespread. Thus, the technicalities of calculating the NMW cannot be a significant factor in this case.

To what extent is there a pull or a push effect with regard to composite wages? During the research, different stakeholders repeatedly argued that the particular form of composite wages was actually requested by the workers. The explanations offered always focused on the assumed needs of South Asian and often female workers and were to do with a considerable flexibility (facilitating family commitments in the UK as well as the subcontinent) as well as financial advantages. As a general argument, however, we do not feel such explanations are plausible. For example, as garment workers often turn to community organisations for support, this is primarily to do with debt problems rather than work and employment grievances. In the first instance, people fall behind with their rent and Council tax payments, or their utility bills. Such problems are consistent with the low wages in the industry as fulltime employment very often still earns less than £500 per month, an income that will inevitably lead to debt problems. In this context, suggestions that workers would request lower levels of recorded working hours, and thereby a lower amount of hours at NMW rates, only in order to end up in debt, provide a weak argument and cannot explain workers' rationale. A more plausible explanation emerges when we 'follow the money'.

Who benefits? This is a key question with regard to political and remediation strategies, and is more complex than it seems. It is evident that workers do not benefit from the current structures and employment practices in the industry. On the contrary, a significant part of the industry's competitiveness seems to stem from low wages in the form of a forced wage subsidy. However, given the complexity of supply chains, it is not clear which tier is able to capture the bulk of these gains. As we have seen above lead firms, on the one hand, suppliers and factory managers, on the other, have contrary views on the adequacy of the prices paid to producers.

What is, approximately, the defrauded wage sum? In 2010, there were 11,700 employees in the East Midlands apparel manufacturing industry (excluding working proprietors). Assuming that 75% of those workers are paid £3.50 below the NMW and assuming that the average working time is 30 hours per week, we can estimate that the underpaid weekly wage sum for the East Midlands is around £920,000. This might well be a conservative estimate as a number of respondents estimated that 90% of workers are paid below NMW rates, as the actual number of workers and average working times in the industry might be higher. Thus, we can proceed on the assumption that the defrauded weekly wage sum in East Midlands apparel manufacturing is around £1 million a week; resulting in an estimated £50 million a year lost in underpaid wages.

A Lack of Employment Contracts

One of the most prominent features in the industry is the near complete absence of employment contracts. In general, employment contracts are only issued to employees with supervisory/managerial responsibilities while the majority of workers are employed without any form of contract.

Out of the survey sample, only 4 of the 30 respondents had an employment contract. These exceptions, however, help to unravel the hierarchies in the production process: the two respondents who are on indefinite contracts are males, a machinist/supervisor and a production manager. By contrast, the two on less secure employment contracts are female: one works as a quality control supervisor on a fixed term contract but holds an industry relevant NVQ2 in textile design and has no language problems; the other has no relevant qualifications, speaks English with difficulty but has found temporary employment as a packer through an agency. Qualitative interviews confirmed these impressions: while those in supervisory/managerial conditions enjoy more formal and better

terms and conditions of employment, the latter constitute exceptions for garment workers and might be related to (exceptional) certified skills or unusual recruitment routes.

For the vast pool of machinists, the lack of employment contracts appears to constitute an industry norm. What is more, 75% state that in their workplace people do not normally hold an employment contract while the other 25% hold that workers in their factory normally do have a contract even though they themselves do not. The survey results also give a picture of the reasons for not having an employment contract: while two thirds argued that the employer did not want to issue a contract, 40 percent of those added that they themselves did not want a contract, at times citing visa restrictions as a reason. The rest of the sample mentioned 'other reasons' for not having an employment contract and, at the same time, underline the specific employment practices in the sector:

"The job is as and when required."

"There is no such thing [an employment contract] in the garment sector. This is very unusual."

"We never asked and were never given one."

"I have been working for a long time and have never been given a contract. I thought this is normal."

Despite their contractual situation, 17 respondents see their job as a permanent one, compared to 8 who consider themselves on occasional employment. The rest might also be classed in the 'occasional' category but reported that, at the time of the survey; they were out of work as the employer had insufficient orders.

Generally, contractual arrangements and the benefits that can be derived from that are informal and seem to depend on the power relations at the point of production. Not only are PAYE and national insurance contributions mostly grossly underpaid as previously described, social wage contributions payable by the employer are often shifted onto workers.

For example, 5 workers in the sample stated that they received between 1-2 weeks of paid holiday over the last year; none of them held an employment contract but all of them considered their job as 'permanent'. It is common, however, that workers are asked to resign when they want to take holidays (or have to, for example, for family reasons). There are also reports of unpaid holiday pay. Six women in the sample had a child while working in the garment industry but did not receive any maternity pay. Similarly, a case was mentioned in a qualitative interview of a woman who wanted to apply for maternity benefits but could not do so as there was no proof that she had been in employment for the required qualifying period. A further example was mentioned in a qualitative interview of a woman who required that her actual working hours were recorded formally in order for her to be able to apply for leave-to-remain. While the employer agreed to record her working hours, this was under the condition that the worker would pay all additional employer and employee contributions. One respondent estimated that 90% of workers applying for leave-to-remain would be in such a condition. Thus, the lack of employment contracts has important consequences for workers' access to company as well as welfare benefits and a basic protection against life risks that threaten their income continuity. Arguably, their right to ultimately settle in the UK and become recognised as a citizen becomes threatened.

In this vein, informality also shapes the way employment relationships end. It seems that workers are rarely dismissed or made redundant but instead asked to hand in their notice themselves. Firms have refused to issue P45 forms unless workers hand in their notice, thereby forcing them to resign

if they want to look for another job. There are a number of practices through which workers can be dismissed, from firing on the spot to de facto redundancy when the factory does not have (or claims not to have) sufficient orders. One respondent even recounted a case where a factory forced workers to sign empty sheets of paper which, in case of conflicts, ill-health or industrial injury could later on be used as resignation letters. Thus, employment relationships could be terminated unilaterally by pretending the employee in question had resigned.

