



Government Response to the Business Innovation and Skills Committee's Conclusions and Recommendations made in its "Full Speed Ahead: Maintaining UK Excellence in Motorsport and Aerospace" Report

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

By Command of Her Majesty

April 2010

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**GOVERNMENT RESPONSE TO THE BUSINESS INNOVATION AND -
SKILLS COMMITTEE'S CONCLUSIONS AND RECOMMENDATIONS -
MADE IN ITS "FULL SPEED AHEAD: MAINTAINING UK EXCELLENCE IN -
MOTORSPORT AND AEROSPACE" REPORT -**

The Government broadly welcomes the Committee's report and in particular the commendations in relation to aerospace and manufacturing. However we would wish to take issue with a number of the recommendations that relate to motorsport. The Government's response to the conclusions and recommendations are set out below.

Space sector

1. Due to time constraints we have not been able to give the space sector the attention it deserves during this inquiry. We recommend to our successor committee that it considers conducting an inquiry into the role of the space sector in the UK economy. (Paragraph 7)

Government recognises the importance of the industrial and economic benefits of space - the recent innovation and growth report highlighted that the global market for space manufacturing, services and applications is forecast to be worth at least £400 billion by 2030. To capitalise on this, the UK space industry has come together to set out an ambitious 20-year strategy to grow the UK's share from 6 per cent to 10 per cent of this market - creating up to 100,000 new UK jobs by 2030. The Government has announced:

- a new £40 million International Space Innovation Centre at Harwell;
- a UK Space Agency that will eventually provide a comprehensive delivery vehicle for the UK's domestic and international space policy objectives; and
- an agreement to work closely with industry to set out the extent to which space services can contribute to delivering cost-effective next generation broadband and mobile internet services for rural communities, reduce the environmental impact of communications infrastructures, and provide new Earth Observation services, both for the benefit of UK citizens and to promote UK's capabilities in overseas markets.

Aerospace Industry

2. It is clear the aerospace sector is broadly content with the Government's aerospace strategy as set out in the AelGT Report. However, the report is now five years old and is in need of updating. We recommend that the Government undertakes a short review in order to ensure that its strategy takes account of the latest economic and technological developments. (Paragraph 15)

We welcome the Committee's recognition that the Aerospace industry is broadly content with the existing strategy. Since the publication of the AeIGT we have continued to work closely with the sector. Key elements, such as the National Aerospace Technology Strategy, have been refreshed periodically to ensure that they take account of technological developments. However, we recognise that since the report was published the landscape within which the industry operates has continued to change. We will consider with the industry how best to reflect this in our strategy moving forward.

Repayable Launch Investment

3. We welcome the Government's continued use of Repayable Launch Investment. This investment has not only been successful in supporting the thriving aerospace sector, but has also delivered a substantial return to the taxpayer. We believe that the Government should continue to offer Repayable Launch Investment to companies - where no viable commercial financing is available - to ensure that the United Kingdom's aerospace industry retains its position as a world leader in the development of new technologies. To do otherwise would put the industry at a serious competitive disadvantage given the prevalence of similar measures available to overseas competitors. (Paragraph 22)

4. We strongly support the Government's use of Repayable Launch Investment and the Government's defence of that investment at the World Trade Organisation. However, the Government cannot rely on a favourable ruling from the WTO. It has to be prepared for all eventualities. We recommend that the Government explore alternative ways for it to channel its support in the event that the WTO rules against Repayable Launch Investment. This should not be seen as the Government abandoning its position, but a sensible and pragmatic precaution to enable it to respond to all possible outcomes. We hope, and suspect, such a plan will not need to be implemented. (Paragraph 28)

We welcome the Committee's strong support for the Repayable Launch Investment that is provided for the development of programmes of national strategic importance. We will continue to consider each application for investment on its merits against a range of established criteria including value for money, public expenditure constraints and Government priorities. Launch Investment continues to be an important tool to ensure that the UK aerospace sector is not put at a serious competitive disadvantage. We will continue to operate in a way which we believe is consistent with the UK's international obligations, including the European State Aid rules. If changes are necessary, we will look to ensure that these are made in a way that continues to support our policy objectives towards the sector.

