

Government Response to the
New Automotive Innovation
& Growth Team Report

NOVEMBER 2009



Government Response to the New Automotive Innovation & Growth Team Report

Presented to Parliament by the Secretary of State for
Business Innovation and Skills

By Command of Her Majesty
November 2009

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Foreword

By Lord Mandelson

The Government welcomes the New Automotive Innovation and Growth Team's report: "The Future of the Automotive Industry in the UK."

Led by industry, this Report drew on contributions from academia and the wider automotive stakeholder community. On behalf of the Government, I would like to thank all of those involved for their time and expertise. In particular, thanks must go to Richard Parry-Jones as NAIGT Chair, his Steering Group and the Chairs and members of the NAIGT's five Expert Groups.

As the NAIGT's Report emphasised, the UK automotive industry remains a critical part of the UK's economy. It is an important driver not only for growth and skilled job creation in this country, but also increased innovation and productivity across our whole manufacturing base.

In 2008, the UK automotive industry produced almost 1.65 million vehicles and 3 million engines. It directly employs around 180,000 people and supports hundreds of thousands more jobs throughout our supply-chain and wider economy. Many of those it employs are designers, researchers, engineers and other skilled professionals essential to the UK's knowledge base.

Over the last two years, the global automotive sector has been hit by some of its toughest trading conditions for decades, with tighter credit restrictions and a slump in global demand.

In the years to come, the industry must also transform design and production processes to seize opportunity in a modern, low-carbon age. Increased prosperity in the emerging economies will bring greater competition, as well as creating lucrative new markets and boost demand for vehicles and services.

In its report, the NAIGT proposed detailed recommendations to help foster the success of the UK's automotive industry. This includes measures to improve the UK's business environment and strengthen our supply chain.

The Government has reviewed these recommendations in depth, taking into consideration existing and future Government action in this area. This document sets out our detailed response.

We have already provided support to help protect against the loss of vital talent, expertise and capacity in the sector during this current downturn. This includes the Automotive Assistance Programme and the creation and extension of our successful Scrappage Scheme.

We are committed to ensuring the UK's automotive industry can build on its strengths and develop the new capabilities it will need to compete. There must be opportunities as economies recover to increase the UK's supply chain presence.

We also strongly agree with the NAIGT that the UK must seek to secure a global lead in low carbon transport.

Last year, the Prime Minister committed Government to working with industry to achieve that ambition. Since then, the Government has published its vision of how to place the UK at the global forefront of the development, demonstration, manufacture and use of ultra-low carbon vehicles.

To deliver the economic and environmental benefits and provide clear leadership from Government, we have created the Office for Low Emissions Vehicles. We've invested £140 million in the Technology Strategy Board's "Low Carbon Vehicle Innovation Platform"; launched a £230 million scheme to help incentivise car buyers make the low carbon shift, provided £30 million for electric vehicle infrastructure. We are also supporting the public sector with £20 million to trial low carbon vans across the UK.

NAIGT's work will continue to influence our approach to low carbon, in particular through its technology road maps and promotion of "Test Bed UK."

Recent analysis suggested that three factors are essential to a strong automotive industry: a vibrant supplier community committed to R&D, access to secure long-term funding and a sympathetic responsive government; and a policy environment that can continue to support effective action in these areas as the global economy of the future develops.

That is why we are implementing as a matter of priority the NAIGT's recommendation to establish a new Automotive Council. The Council can strengthen our links with these businesses and inform the long-term strategy for this sector. We plan to hold its first meeting before the end of 2009.

At a time of great change for this global industry the work of the Council, alongside the NAIGT and other actions detailed in this response, will help us to build on the talent and potential of the UK's automotive base, ensuring we can compete and win in the decades ahead.

1. Introduction

The automotive industry in the UK matters to Government. It remains a core part of Britain's manufacturing base, and it has been the source of continued innovation; from the development of the production line to the more recent implementation of lean manufacturing. The automotive industry continues to give Britain a presence in a wide range of engineering disciplines.

However, the industry faces major challenges. We are entering a period of profound change. The world's shift to low carbon will revolutionise the way in which automotive vehicles are designed, developed, manufactured and used.

The need for a dramatic reduction in carbon emissions is stimulating research and development in a wide range of technologies. Electric cars, hybrids, fuel cells and new fuels will all compete to be evolutionary winners, as the industry rethinks almost every component of the car, bus, truck, digger and van.

In addition, as the world returns to growth following the global financial crisis, the increasing wealth of the world's emerging economies will bring both valuable new markets for vehicles and tougher competition.

The UK automotive industry needs to be ready to benefit from these changes. This highly-skilled, highly-productive sector remains a core part of our manufacturing base, contributing around £10 billion added value to our economy, with around 6.4% of the wealth created by the entire UK manufacturing sector created by the automotive industry.

The UK manufactures 1.65 million cars and 3 million engines each year. Eight major auto manufacturers operate here. We are the world's second most important manufacturer of luxury cars. We also continue to produce some of the world's most famous cars, best mass-market models and most outstanding niche vehicles from heavy plant to Formula 1. But a significant portion of the industry's research and development and high value component production now happen outside the UK.

Therefore strengthening the automotive industry's competitiveness, and ensuring it profits fully from the UK's research excellence and advanced production capability are key. The UK Government is committed to working with the industry to build on these strengths – in support of maintaining the UK's global position as a leading investment location in the future.

The way forward

For these reasons, the Government established the **New Automotive Innovation and Growth Team (NAIGT)** to work with the UK's automotive industry to identify and agree a strategic view of the innovation and growth challenges facing this sector in the period to 2025.

NAIGT aimed to create a long term vision for the future of this industry and through its recommendations help the Government and business develop and deliver an integrated national strategy.

The team published their report on 6 May 2009. Although it took the impact of the recent global economic downturn on Britain's automotive industry into consideration, the NAIGT remained committed to its original remit to report on the long-term challenges and opportunities ahead for this sector. Their recommendations reflect this approach.

The Government response which follows addresses each of the recommendations in turn. But the essence of our forward commitment is to create an Automotive Council where business, government and others ensure the right strategic engagement to take forward the agreed actions from these recommendations.

We want the Automotive Council to bring to bear the industry's best thinking on the government's research priorities, policies and support to business. In return we expect the Automotive Council to provide leadership, to offer a forum in which manufacturers and the supply chain can identify common goals and to drive up the industry's commitment to training, skills and investment.

Membership and mode of operations

NAIGT's work was delivered through a Steering Group, comprising senior industrialists and academics experienced in the automotive sector. Officials from the Automotive Unit at the Department for the Business, Innovation and Skills (formerly the Department for Business, Enterprise and Regulatory Reform) facilitated this industry-led project.

Members were appointed according to their knowledge, expertise and the ranges of views they covered across the UK automotive industry. They included representatives from manufacturers and suppliers of original automotive equipment, the retail sector, a key automotive trade association (the Society of Motor Manufacturers and Traders), a major business school (the Judge Institute at Cambridge University), and the UK's Technology Strategy Board.

The Group held 11 meetings between May 2008 and July 2009. Richard Parry-Jones, former Group Vice President and Chief Technical Officer of Ford Motor Company, was Group Chair.

Five Expert Groups were established to address specific issues identified by NAIGT. These were:

- Supply Chain Development;
- Technology and Low Carbon Product Development;
- Technology and Low Carbon Infrastructure;
- Business Environment; and
- Key Performance Indicators.