Changes in ownership (which are frequent in the industry, often linked to tax avoidance strategies and/or often follow referral notices for the employment of under-documented workers) contribute to the opacity of the employment relationship. For example, the takeover of factories often leads to questions as to the validity of workers' employment contracts or arrangements, as well as the accuracy with which company and public welfare entitlements accrued in the past (e.g. benefits dependent on certain length of service periods in employment) are reflected in any new contracts or arrangements (even if the transfer formally occurs under TUPE regulations).

Related to contractual issues, questions about the authenticity of documents provided by prospective workers raises two further points. First, employers often claim that despite their best efforts it can be difficult to discern the authenticity of, for example, passports. Second, this points to the likelihood of broader organised practices in the acquisition of right-to-work and travel documents (the research was not able to discern to what extent this could extend to forced labour, if at all). For example, a lead firm's investigation into a manufacturer in their supply chain revealed a factory almost entirely staffed by Goanese workers who had obtained Portuguese passports and thereby the right to work in the UK. While the researchers have no privileged information as to the authenticity of those passports, the fact that they were all issued recently and in a pristine condition, and that a large number of workers were found in a single factory raises questions as to the organisation behind this recruitment channel. While this example, by itself, does not suggest any wrongdoing on the part of the employer or the workers, this cannot be excluded either.

Exploitative Working Conditions

Working conditions in the industry complement the contractual and wage aspects in creating sufficient flexibilities in order to reach production targets while controlling the workforce. In line with historical industry standards, working patterns in apparel manufacturing are, both, flexible and intense. While all survey respondents state they get at least one day of rest per week, the majority do not work the same daily hours, or days and hours per week, nor do they have fixed starting and finishing times. 10% of workers reported work during the day and during the evening while 2 respondents worked evening hours only; all of these respondents were male, possibly reflecting the fact that cultural norms often prevent women from night work. During a qualitative interview, one respondent reported working in a factory that further contracts to home workers which, in this case, consisted of part of its own workforce: some (mostly female) workers have industrial machines at home, work in the factory until 7pm and then continue at home until late at night. This work is paid at piece rates which come to a lower amount than what workers earn on an hourly basis in the factory.

Work intensity can be very high. As might be expected for apparel manufacturing, the majority of jobs involve repetitive tasks, working at very high speed and to tight deadlines, doing a set number of tasks per hour and meeting precise quality standards. Shoulder and back problems are fairly common and probably taken for granted, so much so that only one machinist mentions them under

health and safety issues (though they are mentioned much more frequently in qualitative data). 80% of the survey respondents say that they never or only rarely can take a break when they wish; on average they work just over 3 hours before taking a break. 43% always or most of the time experience stress at work compared to 50% who only sometimes experience stress. Confirming the dominant business strategy of Fast Fashion, the average turnaround time for orders is 11.6 days for the workplaces covered in the survey.

The pace and intensity of production needs to be secured in a context of low pay and tight targets and here the survey as well as qualitative data provide insights into exploitative working conditions. While no information has been received on physical violence or unwanted sexual attention, 2 workers have experienced discrimination on the basis of gender, 4 on the basis of their ethnicity, and 7 because of their language skills. Particularly the latter reflects the fact that a major reason to work in this UK industry is that it does not require significant English language skills. Indeed, 70% of the survey respondents have previously experienced problems in finding or keeping a job due to language difficulties.

More importantly, however, verbal abuse, threats and humiliating behaviour, as well as bullying and harassment seem to form a constituent part of workplace management (one worker interviewed at length repeatedly spoke of these practices as constant 'torture'). A quarter of the survey respondents state that they have experienced one or a combination of the latter forms of abuse. Data from other sources show that these issues are not restricted to lower tier manufacturers (where one might expect work pressures to be higher and workforce management more arbitrary). Bullying, threats, and public humiliation are used as general disciplining devices, not only in order to reach production targets, but also in response to workers who might have challenged management in some way on employment or production issues.

Examples from qualitative data highlight the use of wage deductions for errors or mistakes. In many cases, quality problems are not in workers' control and due to design or problems with the fabric. Still, management often abuse and humiliate workers in front of co-workers for mistakes or missed performance targets and require that repairs of garments need to be carried out in workers' own time. A further disciplining device is to make work scarce for workers: thus, they are sent home under the pretext that there is no work available for the time being while their co-workers continue production. In addition to the physically strenuous production process, such arbitrary management practices create considerable levels of psychological stress for workers.

In line with the data above, the overwhelming majority of survey respondents state that they are not consulted about changes to their job or work organisation. In this respect, an argument can be made that existing working conditions in the industry and the lack of worker voice in the production process are detrimental to quality. The absence of worker voice, however, constitutes a fundamental problem: the overwhelming majority of workers are not informed about their employment rights and relevant regulations at their workplace. As there is no form of worker representation at their workplace, they only have their fellow workers to ask for advice when they face problems at work (e.g. with pay or their employment contract); only a very small minority turn to the Citizen Advice Bureau or community organisations. Dialogue over or control of industrial relations issues is entirely dependent on third-party actors outside the workplace (that is, social audits or state agencies). It constitutes a major factor in explaining the inability of such monitoring and enforcement tools to secure compliance with statutory minimum regulations.

Survey data on health and safety might indicate some under-reporting. While few report accidents at work, those who do so report 10 and 14 accidents over the last year respectively. However, when asked to what extent they consider the health and safety of machinery and equipment, on the one hand, the factory environment overall, on the other hand, between 30-43% answer very unsafe, unsafe or so-so. In general, it is conspicuous that half to two thirds of the respondents consider their factories as safe and healthy or very safe and healthy. This might reflect the attention health and safety issues get in auditing processes as well as the relative ease at which key problems in this area can be remedied at reasonable cost.

A wider picture of satisfaction levels at work might be gained from the fact that the majority of survey respondents seem to feel they are stuck in an industry with few and declining prospects: more than 75% are unsatisfied or very unsatisfied with their opportunities for professional growth or for a career change. Two thirds argue that job security has deteriorated over the last 5 years, and 43% are very or a little concerned about the prospect of losing their job. Although it is not possible to distinguish between push and pull factors from this data, but in line with those expressions of dissatisfaction and fear, we can observe fairly high levels of turnover. Estimating on the basis of different survey questions between half and two thirds of the workers appear to have changed jobs over the last year; and the overwhelming majority would consider changing their current job. Equally, when asked about turnover at their workplace, more than one third reported annual turnover rates of more than 50%, in two cases reaching above 100%.