Trade Support

5. Export credit is an important mechanism through which the Government supports the aerospace sector. It is therefore vital that it operates in a way which does not disadvantage British firms. We welcome the ECGD's consultation on its interpretation of OECD codes and principles and recommend that it includes, in any subsequent review, the possibility of offering direct support to businesses when a company cannot find a commercial bank loan to finance the purchase of aircraft. (Paragraph 32)

The Government has issued an Interim Response to its Public Consultation on proposed revisions to ECGD's Business Principles and ancillary policies. In that response it announced revisions to ECGD's anti-bribery policies in situations where ECGD reinsures another Export Credit Agency which is a member of the OECD and, therefore, adheres to the OECD Recommendation on Bribery and Officially Support Export Credits. The revisions will not affect Airbus. However, Rolls-Royce will benefit when it supplies engines to Boeing; ECGD will now rely on, and not duplicate, the anti-bribery due diligence carried out by US Eximbank which it reinsures in such transactions. The Government is monitoring the availability of funding from the commercial banks for export credits guaranteed by ECGD. No export contracts have failed to proceed because of a lack of funding. However, ECGD is taking measures to facilitate giving its guarantee to capital market funding through to 2011 and will judge the benefits after that period. Meanwhile, the need for the Government to directly fund export credit loans does not currently exist.

6. The Government needs to ensure that all three European Export Credit Agencies work together as effectively as possible and we invite the Department to update us on the progress that has been made with the "fronting" system developed by the three agencies. However, we agree with the Minister that it would not be appropriate to accept Airbus' recommendation to create a pan-European agency. It would not be right to create a new agency which in practice would deal with only one company. (Paragraph 36)

The Government welcomes the Committee's agreement that it would not be appropriate to establish an export credit agency solely for Airbus. However, ECGD is committed to continue its close collaboration with the French and German export credit agencies to ensure that, at a time when the three credit agencies are supporting record levels of business with Airbus, their support is delivered as efficiently and effectively as possible. To this end, the Government is able to inform the Committee that the three credit agencies have recently agreed to continue their co-operation through provision of reinsurance to each other at least until the end of 2011.

A400M

7. The current financial problems surrounding the A400M places the Government in a difficult position given its role as both a customer and an investor in Airbus. However, Airbus, and in particular the A400M, are important to both UK manufacturing and national security. The Government is right to be forceful and frank in its commercial decisions, but it also needs to set those decisions in the context of the wider national interest. (Paragraph 41)

The wider national interest of the A400M programme is well understood and the Ministry of Defence and BIS have worked jointly throughout the programme to ensure that the commercial negotiations have considered the wider national perspective. As the Committee has indicated this has been a challenging process within the current economic climate.

Motorsport Industry

8. We were concerned by the fact that the Minister appeared to be unaware of the accusations of government complacency from the motorsport industry; whether or not such accusations are well founded, the simple fact that they are made so widely should be a matter of deep concern to the Department. (Paragraph 52)

We do not accept the Committee's view that the government has been complacent in its support for the motorsport industry and are concerned that the Committee appears to have relied heavily on the evidence of a single witness, the Chief Executive of the Motorsport Industry Association. We are disappointed that the Committee did not take evidence from a wider number of companies involved in the sector.

Between 2003 and 2009 Government through Motorsport Development UK (MDUK) committed £11.5 million to support 5 key programmes; Learning Grid, Motorsport Academy, Energy Efficient Motorsport, Business Development and Widening Participation that were well received by industry.

Government has continued to engage with the Motorsport industry through meetings with the Motorsport Industry Association, including supporting its 'Day in Parliament' and in speaking at events held at Autosport. BIS has been directly engaged with a number of motorsport companies on issues of concern and in support of new technology development. It was government action that supported the Brawn Team in its buyout from Honda and in helping Silverstone to secure the future of the British Grand Prix.