NAIGT vision

The NAIGT set out the following vision for the UK's automotive sector in its report:

'A competitive, growing, and dynamic industry making a large and increasing contribution to employment and prosperity in the UK, and playing a decisive global role in developing and manufacturing exciting, low carbon vehicle transportation solutions'

2. Response to recommendations

NAIGT's three overarching recommendations were to:

- **Establish a senior level joint industry/government Automotive Council to develop, guide and implement a long term strategic framework for the industry**
- **Create a transformed business environment in the UK for the automotive industry;**
- **Coordinate R&D efforts to follow the industry-consensus technology roadmap that is a key part of the NAIGT report. As part of this establish a bold, large scale pilot-market to demonstrate, experiment and build the new low-carbon personal transportation system including its infrastructure**

To support these three key areas of work, additional recommendations focused on:

- Creating a transformed business environment in the UK to provide a more compelling investment proposition;
- Further developing the technology roadmaps for low carbon vehicles and fuels and exploiting opportunities to promote the UK as a strong candidate to develop these and other technologies; and
- Developing a stronger and more competitive supply chain

Stakeholder engagement

A stakeholder event was held in February 2009 at SMMT to test the emerging conclusions and findings of this review with industry. Ongoing engagement was achieved through the dissemination of information on the BIS website¹ (including two NAIGT Newsletters), ongoing dialogue with representative organisations (e.g. SMMT) and the work of the NAIGT's Expert Groups.

In addition, a cross Whitehall liaison group of interested Government Departments was established. This body existed to communicate the NAIGT's emerging conclusions to relevant Departments and policy teams in Whitehall, alerting them to any possible policy implications to ensure an early, joined up response from Government.

Government response

BIS ministers welcomed the publication of the report and NAIGT's emphasis on the importance of the Automotive Industry to UK manufacturing and the wider economy. They also acknowledged the important contribution NAIGT's work has made to the

¹ <http://www.berr.gov.uk/whatwedo/sectors/automotive/naigt/page45547.html>

development of the Government's vision to promote ultra low carbon transport over the next five years, launched on 16 April 2009.

However, further consultation on NAIGT's detailed recommendations was needed before the Government could give a formal response. This document provides that response.

2.1 Create a transformed business environment in the UK for the automotive industry

Strengthen certainty and credibility

Recommendation 1: A permanent Industry/Government forum a “National Automotive Council” should be created to manage the future evolution of this automotive policy and provide governance. The proposed Council must involve key decision makers from industry and across government to ensure focused tracking of execution and implementation of NAIGT recommendations as well as the sustainability of ongoing policy and strategy recommendations. The national policy will be implemented consistently regionally through effective RDA engagement to avoid independent or conflicting regional initiatives;

and

Recommendation 2: The Automotive Council should publish a long-term UK Automotive Framework to provide business and overseas/inward investors with certainty around the investment environment through 2025. The framework should be benchmarked against best practice internationally and will be integrated into the national Manufacturing Strategy and coordinated with other sectoral strategies. The framework should be proactively “sold” to overseas investors.

The NAIGT proposes that a permanent Automotive Council be established to implement its recommendations, take this work forward in the future and provide governance.

Following consultation across Whitehall and the Development Administrations, the Government agrees with the recommendation to set up an Automotive Council, which will take forward actions detailed in this response. We believe the Automotive Council can strengthen Government’s engagement with the automotive industry and, as such, help us respond effectively to NAIGT’s other strategically important recommendations.

Government is committed to creating the Council, as a matter of priority.

The Council will only be as effective as its members and the insight and input they can bring to this work. Therefore, its membership should represent the industry fully, including those specialist and niche sectors in which the UK has a leading position. It is also critical that the views of fleet operators as potential early adopters of new technologies are engaged.

Working with the Government and industry, the Council must set a clear and strategic forward work plan.

The Council must be able to address the full range of strategic challenges facing the industry. These include the increasing importance of information technology, and the extent to which the automobile of the future will feature in a global consumer economy. The low carbon revolution is only just beginning and its consequences have yet to be fully understood across industry and government. Furthermore, the automotive industry will need to work out how the optimal global supply chain could balance cost-effectiveness, access to the best research resources and the need to produce and assemble as close to markets as possible.

With so many UK automotive companies embedded in global supply chains, the Council must also consider issues impacting the wider European and global automotive industry.

Several forums for debate and action already exist within this industry. These include the Sector Skills Council for Science, Engineering and Automotive, OLEV and TSB which each have their own consultative structures. But the Automotive Council will be the primary strategic forum for Government consultation of the industry.

Structure

The Secretary of State for Business Innovation and Skills (BIS) will chair the Automotive Council jointly with a senior industry representative, to be appointed by the Secretary of State.

Meetings will typically be held 2-3 times a year. Task groups will meet more frequently, as required.

Members will comprise senior industry and government representatives. Others with expertise in relevant fields – including academics, research sponsors and trade unionists – will be invited to participate on a voluntary basis by the joint Chairs

In addition to BIS, other Government Departments closely involved in the delivery of recommendations will attend the Automotive Council – either at ministerial or official level. This will include the TSB and OLEV.

Regional Development Agencies and the Devolved Administrations will also be represented in the Automotive Council's structures

The BIS Automotive Unit, working closely with the SMMT and other industry bodies will provide the Automotive Council Secretariat.

The work plan

The Automotive Council must be a pro-active, influential working body, with a clear, informed and strategically focused forward programme.

It will be for the Council to decide how best to realise this objective and develop the "Strategic Framework" proposed by NAIGT. It is likely that as the Automotive Council's strategy develops, detailed work will need to be devolved to specialist sub-committees, similar in organisation to the Automotive Council.

The Council's future work and key areas for consideration will reflect the issues NAIGT covered in their report. These will include:

- Promoting the UK's automotive industry.
- Identifying strengths and weaknesses within the industry, in order to help target both public and private investment.
- Exploiting the technology roadmaps for low carbon vehicles and fuels already agreed among NAIGT's members and supporting companies, and establishing how best to use them to promote the UK as a global leader in this field through Test Bed UK through and associated investment and research and development (R&D);
- Ensuring a productive dialogue between government and industry to identify and agree shared priorities, in particular for R&D, skills and training;
- Developing a stronger and more sustainable supply base through boosting morale within the industry, increasing public awareness of this sector and fostering improved engagement between manufacturers and suppliers.

As with NAIGT, the Automotive Council's remit will cover the interests of the UK automotive manufacturing sector in its fullest sense. This includes R&D; design engineering; volume vehicle, power train and component assembly; niche vehicle manufacture (including construction equipment and Formula 1) and the supply chain.

Recommendation 3: The BIS Automotive Unit should take the lead within Government to ensure NAIGT recommendations are incorporated on a joined up basis across Government into all policy, funding and activity – e.g. business support systems, skills and innovation agenda, UK Trade and Investment (UKTI) and RDA targets etc. Government should also ensure that the UK application of EU rules does not disadvantage UK industry compared to implementation in the rest of the EU.

As the BIS Automotive Unit facilitated NAIGT's work previously, Government believes it is best placed to take the lead in implementing those recommendations where action has been agreed.

Given that NAIGT's recommendations apply to both Government and industry, it is vital that the Automotive Unit continues to work closely with industry stakeholders, other interested Government Departments and the Devolved Administrations during this process.