When reporting on working conditions, however, it is important to note that the workforce is not unified but, rather, fundamentally stratified, and that working conditions and the details of workforce management vary across different groups of workers depending on their degree of vulnerability.

Workforce Segmentation as Business and Labour Management Strategies

Management practices have formed and use terms and conditions of employment as well as working conditions in order to create a segmented workforce. This serves to maintain discipline at the point of production but, equally important, allows to fulfil different orders under different price/quality/social compliance parameters. It is important to note that structures and practices of segmentation can vary considerably across workplaces and depend on business strategies and the market segment (the relative pressures of price and quality) as well as management styles. However, based on a variety of data gathered throughout the research, the following structure can be sketched.

The highest segment is formed by managers and supervisors, who have employment contracts, are on the books and receive firm-level benefits. A relatively small number of senior and skilled workers, paid at NMW rates, also fall into this category.

This is followed by a much larger segment of naturalised and mostly female workers whose language and/or socio-cultural capabilities are too limited to work in other industries. These workers earn around £3/hour, are forced to complement their wages with welfare benefits and work under the conditions described above. This group of workers forms the core of those with false records on their pay slips, those who are squeezed between the realities of their underpaid wages and the regulations of the public welfare system. Those workers and their families are those who most obviously encounter debt, in-work –poverty and, related, child poverty (Leicester's rate of child poverty stands at 37%).

A further segment is constituted by workers who have a right to work in the country but only a limited right to remain and thereby no recourse to public funds. By definition, they are not able to complement their low wages with public welfare benefits. They are therefore likely to accept worse terms and working conditions and are prone to be exploited to a much greater extent than other groups. Until recently, when limited employment was permitted for workers who arrived on student visa, those people could also be found in this group.

Finally, the lowest segment is made up of migrants on student or visitor visa (over-stayers in many cases) as well as undocumented migrants who have no right to work and stay in the UK. They constitute the most vulnerable groups. These groups often work for even lower or no wages, work night shifts, and are dismissed at will, among others.

Such structures of workforce segmentation play an important role in carrying out orders for different suppliers and lead firms, at different times of the day, and at times in different factory premises. However, they are also central in balancing profit margins. For example, qualitative data point to the way established workers on NMW rates are substituted by workers at much lower rates. The latter can be younger workers, retired workers or under-documented workers. This practice of balancing or substituting different workforce segments has a number of different functions: a social function of securing workforce compliance in the labour process; an economic function of maintaining stable profit margins (e.g. a decline in the prices paid by lead firms can be countered by using workers' on lower wage rates); and a compliance function in that, at times, suppliers place orders from ethically more demanding lead firms to more compliant factories.

Monitoring, Auditing, Enforcement

Seen from a workplace perspective there is stark paradox in that monitoring and auditing are omnipresent but grossly ineffective. For example, all but one survey respondent reported that lead firms have inspected their workplace over the last 12 months, 47% recall a visit by the immigration authorities, 37% had their workplace visited by the tax authorities, and a further 27% mentioned a health and safety/social audit. At the same time, though, almost two thirds of the respondents added that their employer has taken special measures in advance of such visits. Interview data has confirmed that in such cases workers without right to work or residence permits are ordered to leave the factories immediately and stay away for weeks at a time. Evidence from lead firms' stake-out/fact finding missions or enforcement visits by immigration authorities highlights as not uncommon that workers leave at the back of the factory while firms or authorities enter through the front door. The procedures of immigration raids only serve to highlight the individual tragedies of those involved. For example, under existing practices immigration officers tend to seal off all exits prior and often arrest under-documented workers as they try to leave through the back entrance¹¹. At times workers do not try to leave but hide among factory stock¹².

In addition to the above data, the research team has made a request under the Freedom of Information Act to the Home Office (see Appendix) on: a) the number of immigration raids carried out in businesses manufacturing textiles and wearing apparel in Leicester, and b) the names of businesses issued with a civil penalty, the penalty values and the number of workers involved. While

¹¹ <http://www.leicestermercury.co.uk/Illegal-immigrants-arrested-raid-Leicester/story-17362240-detail/story.html>

¹² <http://www.leicestermercury.co.uk/Illegal-immigrants-factory-raid/story-12037693-detail/story.html>

the information provided in response does not detail the number of enforcement visits conducted in general, it shows how many firms were issued a Referral Notice as a result of a visit.

Table 2: Immigration Enforcement in Leicester

Year	Number of immigration enforcement visits in LE with Referral Notice issued	Number of workers concerned	Penalty values
2009	8	29	145,000
2010	1	10	50,000
2011	10	41	205,000
2012	2	6	30,000
2013	3	9	40,000
2014 (until August)	2	36	235,000
Total	26	131	705,000

Source: Authors calculations based on Freedom of Information request and press reports

The data gives an indication of the pattern and frequency of immigration enforcement activity, with 8 Referral Notices served in 2009, 1 in 2010, 10 in 2011, 2 in 2012, 3 in 2013, and 2 until the end of August 2014. While these numbers are for Leicester (all postcodes beginning with LE), they can be set in the context of the 1065 enterprises in textiles and apparel manufacturing in the East Midlands (2013).

Two further points about the nature and effectiveness of these enforcement strategies need to be understood. First, the Home Office has decided not to publish “information on businesses which had been issued with a civil penalty, but had paid, set up an instalment plan within the prescribed timescale or subsequently had their penalties cancelled” (see FOI response Appendix). Second, however, there seems to be a fairly common practice of winding businesses up, or changing their name and/or ownership: of the 12 lead firms that were named in the FOI request only one is still trading at the time of writing. Most of the lead firms issued with civil penalties are dissolved. However, a search on the directors of these lead firms reveals a range of practices beyond that:

- in the case of an enforcement visit in June 2013, the secretary (previously director) of the raided company set up a new business with him as the registered director in the same month;
- In another case a company was raided twice in the space of 2 months and both times undocumented workers were found on the premises. The then director of the company resigned and the same day registered a new business that included him again as director and a slight change of name on the previous company;
- In a third case, the month following an enforcement visit, the then director of the company registered a new business with a slightly changed name.