UK Automotive Council

9. While we welcome the Minister's promise to ensure that the UK Automotive Council engages with the motorsport industry we do not believe that it should be the primary organisation that takes forward motorsport policy. To treat motorsport purely as a sub-section of the automotive industry would be to ignore many of the features which have made it a globally successful sector, for example its close links with aerospace. We recommend that a separate, dedicated policy unit in the Department be established to ensure that these links are properly made and that the motorsport policy is fully integrated into developments in automotive, aerospace and other high performance engineering industries. (Paragraph 59)

Government continues to recognise the contribution of motorsport to the economy and of the important role that the industry plays in developing new technologies that crossover into other industries. It is industry that supports 4,500 firms employing 38,500 people with an annual turnover of £6 billion with exports worth £3.6 billion, and it is integral to the wider automotive industry. That is why we are keen for the motorsport industry to be involved in the work of the UK Automotive Council and we continue to believe that this is the best way for Government to engage with the motorsport industry as a whole.

10. The Minister is right to acknowledge the skills required by the two industries are very similar, and we believe that this should be reflected in the Department's approach to the industry. The rationale behind the creation of a single department with responsibility for both business and skills was to align skills training more closely with the needs of industry. The Department should no longer merely think of industries in terms of what they manufacture but also the skills they require. Failure to do so would undermine the value of the new arrangement of departmental responsibilities. The skills that underpin both the motorsport and aerospace industries have much in common, and it would be damaging to pigeonhole the motorsport industry in the general automotive sector. (Paragraph 62)

Two of the cornerstone programmes under Motorsport Development UK focused on improving skills in the sector. The Automotive Academy helped over 3,500 people improve their skills; 1,000 people to find work in the sector, assisted 80 businesses to improve their performance. The Learning Grid that saw over 100,000 children across 2,000 schools be inspired through science and engineering through accredited motorsport related activities and through the Rockingham Festival showcased a wide range of educational shows and workshops to over 5,000 children from more than 100 schools.

The "SEMTA Compact" is the scheme to support advanced manufacturing, which includes aerospace and automotive, but does not encompass motorsport. SEMTA will be pleased to engage with the motorsport industry once the way forward has been agreed.

Motorsport Development UK

11. The clear view we received from industry was that Motorsport Development UK (MDUK) failed in its aim to act as a partnership between industry and Government. We are particularly worried that it might have lessened the industry's willingness to work with Government. The Department needs to reflect on why the evaluation report's conclusions differed so greatly with those of industry. We invite the Department to use its response to this Report to outline how it will ensure that future engagement with the motorsport industry is more successful and what lessons it has learnt from the failure of MDUK to do so effectively. (Paragraph 67)

We do not agree with the assessment of the Committee that the work of Motorsport Development UK failed in its aim to act as a partnership between industry and government. Results of the independent assessment undertaken by "GHK" on behalf of the East Midlands Development Agency noted that "MDUK can claim clear achievements against the majority of the Panel recommendations and point to innovative and potentially far-reaching programme activities which have delivered across the industry/sport value chain. Indeed, it is informative to note how our review of the current policy landscape exemplifies a range of themes and activities which have already been trailed under the auspices of MDUK".

We are keen for the motorsport industry to be involved in the work of the UK Automotive Council and we continue to believe that this is the best way for Government to engage with the motorsport industry as a whole.

Health of the sport

12. We congratulate all those involved in the negotiations to retain the British Grand Prix for concluding a deal which has secured the event's long-term future. This was important not just for the sport in Britain but also for the continued strength of the UK's motorsport industry. (Paragraph 69)

We are pleased that the Committee has recognised the significant role that the Department played in helping to secure a long-term deal to retain the British Grand Prix at Silverstone for the next 17 years. This is the longest deal signed in the history of F1 and will ensure that the industry continues to grow and that the sport will remain a cornerstone of our sporting calendar.