Once established the Automotive Council should have a leading role in working with relevant parties including the RDAs, the TSB and other fund holders/policy makers to seek consensus on priorities, particularly in relation to the allocation of resources.

EU rules

With regards to EU rules, it is UK Government policy to implement and enforce the obligations set out in EU directives and regulations as required. The Government's approach is to maximise the flexibilities that exist within these directives and regulations, to prevent UK-based businesses being placed at a competitive disadvantage.

This policy is set out in the Transposition Guide^{2,3} published by the UK's Better Regulation Executive.

The Guide was updated in 2007, following a review conducted by Lord Davidson into the implementation of EU law in the UK. Lord Davidson's review aimed to identify where administrative burdens created as a result of EU law could be reduced and where processes could be improved to minimise the risk of over-implementation in the future.

After a major call for evidence, Lord Davidson set out the different ways in which over-implementation could occur and concluded that "gold-plating" of EU legislation in the UK was not as widespread as alleged.

Government implemented Lord Davidson's recommendations and relevant Departments addressed the few cases where over-implementation had been found. Any further potential examples of over-implementation in the UK should be reported to The Better Regulation Executive, based in BIS.

In challenging global economic conditions, consistent pan-EU enforcement of Single Market rules is particularly important. In its paper "The Future of EU Competitiveness"⁴, the UK Government called for a renewed focus on enforcement of EU legislation, to ensure that rules are applied evenly throughout the single market and that free movement and fair competition are maintained.

The UK supported the introduction of EU Regulation 76508⁵ on accreditation and market surveillance. This measure, which will take effect from 1 January 2010 – should help to reduce distortion to competition arising from any differing market surveillance practices, and ensure greater transparency and effectiveness of the regulatory regime for products across the EU.

² <http://www.berr.gov.uk/bre/policy/scrutinising-new-regulations/preparing-impact-assessments/toolkit/page44257.html>

³ <http://www.berr.gov.uk/files/file44371.pdf>

⁴ <http://www.berr.gov.uk/files/file51732.pdf>

⁵ http://www.dius.gov.uk/innovation/infrastructure/standardisation/eu_regulation_76508_on_accreditation_and_market_surveillance

Improve the UK investment offer

Recommendation 4: Simplify and maximize incentives and funding for upgrading and developing existing (and new) manufacturing locations and provide new funding for investment in collaborative testing and research facilities (tied to the technology roadmap).

and

Recommendation 5: Ensure business support is simplified and focused on improving access and customized interventions for SMEs and larger companies through local business relationship managers.

The Government and its agencies are committed to ensuring businesses get the help and advice they need to succeed.

Specialised support is available for SMEs. Larger businesses (above 250 employees) looking to invest in manufacturing and research and development facilities can also access assistance. However, the number and scope of these support schemes reflect the fact that companies of this size should have greater access to commercial investment than SMEs.

We agree that any support provided must be clear and accessible to those businesses that need it.

Solutions for Business⁶ is Government's streamlined package of support to help businesses start and grow. Available via Business Link, it currently offers access to 30 business support products covering the range of advice, loans and grants available to companies from Government at the national, regional and local level.

Solutions for Business is designed to help companies in all sectors, and at different stages of growth, deal with common business issues. Created as the result of Government's Business Support Simplification Programme, it has streamlined around 3,000 publicly funded support schemes – at the request of business – to establish a simpler, quicker and more direct route to effective support.

For the first time, it brings into a single portfolio the full range of support products and service available from Government, its agencies and local authorities.

Business Link Advisers are on call to provide businesses with information and an impartial assessment of their needs and access to bespoke support, from both the public and private sector.

⁶ www.businesslink.gov.uk/solutions

BIS will work with the Automotive Council and Business Link to ensure companies in the automotive sector can benefit from this help. Possible solutions include the development of online guides and diagnostic tools for the sector, as well as partnerships with specialist providers of information, diagnostic advice and support such as the Knowledge Transfer Networks.

This will help deliver more tailored support, in a way that meets the needs of the sector. The Devolved Administrations have comparable arrangements and will work with the Automotive Council.

It is equally important that businesses themselves increase their take up of appropriate training. Promotion by the Automotive Council of the new technology and fuels road maps and also improved dialogue between manufacturers and suppliers should assist in this.

Manufacturing location

Several Solutions for Business products can provide information and help on upgrading and developing manufacturing locations. For example, individual businesses can apply for Grant for Business Investment. This can assist with the acquisition of major assets such as buildings, plant and machinery.

Based on regional priorities, there are also Business Collaboration Networks set up to support different sectors in certain locations such as the Accelerate programme in the West Midlands.

Collaborative testing and research

In addition, a number of Solutions for Business products exist to help source investment in collaborative testing and research facilities. As above, decisions on funding are made according to regional and national priorities.

- **Business Growth: Specialist Facilities and Environments** can support shared premises with specialist facilities, equipment and technologies such as the Advanced Manufacturing Research Centre in Sheffield and the Manufacturing Technology Centre in the West Midlands.
- **The Collaborative R&D product** provides grant funding to businesses prepared to work together and with the knowledge base to exploit new ideas.

The TSB and RDAs also provide support based on national and regional priorities such as innovITS Advance – the ITS test and development centre to be based at Nuneaton, and operated by innovITS, and the Centre of Excellence for ITS and Sustainable Mobility, together with MIRA and TRL.

The technology roadmaps, now being developed, will provide a key tool to ensure that public investment in the automotive sector is well-targeted and coordinated. The Automotive Council will have a vital role in ensuring that these roadmaps are periodically updated to reflect any new emerging technology ideas.

BIS will consider cases identified by the Automotive Council, where publicly funded business support offerings are not addressing manufacturing needs. The Government will act where there is strong evidence of market failure, reprioritising as necessary.

Recommendation 6: Review the effectiveness of fiscal tax incentives (e.g. R&D) – a cash funding alternative may be required to provide the right incentive to start-ups, overseas investors or indigenous investors with tax losses.

The Government is committed to maintaining the overall competitiveness of the UK's business tax regime. We continually review individual tax incentives to ensure they meet their stated objectives.

The R&D tax credit schemes, introduced for SMEs in 2000 and larger companies in 2002, have proved successful in incentivising innovative activity across all sectors of the economy, including the automotive sector.

Since their introduction over 36,000 claims have been made for R&D tax credits with over £3 billion of relief claimed, supporting over £36 billion of R&D activity by companies.

The schemes were enhanced in 2008. The main changes were:

- an increase to the rate of relief for the large companies scheme from 125% to 130%;
- an increase to the rate of relief for the SME scheme from 150% to 175%;
- an expansion of the definition of SME for the purpose of the SME R&D tax credit scheme, allowing more companies to be eligible for the more generous SME relief.

With regard to the final part of the NAIGT recommendation on this issue, the SME R&D tax credit scheme already offers the option of a payable credit for innovative SMEs. If an SME is loss-making then it may be able to surrender these losses in exchange for a payable credit worth 24.5% of the original qualifying expenditure.

The Government recognises that while fiscal incentives play a vital role in stimulating R&D and other investments, other forms of support including grant funding are also necessary.

To this end, there is already a significant amount of grant funding for R&D available to the automotive sector, from a wide range of sources. We are working to give greater clarity to UK automotive companies and others about the most relevant support on offer.