A number of respondents have pointed to the role of family networks, claiming that the latter underlie equally extensive company networks. Indeed, it is not unusual for company directors in the garment industry to be involved in several lead firms at the same time, either as directors or as secretaries, and at times, other family members are also involved. While there is nothing illegitimate in those practices which often are a facet of entrepreneurship within particular ethnic communities

(and the research team has encountered networks that seem to be based on a legitimate business rationale), some of these networks also form the core of avoidance strategies.

With regard to the monitoring of health and safety, the surveyed workers do not perceive them as major concerns; however, it is likely that accidents and injuries as monitored by the Health and Safety Executive are under-recorded. For Great Britain, for example, apparel manufacturing shows 6 non-fatal major injuries in 2011/12 (versus 7 in 2012/13) and 15 over-3-day injuries (as opposed to 11 over-7-day injuries in the following year). Given the small-scale structure of manufacturing firms, management practices and working conditions as detailed above, there are severe challenges and questions as to the reach and effectiveness of health and safety enforcement strategies that are based on advice, information, and penalties in case of non-compliance. Interestingly, the health and safety compliance that can be found seems to be linked to private audit processes. However, anecdotal evidence suggests that health and safety conditions are much worse in the underbelly of non-audited factories.

Turning to NMW enforcement by HMRC, it is crucial to note that action in this area is dependent on worker-led complaints. By itself, this mode of enforcement is by design inadequate. Not only does it require a detailed complaint by a garment worker with extensive diary information on working times and work patterns, such complaints are further strengthened by similar information concerning the entire workshop. Such a complaint and the relevant evidence might then be considered by an employment tribunal and it is very likely that potential claimants will consider, both, the fees payable as well as the proceedings, prohibitive. Not only might the rules and fee structures look very complex for migrants with significant language barriers, others working without required permits are automatically barred from pursuing the statutory reward for their work due to fear of being fined or deported. Finally, if a claim were to be heard at an employment tribunal, it is easy to imagine how the claimants' evidence might be evaluated against counter-evidence from a number of employees 'loyal' to the employer. In addition, frequent changes of ownership, as firms are wound up and immediately incorporated again under a new name, make this even more difficult. This formal route of enforcement is riddled with barriers as it requires sustained action from workers on very low wages of around £500, who could face language difficulties, and in some respect may be under-documented workers.

The extensive evidence presented above on working conditions in apparel manufacturing in the East Midlands highlights very serious violations of statutory work and employment standards. While data from the survey as well as qualitative interviews relate to Leicester and the East Midlands, the structure of the industry as well as data gathered on broader business practices and labour market dynamics would indicate that such conditions can be found in all major UK manufacturing hubs geared towards Fast Fashion. The evidence on violations of work and employment standards, however, also highlights the inefficiency of private and public enforcement practices which is what the next section will address, with a view to discussing some of the building blocks towards more appropriate practices.

5. Towards Fundamental Labour Rights and a Level Playing Field

The findings of this research might be surprising for some as the problems discussed tend to be more associated with India, China and South-East Asia rather than the UK. Considering the underlying structures, however, it would be surprising to see any different outcome. The competitiveness of UK apparel manufacturing is based on the interplay of lead firms' market power; the flexibility of relatively small manufacturers that partly operate in the hidden economy; as well as a flexible labour market based on permissive regulatory and enforcement structures. What has emerged in the restructuring of apparel manufacturing is an industry in which workers are too weak to organise and represent themselves, and at the same time, do not have the needed support and enforcement from the State. What is more, as trade union representation and bargaining coverage have declined in the fragmentation of the industry into micro-, small-, and a few medium-sized businesses, workers do not have a seat at the bargaining table or any other alternative form of voice. Manufacturers' strategic leverage has shrunk under the current business model and regulatory framework: their size has diminished dramatically and they operate under much tighter parameters. In the context of this new industry, their options are to comply and struggle, or to create some space by violating corporate and employment regulations.

Debates over such problems are neither new nor specific to the UK. They often suffer from the problem that the promise of isolated projects is dampened in the face of systemic market pressures. At the same time, we see a very dynamic scene of multi-stakeholder initiatives and emerging forms of public-private regulation that can form the basis of more sustainable forms of industry governance. Below we briefly survey some of the key issues and initiatives that provide clues as to the development of a level playing field in apparel manufacturing.

Supply Chain Transparency and Labour Costing

Traditionally, supply chain transparency concerned information about lead firms' sourcing practices and the locations of their suppliers and manufacturers. Concerns over human trafficking, slavery and forced labour, however, have led to legal requirements for lead firms to report on their efforts to address such problems within their supply chain (see, for example California's Transparency in Supply Chains (Tisc) Act that came into force in 2012, or the current debates around the Modern Slavery Bill in the UK).

Given the deeply entrenched and widespread problems around the payment of the NMW, including a living wage, it might be opportune to integrate more transparent approaches of labour costing into purchasing practices. The non-payment of NMW is one of the main ways to undercut compliant manufacturers, challenges fundamental protections of a balanced labour market, and clearly break a basic provision of employment law. It has been argued that pricing, in particular the pricing of labour cost, has rarely formed part of discussions on purchasing practices.¹³ Obviously, initiatives need to attain a critical mass in order to be sustainable; however, a decisive shift away from residual labour costings constitutes a central starting point.

As underlined in this research, the CMT element is rarely discussed between buyers and suppliers. However, CMT costs are still insufficient in order to gauge actual labour costs as they include the

¹³ Miller, D. (2013) Towards sustainable labour costing in UK fashion retail, Capturing the Gains Working Paper 14 (Manchester: University of Manchester)

manufacturer's overheads and profits. In fact, labour costs constitute the variable residual in the face of pressures that stem, both, from pricing as well as turnaround times. Yet, they are crucial in determining production times, efficiencies, and output. Given their importance, a number of different methods are used in the industry to determine labour costs.¹⁴

First, bespoke time and motion studies are what some (compliant) manufacturers resort to in order to demonstrate that 'going market prices' are unachievable at NMW rates. However, this method involves the expertise of an industrial engineer and times the production of a particular worker in the sampling process, which is outside the actual production process. This method is reactive and difficult to extrapolate to a set-up production flow.