13. We were surprised that the Minister appeared not to be briefed about the level of participation in motorsport. We can only assume that this is again the result of a lack of specialist knowledge about motorsport in the Department, which would be remedied by the presence of a dedicated policy team. (Paragraph 73)

We do not agree with the Committee. The Minister is fully briefed on the motorsport industry and has had a number of meetings with motorsport

companies, including with the Motorsport Industry Association as part of its 'Day in Parliament' last July. Participation in motorsport is the responsibility of Department for Culture Media and Sport.

14. A flourishing and vibrant sport is vital to ensure that motorsport manufacturing remains in the United Kingdom. We have not had time to investigate the Motor Sport Association's concerns about the regulations surrounding races and Forestry Commission in detail but we recommend that the Department, together with the Department for Culture, Media and Sport engages with the sporting bodies to assess the effects of these two concerns on the sport. We further recommend that the Department provide us with their assessment of these concerns in its response to our Report. (Paragraph 79)

The concerns raised by the Motor Sport Association is the responsibility of Department for Culture, Media and Sport and we have asked that they respond directly to the Committee on this issue.

Motorsport conclusion

15. We have repeatedly emphasised the fact that the UK motorsport industry is pre-eminent internationally, yet the Government continues to perceive it as a niche area of the automotive sector and not as an industry in its own right. We disagree with this assessment. Motorsport is an industry of national importance and it must feel able to engage effectively with Central Government. It should not be restricted to engagement at a regional level. The establishment of a dedicated motorsport policy unit would represent an important first step in ensuring that this happens. (Paragraph 84)

Government continues to recognise the contribution of motorsport to the economy and of the important role that the industry plays in developing new technologies that crossover into other industries. It is integral to the wider automotive industry which is why we are keen for the motorsport industry to be involved in the work of the UK Automotive Council and we continue to believe that this is the best way for Government to engage with the motorsport industry as a whole. The Department for Culture, Media & Sport also has regular contact with the motorsport industry

The industry is not limited to engagement with Government at regional level. BIS maintains a regular dialogue with the Motorsport Industry Association, the Motor Sport Association and the Auto Cycle Union.

16. We remained concerned that the accusations of government complacency are not being taken seriously by Government. The fact that there is no team or section with responsibility for motorsport within the Department only gives strength to that view. We find it hard to imagine another country which would sideline such an important industry. We reiterate our belief that the Department needs to establish as a matter of urgency, a policy team which will have responsibility for the industry.

Furthermore, we recommend that the first objective of that team is to commission an updated survey on the health and needs of the industry. (Paragraph 85)

We do not accept the Committee's view that the government has been complacent in its support for the motorsport industry. The government responded to industry requests for a dedicated programme of support following publication of the Motorsport Competitiveness Report by setting up MDUK with £11.5 million in funding over 5 years. We continue to believe that the best way forward is for the motorsport industry to be involved in the work of the UK Automotive Council for Government to engage with the motorsport industry as a whole through this forum.

Supply chains

17. We congratulate the aerospace industry on the proactive steps it has taken to improve the quality of the supply chain through the SC21 programme. We are encouraged by the steps taken by Regional Development Agencies to support this scheme and by extension small businesses. (Paragraph 92)

We welcome the Committee's comments and will continue to seek opportunities to encourage improvements in the competitiveness of the UK supply chain.

Diversification

18. Encouraging SMEs to diversify into other sectors has a number of benefits; it creates more robust supply chains, it can facilitate the spread of best practice and it can drive up the quality of supply chains. However, government backing and support are needed to take this forward. We recommend that the Government revisit the Motorsport Industry Association Cluster Development Report as a matter of urgency and report back how it will proceed. It is regrettable that the ideas contained in the Report were not acted upon and were instead left to languish on paper. (Paragraph 100)

The tenor of the Motorsport Industry Association Cluster development report was subsumed into the Motorsport Competitiveness Panel Report presented to the DTI in 2003. We continue to believe that the best way forward is for SMEs in the motorsport industry is to be involved in the work of the UK Automotive Council.