In particular, through the TSB's Low Carbon Vehicles Innovation Platform, automotive companies will have access to up to £140m R&D funding during 2008-2011. This draws together grant funding from the TSB itself, the Department for Transport, the RDAs, the Devolved Administrations and the Engineering and Physical Sciences Research Council.

Recommendation 7: Co-fund carbon reduction – a new Energy Fund, potentially administered by an expanded Carbon Trust, should be set up to advise on and co-fund investments in carbon footprint reduction across the industry (including retail) as part of the UK’s wider industrial commitments to carbon reduction. This could be linked to European funding mechanisms such as the EIB Clean Transport Facility

Government is working closely with business, on action and support to help meet the UK and EU’s ambitious targets to reduce carbon emissions by 80% in the UK, by 2050. In the Automotive sector, this includes a £140 million investment in the Technology Strategy Board’s Low Carbon Vehicle Innovation Platform; the launch of a £230 million scheme to help incentivise car buyers make the low carbon shift; the provision of £30 million for electric vehicle infrastructure and support for the public sector, £20 million of which is to trial low carbon vans.

Each individual element of this support package has been established according to specific targets and metrics, with the overall aim of placing the UK at the global forefront of the development, demonstration, manufacture and use of ultra-low carbon vehicles. Therefore, it would not be practical to merge these individual interventions tailored to different, specific objectives into a single fund.

The new Office for Low Emission Vehicles will, however, coordinate and help shape government policies for ultra-low carbon vehicles to ensure a more seamless package of support.

OLEV and the Automotive Council will need to work closely together in this area, bringing together the wide range of views on this issue from industry, government and other stakeholders including automotive, power generation and distribution companies and other enabling sectors.

Recommendation 8: Focus public procurement – Government should establish public procurement policies to actively direct and promote use of UK produced vehicles, goods and services by all government departments, agencies and taxpayer-funded bodies including existing OEM’s and niche/low carbon companies.

As set out in its policy document, “Building Britain’s Future: New Industry, New Jobs”; Government is committed to boosting capability amongst British companies, to enable them to compete more effectively for public sector contracts. This includes adopting best practice in managing procurement and undertaking strategic engagement with industry outside of individual procurements.

However, public sector procurements over a certain value are subject to the Public Contracts Regulations 2006 (as amended)⁷, which transpose the various EU procurement Directives into domestic law.

⁷ http://www.ogc.gov.uk/procurement_policy_and_application_of_eu_rules_uk_regulations_.asp

Under EU procurement rules, public sector organisations cannot adopt practices that would discriminate against bidders and workers from other Member States. Implementing the NAIGT recommendation would also run counter to the EU treaty principles of free movement of goods and labour. There are therefore limitations on how government can use public procurement to drive growth and innovation in UK industry. However, the Government is mindful of the power of wise procurement to drive innovation and growth, and the need to avoid unnecessary bureaucracy.

The fleet team at the Office of Government Commerce supports and promotes best practice and better value deals on fleet that encourage collaboration across public sector organisations. This covers key areas including:

- Vehicle purchasing and leasing
- Fleet management
- Fuel cards
- Consumables (including tyres and glass)
- 'Grey' fleet (business miles driven by employees in their own vehicles)

Widen collaboration

Recommendation 9: The Automotive Council should co-ordinate forums (building upon other IGT/RDA driven investments) to promote cross-sector collaboration (e.g. aerospace, renewables, defence) and stronger business-university collaboration around science and technology development as part of integrated UK industrial and science policy. This should include both product and process R&D (e.g. through interventions such as the proposed Institute of Manufacturing Technology). There should be an expansion of the role of universities as cluster and cross-sectoral knowledge integrators with additional support from research councils.

The Government has reservations about aspects of this recommendation.

There is now an incredibly diverse set of bodies and programmes, within and outside of government, looking at the development of transport solutions for our future.

It is important that the Automotive Council engages with those groups tackling these and other issues across the industry. It is not, however, possible for the Automotive Council to coordinate these forums, in the interest of cross-sectoral collaboration, without taking focus away from its primary remit.

In addition, the Knowledge Transfer Networks (KTN) covering automotive and other sectors already help coordinate this activity. As a result, the TSB is currently considering the establishment of a single KTN to draw together the interests of those involved in the main modes of ground-based transport.

A steering group of representatives from aerospace, automotive, rail and marine is assessing this proposal and how it could work in practice. It is due to make its recommendation by the end of November 2009.

Strong links between our Universities, Research Councils and the TSB are critical to the UK's success as a modern, knowledge economy, helping us to attract the best researchers based in the UK to work with business and drive innovation across our industrial base.

The Research Councils are already supporting a large amount of manufacturing-related research and training, which includes specific research on transport systems and vehicles.

Further funding is always subject to the quality of bids received and the UK's long-term priorities, which can range from living with environmental change to healthcare and security. Therefore, we will encourage the Automotive Council to work with the Research Councils and wider research base to identify additional opportunities for complementary and collaborative research.

The CBI Report "Stronger Together: Businesses and universities in turbulent times"⁸ emphasised the value of strong partnerships between our universities and business. The report called on business to do more to support students and graduates; develop closer ties with universities in research and innovation and to find better ways of communicating with HE.

One critical way in which businesses can benefit from greater engagement with our HE sector, is by working with universities and colleges to help design and develop course content, especially in those subjects relevant to Britain's economic future such as science, technology engineering and maths.

The new HE Framework sets out Government's approach to ensuring that businesses can work more closely with our universities both to communicate their skills needs, and help deliver the specialist staff they need.

The Government will welcome engagement with the Automotive Council in these areas.

⁸ http://highereducation.cbi.org.uk/uploaded/CBI_HE_taskforce_report.pdf

Promote a positive automotive industry image

Recommendation 10: Through the SMMT and Manufacturing Insight, the Automotive Policy / NAIGT recommendations should be used to promote a positive image for the industry and attract future talent from interventions at school and higher education.

The recent downturn in global financial markets has challenged many students and employees to think more widely about their career options. Public interest and demand for low-carbon solutions is also helping increase interest in 21st century manufacturing.

This presents a unique opportunity for sectors like the automotive industry to inspire and recruit their next generation of designers, engineers and other skilled professionals. The industry must be its own strongest advocate, and the Government will expect members of the Automotive Council to work with business and Ministers to do that.

Manufacturing Insight will also play a vital part in helping to challenge and change public perceptions about the UK's wider manufacturing sector. Modern high-value manufacturing matters to Britain's future as a knowledge economy. It is one of our biggest exports, represents 75% of British business R&D and can offer some of our brightest talent a long and rewarding career.

The key aim of Manufacturing Insight activity is to communicate that reality, overturning many people's outdated preconceptions of what our manufacturing base does, particularly in media targeted at young people, parents and teachers.

Manufacturing Insight will take a national lead in raising awareness about the sector. Through existing and new initiatives, it will ensure that key stakeholders and organisations can more easily access accurate information about the value of this industry and the opportunities it offers to skilled people.

Nick Hussey has now been appointed as Director for Manufacturing Insight and his team will soon be launching its business plan.

Recommendation 11: Credit systems – there should be a review of temporary bank/credit related actions to see if further longer-term changes are required with UK banks and credit insurance arrangements to avoid a repeat of present difficulties in future downturns.

Tighter credit conditions over the past 18 months have made it difficult for businesses across sectors to access new finance and, in some cases, even maintain existing credit lines.