Second, many smaller manufacturers work on the basis of historical estimates, a method that seems most widespread in Leicester's apparel manufacturing industry. In the best of cases, though, this method is inaccurate and opaque, and these latter characteristics are what are strategically exploited in the worst of cases. This method lies behind the assessment that a large number of manufacturers has 'no concept of costings'; it also lies behind the numerous non-compliances discussed in Section 4 as historical pricing estimates can only move in a downward spiral in the context of unfair competition.

Third, pre-determined time systems (PTS) identify the range of operations necessary to produce key components of a garment and essentially constitute a library of empirically determined labour operations. PTS values are based on standard minute values (SMVs) at average productivity and include relaxation allowances, special/machine delay allowances, and contingency allowances. What makes PTS systems more difficult to use is that they vary from factory to factory depending on the production process, technology etc. and thus require some effort to formulate the appropriate value of an average factory. Despite the considerable input required in their development, PTS systems constitute a useful platform in establishing the SMV labour cost at NMW and living wage rates. Such systems could help to ensure that competitive advantage is based on the efficiency of production rather than the variable wage residual.

Labour costing constitutes a key element in supply chain transparency as it establishes a baseline for discussions about any further remediation initiatives, from productivity projects to the revision of purchasing practices or the straightforward redistribution of profits. It requires a stable platform for the collaboration between different stakeholders such that the insights gained are used to rebalance the playing field (as opposed to spurring further rounds of competition based on non-compliance).

Supply Chain Accountability

It is understood by the various stakeholders, and confirmed again through this research, that the transparency of processes – whether it concerns lead firms' management practices, absolute standards (e.g. minimum wages), or fundamental labour rights (e.g. freedom of association) – does not in itself achieve compliance. Rather, supply chain accountability requires a governance framework that involves all stakeholders in the definition and supervision of key standards and processes.

An important finding in this respect is that the regulatory framework governing supply chain responsibility and accountability is not fit for purpose.¹⁵ The determinants of work and employment

¹⁴ See Miller (2014) for the following

¹⁵ See also Weil, D. (2014) *The fissured workplace. Why work became so bad for so many and what can be done to improve it* (Harvard: Harvard University Press)

in apparel manufacturing have changed significantly in the transformation of the industry. Yet, public regulation largely has the industry in sight as it was two or three decades ago. Given that the division of labour, the size and market power, as well as the business alternatives of the contracting parties – lead firms, agents, suppliers, and manufacturers – have changed radically, it is misleading to assume that changes in those contracting relations have no implications for work and employment. Micro enterprises will often struggle to offer stable employment at NMW rates in the context of order fluctuations and low margins. They might not offer such conditions to their vulnerable workforces calculating that the resources and enforcement strategies of public agencies make their detection highly unlikely. Given the existing pressures in the supply chain, they might also struggle and strategically calculate their risk of detection at the same time.

As argued in great detail by David Weil, laws originally developed to ensure basic labour standards and to protect workers have turned to make matters more difficult insofar as they focus attention on the wrong parties and work on the basis of inadequate mechanisms.¹⁶ Economic structures in the sector are fundamentally asymmetric such that their social outcomes cannot be ascribed to the employer alone. Yet, in most cases legal responsibilities lie with the employer. These assumptions are also mirrored in monitoring and enforcement mechanisms: with a few exceptions, workplaces in apparel manufacturing do not have labour representatives that could ensure basic compliance with employment regulations, or provide advice and support workers' grievances. This is even more serious as vulnerable workers in micro enterprises generally do not have the freedom to pursue their rights through formal channels. Equally, policies to support entrepreneurship through tax exemptions can, in fact, achieve the opposite effect insofar as they encourage the winding up of businesses every couple of years. Thus, such policies can complicate transparency and enforcement further, making non-compliance easier, and undercutting compliant entrepreneurs. These examples underline the extent to which the regulatory framework has become removed from actual workplace governance.

There is an onus on government to redefine responsibilities between lead firms and the range of subcontractors throughout the supply chain. A number of regulatory initiatives define this relationship as one of joint liability (which also underlies the Bangladesh Accord) in a number of areas. A much quoted example concerns the US Department of Labor's powers to object to the shipment of goods produced in violation of the Fair Labor Standards Act's (FLSA) minimum wage and overtime regulations.¹⁷ Release of those goods is dependent on the lead firm and the manufacturer to agree plans with the Department of Labor to ensure compliance. Some experts have expressed reservations about the effectiveness of this joint liability programme of the Department of Labour¹⁸, however, a thorough analysis of WHD survey data indicated that the frequency of violations as well as the level of wage underpayments declined in the wake of this public-private enforcement model.¹⁹

¹⁶ Weil, D. (2014), p.4

¹⁷ See e.g. Weil, D. and Mallo, C. (2007) Regulating Labour Standards via Supply Chains: Combining Public/Private Interventions to Improve Workplace Compliance, *British Journal of Industrial Relations* (45)4, 791-814

¹⁸ Esbenshade, J. (2004) *Monitoring sweatshops. Workers, consumers, and the global apparel industry* (Philadelphia: Temple University Press)

¹⁹ Weil, D. and Mallo, C. (2007)

Another example stems from the occupational health and safety and industrial relations regulatory framework relating to the Australian New South Wales clothing industry.²⁰ Promoting supply chain transparency and protecting standards for home workers, retailers are not allowed to place orders unless they have investigated whether/where home workers are employed in their supply chain, whereas suppliers are obliged to provide relevant information in this respect. Importantly, home workers are to be engaged under conditions no less favourable than relevant regulations.

Finally, reflecting the specific problems in the construction industry around long subcontracting chains, undeclared labour, and illegal or unfair competition, a number of European countries have developed provisions on joint and several liability concerning (minimum) wages, social security contributions, and the tax on wages.²¹ Such provisions can extend across the entire chain or, in some cases, only one subcontracting level. While a number of the problems relating to the enforcement of these provisions in the construction industry can also be found in apparel manufacturing, the legal definition of joint liability and associated requirements to conduct checks have redefined the playing field and are generally judged to be effective by the social partners (either through the provision of effective regulatory tools or through their preventive effect).