19. We recommend that the Government explore ways in which it can facilitate SMEs entering the aerospace supply chain. In particular, we recommend that it undertakes a review of regulations governing entry to that industry and explores how it can reduce the costs to SMEs seeking accreditation. Guidance on how to comply with existing programmes should be produced as a priority. (Paragraph 102)

We note the Committee's comments and agree that it is important for SMEs to be actively engaged in the aerospace supply chain. However, it should be noted that aircraft are subject to strict international regulations, for example in the areas of terms of safety and security. New products and services need to comply with the international standards. We will discuss with ADS, the trade association, how motorsport companies can take up further opportunities in aerospace.

Promoting science-base careers

20. We support the work of Manufacturing Insight to attract young people into the engineering and manufacturing professions. It is important that young people are made aware of the exciting and rewarding careers that manufacturing has to offer. The Government needs to ensure that the work of this body compliments the many excellent projects already being run by industry. We recommend that the Government sets out how Manufacturing Insight will co-ordinate its work with the existing activities in this area run by professional bodies and companies. (Paragraph 112)

As a commitment under the BIS 2008 Manufacturing Strategy, BIS helped to establish Manufacturing Insight in partnership with industry and the regions; as an independent body to provide national leadership in the field of manufacturing awareness.

The Government is committed to working with Manufacturing Insight to establish a positive image for manufacturing to influence young people and their parents that modern manufacturing can offer attractive and stimulating employment opportunities.

There are a number of business-education partnerships to promote engineering and manufacturing. Manufacturing Insight works alongside these organisations to dovetail with their agendas and add value through a coordinated national leadership; ensuring support is as effective and efficient as can be for businesses and educators across the UK. Bodies in these sectors, both aerospace and motorsport will undoubtedly provide stimulating examples of successful and innovative companies to help demonstrate the way in which manufacturing has moved on from the current public perception.

21. We congratulate the Government on the Young Apprenticeship Scheme which has been highly successful in attracting young people into further education and training. We recommend that BIS be involved in any discussions about the programme's future to ensure that it continues to properly align the demands of young people with the needs of business. We would welcome an update on these discussions in its response to our Report. (Paragraph 116)

We welcome the Committee's strong support for the Young Apprenticeship Scheme. The Department for Children Schools & Families is currently exploring with BIS and delivery partners the future options for the Young

Apprenticeship pilot programme. Decisions will be informed by outcome evidence and both policy and value for money considerations.

Further Education

22. The industry's experience of working with the Sector Skills Council for Science, Engineering and Manufacturing Technology (SEMTA) does not give us confidence that the sector skills agencies have properly engaged with industry, especially in the motorsport sector. The development of a skills strategy for the sector is vital to its success. We recommend that the Minister, as a matter of urgency, facilitate a closer working relationship between SEMTA and the motorsport industry to resolve these differences of views. (Paragraph 121)

Firstly, it should be noted that the responsibility for the motorsport industry has not been transferred to SEMTA by the UK Commission for Employment and Skills. The Institute of the Motor Industry leads on the mechanics and the races, and the Institute and SEMTA work together on core engineering standards and qualifications. SEMTA leads on the development of National Occupation Standards, apprenticeships and qualifications. SEMTA/National Skills Academy - Manufacturing lead on driving government policy to meet the needs of employers in terms of funding for training. The "SEMTA Compact" was a specific deal with BIS to support advanced manufacturing, which includes automotive but did not encompass motorsport.

So we will consider whether there is a need to transfer responsibility or have a Memorandum of Understanding between SEMTA and the Institute of the Motor Industry. SEMTA will be pleased to engage with the motorsport industry once the way forward has been agreed with the Institute of the Motor Industry.

Higher Education

23. We welcome the decision by the Government to take steps to encourage more young people to study STEM subjects at university. Equally we recognise that its proposals to provide greater resource to STEM subjects will result in a reduction in funding to some other courses. This is a decision that we support in times of great stringency for public expenditure. We seek clarification on how the £10 million of funding HEFCE has kept back to increase the proportion of students on STEM courses will be used, and whether it will be used to fund additional places or stimulate student demand for science courses. (Paragraph 127)

The £10 million that will be spent by Higher Education Council for England (HEFCE) in 2010-11 will go to support universities in shifting the balance of their portfolio of degree courses towards STEM.