The Government has responded quickly to these issues, implementing measures to help business get the finance they need and to support the ongoing provision of credit insurance.

These include:

- The Working Capital Scheme, through which £1.1 billion of guarantees have been provided to free up regulatory capital for new lending to UK companies with an annual turnover of less than £500 million;
- The Enterprise Finance Guarantee Scheme, through which the Government guarantees up to 75% of new loans to individual viable, creditworthy SMEs; the EFG has nearly £925 million of eligible applications from over 8,100 firms that have been granted, are being processed or assessed. Over 6,100 businesses have been offered loans totalling £620 million.
- The Trade Credit Insurance Top-Up Scheme, through which eligible businesses can purchase top-up insurance from the Government in cases where their insurance cover has been reduced. The scheme was recently backdated to cover companies who have had their cover reduced (or withdrawn altogether and only partially reinstated) since last October.

Earlier this year, the Government also established the Automotive Assistance Programme (AAP) specifically to help automotive manufacturers and suppliers secure finance for new investment projects. The focus of the programme was to ensure continued investment in the UK, that was vital to create and sustain jobs, maintain R&D spend, develop new and more advanced technologies and continue to help reduce CO₂ emissions in our vehicle manufacturing sector.

The AAP could enable up to £2.3 billion of investment through loan guarantees, to support lending from the European Investment Banks and other lenders. In exceptional cases, the AAP can also provide direct loans to companies.

In September 2009, the Government announced an offer of a £10 million loan to Tata Motors European Technical Centre (TMETC). This will enable £25 million of investment from Tata Motors to develop and manufacture electric vehicles in the UK. This award reflects the Government's commitment to help the UK become one of the best places in the world in which to design, develop and manufacture low carbon vehicles.

Looking forward, it is clear that action is required to minimise the impact of future credit shocks on this industry, and Government is continuing engagement with the major banks to tackle the challenges to accessing supply chain finance.

The Automotive Council can support that improvement process, building on the new and important ties forged between the automotive companies, the motor finance industry, banking sector and Government to address these short-term difficulties.

In particular, the Council could explore the following issues:

- What new models of supplier financing might be adopted in the sector?
- Should automotive companies diversify their funding and liquidity sources to be less vulnerable in future to failures in particular markets (e.g. the securities market, on which a number of car finance arms were heavily reliant when that market effectively froze during the second half of 2008)?
- How can capital/debt ratios be better managed going forward?

In the future, it may be the case that closer dialogue is required between the banks and industry about the profitability and long-term growth prospects of the global automotive sector and its UK arm. The Automotive Council can help foster that discussion.

Recommendation 12: Align tax systems to policy – continue to ensure that UK domestic national and sub-national tax systems (e.g. Vehicle Excise Duty or congestion charges) are technology neutral and promote interests of UK industry as well as other goals (revenue, carbon reduction etc.).

The UK has led the way in aligning transport taxation systems with CO₂ emissions, ensuring that as well as raising public revenue, these instruments also encourage the purchase and use of more fuel efficient vehicles.

The UK was the first country in the EU to place vehicle excise duty (VED) on a CO₂ basis in 2001. The 2009 Budget confirmed that the number of VED bands would be increased from 7 to 13 to further incentivise consumers to choose the lowest emitting car in their preferred vehicle class.

No driver will pay more than £30 extra in 2010 as a result of these changes, and some will see tax cuts of up to £30. In addition, differential first-year rates of VED will be introduced in April 2010. Under these rates, those purchasing cars that emit less than 130g/km will pay no tax in the first year of purchase.

The Government has also placed company car tax (CCT) on a CO₂ basis in 2002, and announced further reforms in Budget 2009, to further align transport taxation systems with CO₂ emissions.

Protect flexible labour markets

Recommendation 13: Existing labour-market flexibility should continue to be protected and new regulations should be introduced to provide companies with temporary wage support during periods of significant production changes or dislocations.

Labour-market flexibility

The UK's fair and flexible labour market is an economic asset. It enables businesses to draw on a wider pool of skills and talents in the market and enables easier recruitment and retention of staff. Over the last ten years, it has delivered higher employment levels and prosperity, as well as vital protections for workers.

Government policy seeks to maintain and build on that dynamism, effectively balancing the needs of both employers and employees to ensure fairness.

Temporary wage support:

Although recognising the contribution made by the ProAct scheme in Wales, the Government has actively examined the economic case for a general UK wage support and concluded that this is not a feasible, cost effective or sustainable option for us.

The UK's own experience of wage subsidy schemes in the 1970 also shows that such measures can create market distortions and perverse incentives for other sectors and companies to "bargain" for subsidies. Also, evidence from the OECD shows that wage subsidy scheme can be extremely expensive, incurring high deadweight costs when many eligible firms would in fact have retained workers without the subsidy.

We believe that the business support that is being provided is more effective than any temporary wage support. It is also accepted that the global economic crisis is above all a credit crisis and the support on offer to businesses is designed to address this problem directly.

Where short-time working is necessary the best and most productive use of non working time is for employees to train and increase their skills. It is for this reason the Government has significantly increased funding for Train to Gain, its flagship training programme, to £1 billion for 2010/11. Also under this programme, SMEs in England with fewer than 50 employees can also access compensation for wages to help them release employees for training.

The Government recognises the financial difficulties faced by people whose wages have been hit because of shorter working weeks. The UK tax credit system is designed to provide support that adjusts to reflect people's changing economic circumstances, and is well-placed to help people who find themselves living on a lower income due to short-time working. For example, In March 2009, 355,000 families were receiving on average £35 a week more support through tax credits.

These measures, alongside the long-term structural advantages for businesses employing people in the UK, provide constructive support to individuals and companies as they work to get through the current recession and prepare for success in the future. The Government will continue to do whatever it can to support them, where practical to do so.

Expand and deepen skills provision

Recommendation 14: Sector skills (SEMTA) offerings should be further developed to fully meet industry needs at apprentice, NVQ 2-4, management and leadership skills and HE automotive qualifications (e.g. degrees in automotive related topics); Efforts should be made to promote the retention of key skills in UK (including returning overseas nationals who were trained in the UK).

The Government's ambition is to develop a demand-led skills system, where employer choice influences Government spend and the qualifications available.

To help achieve that, the Sector Skills Councils (SSCs) will have a new remit to raise employer investment, articulate the future skills needs of their sector, and ensure employers drive the supply of skills and qualifications. Government is also looking at how existing sector compacts and any new compacts can deliver more targeted help to sectors and where additional action could support employers through the recession.

The Government recognises the important role SEMTA plays in identifying the automotive industry's emerging training and skills needs, and advising on how best to meet these demands.

Building on companies own investment in the training and development of their employees, Government will need to work with the SSCs and business to identify how public funding can be best targeted to those skills and qualifications, identified as a priority by industry.

Government welcomes and encourages the work of SEMTA, stakeholders, providers and awarding bodies, to help facilitate that in the automotive sector. The future success of this industry relies on the skills of its people. It's important that companies at every stage in the supply chain value and invest in the training and development of their workforce.

In recent years, several Government, RDA and Devolved Administration initiatives have focused on strengthening management, business and technical skills across the sector. In addition, the new Higher Education Framework sets out Government's vision for the future of higher education in England, a central pillar of which is ensuring more companies are able to work with universities and colleges to help deliver the skilled professionals they need.