Principles of joint liability constitute an institutional recognition of the systemic nature of the industry's underlying tensions. Joint liability constructs obligations across different supply chain actors as well as across public and private actors and thereby encourages collaboration in building a more balanced playing field.

Monitoring, Auditing, Enforcement

The present system of monitoring and social auditing contains a certain paradox in that it has been practised and refined for some time, yet it has largely failed to include workers. Thus, issues within the workplace are generally addressed between actors outside the workplace. Furthermore, as standard practice requires manufacturers to be deemed compliant *before* orders can be placed by a client, it is structurally difficult to represent workers *during* production which is likely to further marginalise their concerns. Repeated audits might go some way in recording issues over time; however, the defining feature seems to be multiple audits, that is, audits to different standards and templates, rather than any sense of continuous engagement. The costs of multiple audits are a common theme and have been voiced repeatedly at the supplier forum and in individual interviews. While developing a shared template for social audits would certainly make this process more manageable for manufacturers, it is the integration of labour representatives in the audit itself as well as the follow-up that is central in the monitoring and enforcement process.

Against this background, the majority of lead firms interviewed in this research stated that they were working towards a more ongoing monitoring engagement. While they acknowledged that worker interviews as part of social audits are ineffective (realising that the power asymmetry in the workplace is too pronounced to result in open assessments by workers), it was unclear what could be pursued as a viable alternative. A recent agreement between a lead firm and a trade union in the UK constitutes a notable exception in this respect as it clearly lays out an approach that involves the

²⁰ James, P., Johnstone, R., Quinlan, M., and Walters, D. (2007) Regulating supply chains to improve health and safety, *Industrial Law Journal* 36(2), 163-187; Burchielli, R., Delaney, A., and Coventry, K. (2014) Campaign strategies to develop regulatory mechanisms: Protecting Australian garment homeworkers, *Journal of Industrial Relations* 56(1), 81-102

²¹ Houwerzijl, M., and Peters, S. (2008) Liability in subcontracting processes in the European construction sector (Dublin: European Foundation for the Improvement of Living and Working Conditions)

trade union in its monitoring and auditing processes. The key element in this approach is to collaborate in multi-stakeholder ethical audits, thereby creating a space for trade union representation for garment workers. Clearly, there are challenges ahead, not least as this initiative is confined to one lead firm's supply chain at the moment; nonetheless, it needs to be considered as one of the most far-reaching projects in the industry.

In contrast to such a private, voluntary, initiative, other examples underline the importance of public-private forms of enforcement.²² For example, the above mentioned joint liability in response to the FLSA's minimum wage and overtime regulations is complemented through private monitoring in support of the Department of Labor's Work and Hour Division (WHD). After having faced an embargo and having signed an agreement with the WHD, this agreement "between the [lead firm] and the WHD requires that it undertake a monitoring programme (entailing a variety of practices regarding information provision, agreement to observe FLSA standards and various forms of periodic compliance inspections) for all of its current and future contractors."²³ The conclusions the authors draw is that there is considerable discretion about the detail of monitoring arrangements as long as the enforcement regime behind it is robust and credible. In fact, the expectation is less that the embargo would be used often, rather that its threat would spur firms into developing robust monitoring mechanisms.

Time and again, collaboration in the monitoring and auditing process has been mentioned in the process of the research by different stakeholders. On occasion, this referred to labour representatives or a revised version of worker involvement. At other times, it was directed at public authorities' responsibilities to enforce employment, health and safety, and right-to-work regulations as well as compliance with tax laws and trading standards. It is important to keep in mind, however, that collaboration in itself is not neutral. For example, unless work and employment rights are independent of workers' status, fear of disclosure and deportation (subject to the workers' right to work) can create more of a barrier (helping neither a healthy and safe workplace nor NMW enforcement). This is an example where the segmentation of work and employment rights across different groups of workers hampers their very enforcement; in fact, it encourages the emergence of a hidden economy as the pursuance of employment rights results would result in ending the employment relationship as such.

Evidence gathered in this research on the shortcomings of existing auditing practices, lead firm efforts to develop new approaches, as well as the above examples from the US, Australia and Europe suggest that public and private strategies of monitoring and enforcement need to meet three criteria: they must be based on worker involvement at workplace and industry level; they must be geared to the structures of the new apparel manufacturing industry and its labour market; and they must be integrated as the challenges are systemic and industry-wide.

Empowering Workers, Developing Industrial Relations

This research has emphasised the pressures that stem from lead firms' sourcing practices as well as the opportunities that a permissive regulatory system offers to non-compliant suppliers and manufacturers. In this light, it might be tempting for ethically committed managers to redouble efforts and to develop a more intense monitoring and auditing regime. It will be crucial to harness

²² Locke, R. (2013) *The promise and limits of private power. Promoting labor standards in a global economy* (Cambridge: CUP)

²³ Weil, D. and Mallo, C. (2007), p.795

the current momentum of emerging 'ongoing and closer engagement' by lead firms and to ensure the new systems and practices work smarter rather than harder. Labour representation as well as pricing will constitute key terrains in this respect. In the light of the imbalances that have emerged in the transformation of the industry, new mechanisms fit for regulating such complex supply chains have to reserve a key role for labour representation at industry as well as workplace level. The definition of labour costs and their integration into buying considerations is important in a double sense: it offers a benchmark in addressing the most immediate work and employment violations at the same time as it is central in defining the line between compliant and non-compliant manufacturers.

The development of industrial relations in an industry structure such as apparel manufacturing is unlikely to be sustainable unless supply chain relations form part of the deliberations. One of the strongest examples in favour of this point stems from the system of triangular collective bargaining that was developed in the wake of the 1911 fire in the Triangle Shirtwaist Company in New York.²⁴ In this process, relations between workers, lead firms/suppliers, and manufacturers were negotiated through their respective trade unions and employer associations. Labour costs were taken out of competition through collective bargaining as wages were directly negotiated with the lead firm. However, as this would not have been sufficient to achieve transparency and accountability in the supply chain, lead firms were required to register their manufacturers with the trade union. As a result, unions were able to significantly improve working conditions as well as wages, though this happened in a context of high unionisation and stronger support from the public regulatory and enforcement side.