It might be helpful to make two contextual points. The first is that this is not the only "supply side" intervention that we are making through the Funding Council. The £10 million fund in 2010-11 is an interim intervention. In "Higher

"Higher Ambitions" we asked the Funding Council to introduce from 2011 new funding incentives, operating on a competitive basis between universities, that encourage the supply of places in the subjects that make the most critical contributions to our economic performance. The £10 million that is being made available in 2010 should be viewed as a step towards these more developed arrangements. It should also be noted that HEFCE has been supporting the supply of STEM subjects through dedicated funding in recent years, most notably by making £100 million available over four years from 2007 to support the higher costs of physical science and engineering disciplines.

The second contextual point is that HEFCE's role is to support the costs of providing higher education: it is a "supply side" organisation. Recommendation 23 implicitly suggests that demand side interventions are important too, and the Government would strongly endorse that. Recent increases in applications and acceptances for STEM places show the long-term strategy of encouraging interest in STEM subjects at school are bearing fruit. Additionally, in "Higher Ambitions" we committed to improving the information that is available to students about courses, including the employment prospects associated with them and information about the performance of recent graduates. We believe that transparent and comparable information of this kind will stimulate demand for the most economically valuable degree courses.

Motorsport courses

24 Courses purporting to be "motorsport" engineering must produce graduates with the skills that the industry requires, this is currently not the case. We welcome the approach to accrediting courses that has been taken in other sectors. We recommend that the Government, working with SEMTA, industry and universities explores the feasibility of establishing a similar programme for the motorsport industry. (Paragraph 134)

SEMTA work closely with universities to ensure the needs and priorities of industry are being addressed at graduate and post graduate levels. The SEMTA/National Skills Academy-Manufacturing network of providers will include universities who are keen to work with the network to meet the needs of employers, particularly on the new and emerging technologies such as electric vehicles, composites etc.

The SEMTA Sector Skills Agreement highlighted that a number of sectors such as automotive, bioscience and electronics had issues in relation to higher education provision. SEMTA is working with BIS and higher education establishments to address these issues.

Overseas students

25. There is clearly a balance to be struck between supporting home-grown talent and utilising the skills which come from overseas students;

attracting the best international talent to the UK will enhance our industry's competitiveness but only if those students continue to work for British companies. The Government needs to keep this under review to ensure that an appropriate equilibrium is maintained; it is right that the skills of young people in the United Kingdom are fully developed so that we do not become over-dependent on overseas students. (Paragraph 138)

We note the Committee's comments and recognise the need to maintain a balance between attracting overseas students and developing young people in the UK to work for British companies.

Centres of Excellence

26. We welcome the development of the National Centres of Excellence and congratulate Rolls-Royce on its leadership role in this programme. We see it as a strength, not a weakness, that the idea for these centres came from industry itself. (Paragraph 116)

We welcome the Committee's support for the development of major centres of excellence such as the Advanced Manufacturing Research Centre and the forthcoming Manufacturing Technology Centre at Ansty Park, and acknowledge the leading role played by Rolls Royce and other industrial partners.

The Advanced Manufacturing Centres are a significant step forward in developing collaborative partnerships and investment between industrial partners, universities, and regional development agencies to create world class research and development centres that can transfer research knowledge across manufacturing industries, including SMEs.

There is not as yet a National Centres of Excellence programme. However, the Committee will wish to note that the Hauser Review on the current and future role of technology and innovation centres in the UK, published on 25 March, identifies a strategic gap in commercialising the UK's leading position in research and science capability, and recommends that Government should capitalise on the UK's research and science base strengths by providing sustained funding for a network of elite business-focussed technology and innovation centres in areas where the UK has the potential to gain substantial economic benefit. These centres would aim to research, prove and develop technologies where the UK has world-leading expertise and which provide the greatest opportunity for future growth.