The Automotive Council can draw on this work to consider the industry's need for high-level skills in the future and help encourage more businesses to engage with SEMTA and higher education institutions. Vehicle manufacturers can also set a powerful example for businesses across their supply chain.

In particular, both industry and Government will need to work together to deliver the information, training and education required to enable the UK's effective transition to a low carbon economy. The Plugged in Places scheme is one example where the OLEV will be working, with local authorities, cities and other partners, to help effect that change, and as a result help to create and sustain a demand driven market for ultra low emission vehicles.

2.2 Technology and Low Carbon

To establish a bold, large scale pilot market to demonstrate, experiment and build the new low carbon personal transportation system including its infrastructure

Recommendation 15: Develop and update a common technological roadmap to achieve low carbon vehicles

As a result of work by the NAIGT, we have already developed a common research agenda roadmap and the TSB, which commissioned this work originally, has used its analysis of challenges to the sector.

This roadmap builds on the Foresight Vehicle technology roadmap looking at individual application requirements.

A common research agenda will help direct government funding to those areas most critical to the deployment of low and ultra low carbon vehicles. Ownership of this agenda will lie with the TSB and the Automotive Council, working with OLEV.

In September, over 1,500 people attended the Low Carbon Vehicles 2009 event at Millbrook. The event's overall objective was to raise awareness of low-carbon options with fleet and public sector vehicle purchasers. The partners (OLEV, TSB, Cenex, ETI etc.) also wanted to raise their profiles and promote their work (i.e. TSB-funded R&D). In addition, OLEV used the event to establish its new presence and demonstrate the joined-up approach to ultra-low carbon vehicles which is being adopted by the Government. The event was also successful in raising awareness of the common research agenda roadmap developed through the NAIGT process.

Recommendation 16: A pilot ('TestBed UK') should be established to test the deployment into the market of the major bundles of technology outlined on the roadmap

Government considers TestBed UK to be a strong umbrella brand, under which stakeholders such as OLEV, the TSB and now the Automotive Council can work together to deliver a more co-ordinated programme of activities for the development, demonstration, manufacture and use of ultra-low carbon vehicle technologies.

This will include bringing together city and regional demonstrations of charging infrastructure, individual trials and demonstrations by vehicle manufacturers and OEMs and collaborative R&D projects undertaken through the Low Carbon Vehicles Innovation Platform Integrated Delivery Programme.

This more focused, nationwide approach is essential to achieving the UK's goal to become a leader in these technologies as quickly and cost-effectively as possible.

Recommendation 17: Integrate and co-ordinate existing bodies/funding mechanisms to provide a single programme management structure to deliver low carbon technologies

Government agrees that the common research agenda roadmap should provide the basis for discussions on future automotive R&D spend. As such, it is important that the Roadmap be a live document that is updated regularly.

Government believes that the Automotive Council should undertake these updates, based on the same, comprehensive process of stakeholder engagement used to develop and test out this document originally.

2.3 A Stronger and More Competitive Supply Chain

Recommendation 18: To establish a UK Automotive Supply Chain Council – as sub-group of the proposed Automotive Council

and

Recommendation 19: Establishing a continuous national supply chain group programme to address the overall competitiveness of UK suppliers and their ability to seize new technology opportunities, by customising and streamlining access to existing and new business support.

Britain has a strong position in automotive manufacturing. But it is in the global supply chain that much of the long-term potential for growth, profit and skills development will rest, through the creation of new intellectual property.

The Government recognises that there is a consensus in the industry that automotive manufacturers have increasingly sourced components from suppliers outside the UK. The challenge for the future of the UK-based supply chain will be to rebuild long-term confidence, and to increase investment from all sources into advanced automotive manufacturing capability in the UK.

Supply Chain Council

The Government supports the establishment of a dedicated Supply Chain Council (SCC), under the remit of the Automotive Council.

Dr Holweg's Report, "The competitive status of the UK automotive industry"⁹, published alongside the NAIGT Report, emphasised the importance of engagement with Government to help sustain and develop industry morale, confidence and capacity.

Under the guidance of the Automotive Council, the Supply Chain Council will work with Government and the automotive manufacturers to set out a strategy to help enable UK supply chain companies to grow their business in the global industry.

Ultimately, it is private investment and enterprise that will drive growth and innovation in this industry in the years ahead, but government support is crucial where the market alone does not provide – for example in education, skills, infrastructure and the UK's science and research base.

The Supply Chain Council will also consider and, where appropriate, take forward other NAIGT sub-recommendations relating to supply chain issues.

⁹ http://www.innovation.jbs.cam.ac.uk/publications/downloads/holweg_competitive.pdf

Supply Chain support activities

Several studies of the automotive supply chain, such as Dr Holweg's Report¹⁰ have identified major business challenges regarding the promotion of best practice in manufacturing, tackling training and skills gaps and the retention of skilled people. The "Business environment for Japanese suppliers in the UK,"¹¹ report, also known as the Sakamoto report, similarly highlighted a need to strengthen management and business skills.

Government is taking action to help address these issues with companies across the supply chain, through the Manufacturing Advisory Service (MAS) and other initiatives.

MAS has a strong record of delivering programmes designed to improve efficiency and productivity, as well as more strategic interventions to help manufacturers develop their business.

In the last seven years, MAS has generated over £690 million of added value for the companies it has helped. Since April 2008 with an annual budget of £18m, MAS helped over 10,400 firms, delivered 6,200 detailed manufacturing reviews and nearly 3,000 implementation projects which resulted in £144m added value. In July, the Government announced an additional £4 million per year this year and next through MAS to support the Low Carbon Industrial Strategy and the Advanced Manufacturing package.

Through Train to Gain, employers access expert help from Business Link, this includes funding for training. Train to Gain also works to help employers in England, of all sizes and sectors, invest in the productivity and profitability of their businesses through training.

Since 2006 Train to Gain has worked with more than 143,000 employers through the Skills Brokerage Service and helped nearly 600,000 trainees. The Train to Gain budget is £925 million for 2009-10. In 2010-11 it will rise to over £1 billion.

In addition, there are also specific support programmes for regions, with a strong presence of automotive companies, for example:

- Accelerate (West Midlands) provides support for the West Midlands automotive supply sector to implement best practice in manufacturing systems, secure production efficiencies and cultivate workforce development.
- MAS NEPA links skills development to business improvement projects in the North East.
- Northwest Auto Alliance works to promote excellence in manufacture, engineering, supply chain management, innovation and workforce skills for the North West automotive industry.

¹⁰ http://www-innovation.jbs.cam.ac.uk/publications/downloads/holweg_competitive.pdf

¹¹ <http://www.berr.gov.uk/files/file45472.pdf>

- High Growth Coaching is a structured coaching programme currently available in six English regions, assisting firms to build their inherent capabilities. It also acts to help businesses, who need support to fulfil their high-growth potential, achieve accelerated growth.
- ProAct is a Welsh Assembly Government scheme that provides a mix of wage subsidy and training support to business, with the automotive industry emphasised as an area of high priority.

Challenge

A whole range of companies have been assisted by the programmes outlined above. This includes companies that supply not only the UK's automotive industry, but also the aerospace, medical devices and other advanced engineering sectors.

The Government also believes that many companies in the automotive supply chain are not taking full advantage of the help and support available to them through government programmes such as MAS and Train to Gain.