The structure of today's apparel industry clearly bears important similarities and differences to the one in the above example. Whereas any contemporary model will require considerable adaptations, transparency and joint liability will have to form the core of its governance structure as they are crucial in preventing unfair competition. By way of conclusion, it is worth re-emphasising the relationship between transparency, more relational monitoring practices, and joint liability. Clearly, tackling unfair competition and the violation of fundamental employment standards through isolated initiatives can be a very thankless undertaking, particularly as competitors might not follow. On the plus side, however, as shown above, there is a range of emerging initiatives and institutional innovations that can occupy a central role in rebalancing the playing field.

In the course of this research, we have found a strong case and commitment across all industry stakeholders for the viability of a fast response apparel industry in the UK. In order to make such a prospect sustainable, it is important to build on existing collaborations and to develop a suitable and stable framework for public-private cooperation in industry-wide platforms. In this respect, the following recommendations are best seen as a set of interlinked measures rather than ones that are independent from each other.

²⁴ Anner, M., Bair, J., and Blasi, J (2014) Toward joint liability in global supply chains: Addressing the root causes of labor violations in international subcontracting networks, *Comparative Labor Law and Policy Journal*, 35(1), 1-43

6. Recommendations

The multiple pressures that underlie the often exploitative working conditions in UK garment manufacturing supply chains, as well as the range of associated symptoms require a collaborative approach. While such an approach will have to draw on different actors' respective strengths and capabilities, it is their *coordination* that is able to make a difference to the issues the industry is facing. More precisely, we recommend the following measures:

1. For government to consult on and redefine joint supply chain responsibility and accountability. Such regulations can build on existing policy tools concerning lead firm responsibility for workplace health and safety, liability for social insurance contributions, as well as considerations on fair competition. We recommend lead firms, suppliers, and labour representatives explore a joint consultation mechanism for the practical implementation of those regulations.
2. For the industry to develop mechanisms to specify the labour contribution to garment manufacturing and to make the labour cost element explicit in contracts. This can start with labour costs at the cut-make-trim stage and use a variant of existing systems in the garment industry such as predetermined time standard (PTS) systems. This would go a long way towards tackling unfair wage competition and make lead firms' responsible approach to wages explicit.
3. For lead firms, social auditors, suppliers, and trade unions to adapt auditing/monitoring mechanisms so that they are carried out with trade union representatives. Worker representation in auditing/monitoring practices, as stakeholders as well as experts in the production process, is a key element in developing existing social audit practices. This form of adapted audits needs to be embedded in the joint supply chain responsibility mentioned above and can create an environment for a more developed management-labour dialogue at the workplace.
4. Following from (3), for lead firms, social auditors and manufacturers to use the adapted audit mechanism to develop a shared audit template and to establish more transparency of the outcomes of such audits. Such measures can serve as incentives to level standards up rather than to compete through undercutting minimum work and employment standards.
5. For lead firms, to thoroughly integrate the training of buyer and ethical trade managers, particularly with regard to the costs of responsible garment manufacturing as well as consultation with suppliers on purchasing practices that reward socially responsible manufacturers.
6. For all actors to commit to an industry norm whereby all wages are verifiably paid into workers' bank accounts. While this would not by itself eradicate abuses, it could be used as an element to raise the degree of formality of payroll systems.
7. For lead firms, trade unions, community organisations, and public welfare and employment agencies to engage in remedial actions to tackle in-work poverty. While some lead firms and trade unions are in the process of exploring various joint initiatives, links with community organisations and public welfare and employment agencies will be helpful in developing outreach and bottom-up work in an industry characterised by a considerable number of vulnerable workers.
8. For businesses to develop transparency about indicators and contexts of modern slavery in their supply chains as well as the measures taken to address those issues.

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Appendix



Home Office

Immigration Enforcement
FOI & PQ Team
Sandford House
41 Homer Road
Solihull
B91 3QJ

www.gov.uk/home-office

Monday 27 October 2014

Dr. Nikolaus Hammer

Sent via E-mail: nh80@leicester.ac.uk

Dear Dr. Hammer

Re: Freedom of Information Request – 33108

Thank you for your e-mail of 3 October, in which you asked for information regarding employing illegal workers. Your query has been handled as a request for information under the Freedom of Information Act 2000. You requested:

- 1. The number of immigration raids carried out in businesses manufacturing textiles and wearing apparel in Leicester between May 2004 and September 2014 (an overall figure for all postal codes starting with 'LE', by month and year).*
- 2. The names of businesses manufacturing textiles and wearing apparel that were issued with a civil penalty for employing immigrants who illegally entered the country, on the one hand, for employing individuals working in breach of their immigration status, on the other hand. I would be grateful if you could provide information for each of these two offences: the names of businesses issued with a civil penalty, registered across postal codes starting with 'LE', for the period March 2008 – September 2014 (or closest available), and including penalty values and the number of workers involved.*

Before answering your request, I thought it might be helpful to provide you with some background information on the legislation dealing with the prevention of illegal migrant working. The measures in place to tackle illegal working were introduced by the Immigration, Asylum and Nationality Act 2006 and came into effect for those employed on or after 29 February 2008. This Act brought in a system of civil penalties designed to encourage employers to comply with their legal obligations, without criminalising those who are less than diligent in operating their recruitment and employment practices. Under this legislation, employers can face liability for a civil penalty for every illegal worker found.



Home Office

We have made two amendments to the Immigration, Asylum and Nationality Act 2006, in the Immigration Act 2014, putting in place a sequential objection and appeal process and to make it easier to recover a civil penalty debt in the court. However, the majority of the recent changes to the civil penalty scheme are in secondary legislation, amending the Orders and Codes of Practice. These include increasing the maximum civil penalty from £10,000 to £20,000, simplifying the nature of the document checks to be conducted, the range of acceptable documents and how civil penalties are calculated. Further information on the changes can be found at:

<https://www.gov.uk/government/publications/preventing-illegal-working-code-of-practice-for-employers>.