Communications

Government expects the Supply Chain Council to look at content and promotion of the support programmes now available and work with us to maximise their impact across the supply chain. This could include increasing cross-communication or reprioritising existing support towards more pressing challenges.

When considering support for the supply chain, the Supply Chain Council will also need to consider lessons learnt from the current Pilot Programme, which is due to end in March 2010. The pilot was designed to provide a package of support to help enhance productivity and management within the UK automotive supply chain. It is based on best practice from the Supply Chain Champions Programme, established by the previous AIGT in 2002.

We would expect the Supply Chain Council to review government communication with the automotive supply chain, and to assist by challenging or endorsing the available business support services government offers, to support better use of available resources.

We also task the Supply Chain Council to promote stronger communication across the supply chain about the priorities of OEMs, the training and skills needs of supply chain companies and the challenges of training and development take up – as highlighted in the Sakamoto report¹².

To help facilitate this work, the Government intends that the Manufacturing Advisory Service will be represented on the Supply Chain Council, as well the RDAs and Devolved Administrations. Where required by the geographic location of suppliers, BIS will encourage supply chain interventions to operate across regional boundaries.

¹² <http://www.berr.gov.uk/files/file45472.pdf>

It is important that this work focuses not only on existing companies within the industry, but also those new businesses being created and developed through the emerging low carbon and ultra low carbon industries. Creating and sustaining a new supply chain for products such as batteries will be a major work area in the coming years.

Original Equipment Manufacturer (OEM) engagement

What various projects in this area have demonstrated is that success in business change is best linked to clear requirements for change from the OEMs. This has been a positive feature of the Supply Chain Projects and the North West Aerospace Alliance in particular.

The Government will work with the Supply Chain Council to secure a clear set of development priorities from the manufacturers on the Automotive Council.

We would expect that any manufacturer agreeing to join the Automotive Council would embrace best practice in supply chain engagement as a matter of principle and we will monitor through the Supply Chain Council that this is the case. We will also work with the RDAs and MAS, as represented on the Supply Chain Council, to promote uptake of the relevant support.

Recommendation 20: Establishing a Sourcing Roadmap to address the top down challenge for the OEMs and Tier1s to identify UK sources, structural gaps and opportunities for greater value added localisation in the UK, including looking at common needs to provide a greater critical mass of opportunity and reverse the current 'hollowing out' trend;

The Government accepts the need for the UK industry to understand better its competitive strengths and future investment opportunities. Development of the Technology Roadmap, which will include TSB funded research, can play a significant part in increasing awareness and knowledge of possible routes to generate new partnerships and growth. The Knowledge Transfer Networks can also contribute to this greater understanding.

To help UK companies also exploit the potential growing demand for ultra-low carbon vehicles, OLEV will work with the Automotive Council and other bodies to share market information and help build capacity and expertise in this area across the UK supply chain.

Recommendation 21: Addressing the internationalisation potential for UK Tier 2/3s for both UK cost down and international business development, and how this could best be supported;

The Government expects the Supply Chain Council to develop thinking and engage with industry and government bodies on how this might be achieved, building on the progress already made by SMMT and UKTI.

Recommendation 22: Looking for opportunities to develop/nurture the niche vehicle and supply industry and in construction equipment and motor-sport as a potential development source for emerging technologies;

The Government recognises the potential importance of specialist sub-sectors to the emergence of new technologies, and also to low carbon innovation. The UK has considerable competitive strength in several of these areas. We will therefore ensure that they are included in the scope of the Automotive Council and its subordinate bodies.

Recommendation 23: Reviewing the investment environment requirements to realise these opportunities; and more generally promoting the strengths, and production and technology capabilities and capacities of the UK automotive supply chain.

The government recognises the importance of a vibrant automotive supply chain to boost innovation and skills in the UK and attract valuable inward investment to our shores.

The Government believes that a stronger shared vision between Government, manufacturers and suppliers will enable the UK-based industry to compete more effectively to secure investment in supply chain production closer to the UK manufacturing operations, reducing dependency on long transit times, transport costs and currency fluctuations.

The world's transition to low carbon will revolutionise the automotive industry and its supply chain. Government is committed to ensuring that companies across the UK's supply chain address the challenges this massive change will bring, as well seize the new market opportunities it will create. We believe the Automotive Council with the Supply Chain Council can help us realise that vision – by strengthening engagement between the public and private sector, and enabling the industry to identify and agree the potential for growth.

The NAIGT recommendations covering supply chain issues will help shape this work for the Supply Chain Council. Government is also keen that the Supply Chain Council promotes the Technology Road Map to help inform industry strategy and development.

The Road Map sets out UK supplier sources, structural gaps and opportunities to generate additional value, and as such is a powerful tool for the industry to use to explain and promote its competitive strengths across the world.

In addition, the recently launched Innovation Vouchers scheme, funded by the RDAs, provides SMEs with financial support to engage with the knowledge base to help their business grow in this and more hi-tech markets. To date, take-up amongst supply chain companies appears to be relatively low – approximately 3% of the vouchers that have been issued.

Similarly, funding for Knowledge Transfer Partnerships (supported by the TSB alongside 19 other Government funders) stimulates innovation through collaborative projects between business and the knowledge base (usually lasting between 10 weeks and 3 years) by facilitating the transfer of knowledge and spread of technical and business skills.

Their support is focused on projects led by recently qualified, high-calibre individuals, and undertaken with joint supervision from business and the knowledge base. As yet, the level of participation in these projects by the automotive sector is not clear. Both the Automotive Council and Supply Chain Council should seek to increase awareness of such projects, and their take up, where appropriate, across the sector.

Recommendation 24: There should be an international benchmarking activity that provides a common, total cost of operation, set of data to support these activities, so that continuous review and prioritisation can be more easily accomplished. SMMT's ASF provides a base on which to build on in identifying local suppliers.

Given that several benchmarking projects have already been completed in the sector in recent years, Government is not yet convinced that this is an immediate priority for the automotive supply chain. But we would expect this to be an issue for the Automotive Council as it develops its forward plan.

Recommendation 25: Establish an Institute of Manufacturing Technology to provide a focal point for the revitalisation of automotive supply chain manufacturing:

In October 2009 the Government announced a new Manufacturing Technology Centre based at Coventry with £40 million of funding from Advantage West Midlands and the East Midlands Development Agency. Research work will focus on modern manufacturing processes and technologies such as advanced tooling and fixing systems, intelligent automation of fabrication, and operational performance & process integration. Over 10 years the centre is expected to attract business-led applied research and its exploitation worth £130 million. It is envisaged that around 5000 jobs could be created in 3-5 years.

EPSRC has also established a network of 16 Innovative Manufacturing Research Centres, with overall funding in excess of £120 million and 25 strategic Partnerships with leading UK/Global companies and research sponsors, generating £130 million of joint funding. Overall, some 2,000 different companies are involved in collaborative research projects funded by EPSRC.

We would encourage greater involvement from the automotive industry in these centres and will welcome Automotive Council engagement.

As highlighted in Lord Sainsbury's report "Race to the top"¹³, these investments have been complemented by funding from the Research Councils over the past 7 years and more. For example, the Engineering and Physical Sciences Research Council (EPSRC)'s portfolio of research and postgraduate training in support of manufacturing is currently around £1.2 billion, covering 2,500 research projects and 2,000 PhDs. This portfolio includes major manufacturing R&D projects with the TSB in aerospace and automotive, such as contributions to the Integrated Delivery Programme on Low Carbon Vehicles.

Recommendation 26: Establish a single framework for industry/university research.

Government does not believe that implementation of this recommendation is needed.

The Government expects that the Automotive Council will provide a strong voice, particularly, through the Technology Road Map, as a basis for influencing the research community.

Following publication of 'Race to the top'¹⁴ – which advocated stronger models to drive business innovation from new science – the Research Councils in collaboration with the TSB and other partners set up new "Innovation and Knowledge Centres" (IKC).

These centres of excellence aim to promote business exploitation of key emerging research and technologies. Supported by five years' funding, these centres bring together researchers, researchers, potential customers and skilled professionals from both academia and business to scope applications, business models and routes to market. A call for proposals to establish additional IKCs was issued on 16 October 2009.

We encourage the Automotive Council to consider these, and other, established models as an effective way to increase the commercialisation of relevant research.

¹³ http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/sainsbury_review051007.pdf

¹⁴ http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/d/sainsbury_review051007.pdf

Recommendation 27: “The Pilot ‘Test Bed UK’ should be leveraged and marketed to major global Tier 1 suppliers as a reason to consider investing in R&D in the UK”. Links with innovative technology companies and inventors can be fostered and ‘on-the-ground’ participation encouraged and incentivised. The Institute of Manufacturing Technology would form an important element of ‘Test Bed UK’, providing academic and R&D facilities as a ‘one stop shop’ both for attracting inward participation and supporting indigenous companies.

In 2008/09, a record 53 countries invested in the UK, creating over 35,000 new jobs and safeguarding a further 43,000 jobs. Across a range of measures, the UK is still the leading location for inward investment in Europe.

In 2008/09 in the automotive sector, 86 foreign owned companies either invested for the first time or expanded an existing presence in the UK. Investment projects in the UK’s high-tech manufacturing sector have increased this year by 18%, reinforcing the UK’s position as the sixth largest manufacturer in the world.

Of particular note are the decisions by Nissan to build a new battery factory in the North East, and by Toyota to build its first hybrid vehicle in Europe at its Burnaston factory. Over recent years, and as a result of investment totaling more than £775 million, Ford has turned its Dagenham Diesel Centre into its global centre for diesel engineering design and production.

Investment in high-tech manufacturing like this is integral to the UK’s success. More than 5,000 high-tech manufacturing companies in the UK are actively exporting. For example, over 65 per cent of vehicles made in the UK are sold overseas. UK-based companies are also prominent in a wide range of areas including design engineering and advanced materials and manufacturing.

Seven out of the top ten global vehicle makers and 19 out of the top 20 auto parts makers have a UK manufacturing presence. There are more than 50 automotive design engineering companies based in the UK, who collectively handle an estimated 20 per cent of the global demand for independent vehicle design engineering services.

The Government agrees that further promotion of the UK is essential to retain its position as a leading destination for global investment and manufacturing.

UK Trade & Investment’s five-year strategy “Prosperity in a Changing World”¹⁵ acknowledged the need for a more coherent marketing strategy to promote the UK’s strengths. The UK automotive sector combines excellence with creativity. But to succeed globally it needs to target new markets, make new partners around the world and demonstrate UK expertise. This needs to be done as one, with government, industry and academia working together.

¹⁵ <https://www.uktradeinvest.gov.uk/ukti/fileDownload/UKTIStrategyJuly2006.pdf?cid=391741>

The Advanced Engineering Marketing Strategy sets out how joined-up marketing will improve the targeting and co-ordination of marketing activities. UKTI's Advanced Engineering Sector Advisory Board will guide the implementation of this strategy.

The UK research base is now rated second only to the USA. Government is working to build on that success, developing an innovative ecosystem that enables firms across the UK to identify knowledge and research excellence wherever it is located – in universities, in research institutes, in high tech SMEs or in larger firms – and to encourage collaboration in order to exploit the opportunities.

Many overseas companies have established R&D centres in the UK to capitalise on this open innovation ecosystem. In fact around 45 per cent of all business R&D undertaken in the UK is funded by overseas companies. The key commercial benefits of undertaking R&D in the UK are access to a world-class academic and research environment; a large supply of highly skilled employees; a robust system of protecting intellectual property; a wide range of tax and incentives support for R&D; a highly cost effective environment for R&D investment; and a proven business and investment environment.

A team of global R&D specialists, UK Trade & Investment is working actively with a wide range of foreign owned, UK based companies to increase their R&D footprint in the UK. This work will continue and can be targeted towards Tier 1 suppliers.

Annex A – Glossary of Acronyms and Organisations

AAP Automotive Assistance Programme <http://www.bis.gov.uk/aap>

AU Automotive Unit (within Department for Business, Innovation and Skills) <http://www.berr.gov.uk/whatwedo/sectors/automotive/automotiveteam/page9117.html>

BIS Department for Business, Innovation and Skills <http://www.bis.gov.uk>

BRE Better Regulation Executive <http://www.berr.gov.uk/whatwedo/bre/index.html>

CBI Confederation of British Industry <http://www.cbi.org.uk>

CCT Company Car Tax

Cenex Centre of excellence for low carbon and fuel cell technologies <http://www.cenex.co.uk/>

DfT Department for Transport. <http://www.dft.gov.uk/>

EIB European Investment Bank <http://www.eib.org/>

ETI Energy Technologies Institute <http://www.energytechnologies.co.uk/>

EPSRC Engineering and Physical Sciences Research Council <http://www.epsrc.ac.uk/default.htm>

HE Higher Education

IKC Innovation and Knowledge Centre

innovITS UK ITS Centre of Excellence for Transport Telematics and Sustainable Mobility www.innovits.com

ITS Intelligent Transport Systems

KTN Knowledge Transfer Network http://ktn.globalwatchonline.com/epicentric_portal/site/KTN/?mode=0

KTP Knowledge Transfer Partnership

LSC Learning and Skills Council <http://www.lsc.gov.uk/>

MAS Manufacturing Advisory Service <http://www.mas.berr.gov.uk/>

NAIGT New Automotive Innovation and Growth Team <http://www.berr.gov.uk/whatwedo/sectors/automotive/naigt/page45547.html>

NVQ National Vocational Qualification

OECD Organisation Economic Co-operation and Development <http://www.oecd.org/home>

OEM Original Equipment Manufacturer

OLEV Office of Low Emission Vehicles

R&D Research and Development

RDA Regional Development Agencies www.berr.gov.uk/whatwedo/regional/regional-dev-agencies/index.html

SCC Supply Chain Council

Semta Sector Skills Council for Science, Engineering and Manufacturing Technologies
<http://www.semta.org.uk/>

SfB Solutions for Business <http://www.businesslink.gov.uk/solutions/>

SME Small and Medium Sized Enterprises

SMMT Society of Motor Manufacturers and Traders <http://www.smmt.co.uk/home.cfm>

SSC Sector Skills Council

STEM Science, Technology, Engineering and Mathematics programme <http://www.dcsf.gov.uk/stem/>

TMETC Tata Motors European Technical Centre

TRL Transport Research Laboratory <http://www.trl.co.uk/>

TSB Technology Strategy Board <http://www.innovateuk.org/>

UKTI UK Trade and Investment <http://www.uktradeinvest.gov.uk/>

VED Vehicle Excise Duty



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