The legislative changes to civil penalties are part of a wider package of reform to the way in which we prevent illegal working. This includes significantly increased operational enforcement activity; reform of the way in which we administer civil penalties and reform of the way in which we recover unpaid penalties administratively to ensure that there are real and enforced consequences for employers who repeatedly exploit illegal workers.

In regards to your FOI request, the enclosed Annex A provides information that you have requested.

If you are dissatisfied with this response you may request an independent internal review of our handling of your request by submitting a complaint within two months to the address below, quoting reference 33108. If you ask for an internal review, it would be helpful if you could say why you are dissatisfied with the response.

Information Access Team
Home Office
3rd Floor,
Peel Building
2 Marsham Street
London
SW1P 4DF
E-mail: info.access@homeoffice.gsi.gov.uk

If you request an internal review, that review will be carried out by staff who were not involved in providing you with this response. If you remain dissatisfied after this internal review, you would have a right of complaint to the Information Commissioner as established by section 50 of the Freedom of Information Act.

Yours sincerely,

Immigration Enforcement

Freedom of Information & Parliamentary Questions Team



Annex A

FOI – 33108

Question 1

Below is a breakdown of the number of businesses in all postal codes starting with 'LE' who manufacture textiles and wearing apparel that were visited between 29 February 2008 and 31 August 2014, where the employer was issued with a Notice of Potential Liability (NOPL) or Referral Notice.

Month and Year	Number of visits conducted
February 2009	1
April 2009	1
May 2009	1
June 2009	1
August 2009	1
September 2009	2
November 2009	1
July 2010	1
January 2011	1
February 2011	1
May 2011	2
June 2011	5
November 2011	1
August 2012	1
November 2012	1
March 2013	1
June 2013	1
November 2013	1
January 2014	1
June 2014	1
Total	26

The Home Office does not hold information on the type of service or goods provided by those companies who were visited prior to 29 February 2008, or those companies that were not issued a NOPL or Referral Notice after that date. As it is not possible to filter out businesses that are involved with manufacturing textiles or wearing apparel from other types of businesses outside of the criteria described above, this information has not been included. In addition, figures for September 2014 have not been provided as this information is not yet available.



Question 2

In regards to your second question; I should point out that just because a business received a visit, it does not automatically mean that a civil penalty would have been issued. Also, if a company has recently been visited, a civil penalty may not yet have been issued and hence that is why there is a difference between the figure for companies visited, compared to the number of civil penalties issued.

A Public Interest Test (PIT) has been conducted for information covered by your second question. It was to consider whether information on businesses which had been issued with a civil penalty but had paid, set up an instalment plan within the prescribed timescale or subsequently had their penalties cancelled, should be redacted under Section 43(2) (Prejudice to Commercial Interests) of the Freedom of Information Act (FOIA) 2000.

The PIT considered whether release of the information would prejudice or would be likely to prejudice the company's commercial interests. In favour of release is the need for the Government to be open and transparent to members of the public. This is weighed against the release of this information being likely to prejudice businesses' reputations, and consequently their commercial interests, as customers may choose to trade elsewhere. In addition, the knowledge that businesses' details will be released if they do not pay their penalty encourages businesses to comply and make payments in a timely manner. There would be a loss of trust and the policy would be less effective if the Home Office were to release these details. This would adversely affect the Home Office's effective collection of penalties, leading to a greater need for enforcement action.

The PIT concluded that the balance of the public interests lies in withholding the businesses' names and address. These have been redacted as per Section 43(2) (Prejudice to Commercial Interests).

Details of the businesses that have not paid are provided in the tables below. This information relates to initial penalties served and their values. These are subject to change as penalties may be reduced or cancelled after consideration of objection and/or appeal.

Name of Business Visited	Address	Postcode	Date Civil Penalty Issued	Penalty Value	Number of Illegal Workers
			07/08/2009	£15,000	3
KTR Garments Limited	45 Gipsy Lane Leicester	LE4 6RD	16/09/2009	£20,000	4



			07/10/2009	£50,000	10
Sunnyville Clothing Ltd	69 St Barnabas Road Leicester	LE5 4BE	04/06/2009	£25,000	5
Name of Business Visited	Address	Postcode	Date Civil Penalty Issued	Penalty Value	Number of Illegal Workers
Knitcross Ltd	91-101 Humberstone Road Leicester	LE5 3AN	28/07/2010	£50,000	10
Lily Ltd	1 Junction Road Leicester	LE1 2HS	01/02/2011	£25,000	5
House of Creation Limited	1 st Floor 97 Hildyard Road	LE4 5GG	24/03/2011	£80,000	16
Traffic Fashion Limited	Unit 1 1 st Floor Imperial Typewriter Building East Park Road	LE5 5HH	20/10/2011	£30,000	6
			15/07/2011	£15,000	3
			06/09/2011	£15,000	3
			30/06/2011	£10,000	2
Faiz Clothing Limited	Gate 2 195 Gwendolen Road Leicester	LE5 5FN	21/07/2011	£30,000	6
Button Master / Tanvir Fashions	Unit 6 1 st Floor Imperial Typewriter Building East Park Road	LE5 4QD	12/01/2012	£25,000	5
KTR Garments Limited	45 Gipsy Lane Leicester	LE4 6RD	16/12/2009	£20,000	4
			26/10/2009	£35,000	7



Home Office

Name of Business Visited	Address	Postcode	Date Civil Penalty Issued	Penalty Value	Number of Illegal Workers
			03/09/2012	£5,000	1
Apex Designs (Leic) Ltd	75 Linden Street Leicester	LE5 5EE	26/07/2013	£35,000	7
			18/09/2013	£5,000	2
SN Clothing Ltd	Supra House Evington Valley Road Leicester	LE5 5LJ	17/01/2014	£25,000	5
			20/05/2014	£30,000	6
SI Clothing Ltd	Units 22-24 Temple Building Temple Road Leicester	LE5 4JG	28/05/2014	£95,000	19
			12/08/2014	£110,000	11

For additional information, the Home Office regularly publishes information on illegal working civil penalties. I have included the link below for your information:

<https://www.gov.uk/government/collections/employers-illegal-working-penalties>