The Secretary of State has welcomed and agreed this recommendation to support the development of a network of technology and innovation centres that will help deliver the industries and jobs of the future. He has tasked the Technology Strategy Board to work with industry, stakeholders, and wider government on how to implement the recommendations in the Hauser review and to report back by the Pre-Budget Report on the process, priority areas, scale of investment required and governance structure.

Composites

27. We welcome the establishment of the National Composite Centre at Bristol University. It has the potential to make a significant contribution to the future development of composite technology in the UK. However, while the right decision was made in the end, the establishment of the National Composite Centre was an episode of worrying mismanagement by Government. We are deeply concerned about the lack of strategic thinking that was present during the bidding process for an institution of such importance to the future of UK manufacturing. The Government must ensure that lessons are learnt, and we therefore expect it to provide us with a clear critique of its management of the competition for the National Composite Centre. (Paragraph 156)

BIS worked with an inter-agency group that included representatives of the National Composite Network, feeding in views of 2,300 registered members and 800 businesses for nearly 18 months before the publication of the strategy. Other members of the inter-agency group included MOD, UKTI, National Physical Laboratory, Regional Development Agencies, Devolved Administrations and the UK composite trade association: Composites UK. This group undertook assessments of technical needs by sector that identified that a number of sectors would benefit from access to a composites centre to develop manufacturing techniques to enable greater use of composite materials. This was supported by the analysis in the Netcomposites report whose authors interviewed over 40 of the main UK composite companies. On this basis funding in principle was agreed from the Strategic Investment Fund, ahead of seeking proposals for operating such a centre.

Thinking on a National Composites Centre, and other aspects of the strategy, were further tested at two events involving over 100 businesses and academics in total. One took place in Manchester on 9 October and another in London on 23 October 2009. Prior to these workshops BIS alerted industry to our strategy work by holding a brainstorming session with industry and RDAs on 6 October 2008. In addition to these industry workshops, BIS invited, on 8 and 9 June 2009, representatives from the aerospace, marine, automotive, oil and gas, wind and construction sectors to outline the key issues impacting on their future take up of composite materials.

Proposals for a Composites Centre were assessed against common criteria drawn up by BIS analysts and sector representatives. This assessment took account of the costs and benefits of each bid and assessed key criteria such as ability to disseminate knowledge across the range of sectors using composite materials. This included a matrix criteria methodology, facilitated by specialist economists, to test value for money against needs of various sectors. In addition to economists and analysts, a representative from the Technology Strategy Board was involved in the assessment.

The process was comprehensive and enabled a clear due diligence assessment of proposals.

Following publication of the UK composite strategy, Regional Development Agencies have indicated an increased desire to work more closely together to ensure less duplication of investment. As a sign of this new cooperation Regional Development Agencies have contributed to a joint funded composite supply chain initiative. This could also result in a different process for developing any future proposals for national facilities.

Aerospace Research Institute

28. A dedicated aerospace research institute clearly has the potential to strengthen and secure the UK's aerospace manufacturing base. The industry needs to come together to provide the Government with a clear and detailed proposal for such an institute. The proposal should be used as the basis for an industry bid in the next round of Strategic Investment Fund support. We recommend that the Government looks favourably on such an application. If we do not enable the aerospace industry to compete on an equal level with other nations, it will be difficult for the industry to maintain its strong international position. (Paragraph 161)

The Secretary of State has recently welcomed and agreed to support the development of a network of technology and innovation centres that will help deliver the industries and jobs of the future. He has tasked the Technology Strategy Board to work with industry, stakeholders, and wider government on how to implement the recommendations in the Hauser review and to report back by the Pre-Budget Report on the process, priority areas, scale of investment required and governance structure.

We therefore welcome the Committee's recommendation. BIS will work with industry to try to get a clear view across the industry as to what a new institute would cover and how it would be organised. For some a signposting/programme office role might be sufficient but for others a research capability (staff doing research) would be an essential part of their vision. The position of aerospace infrastructure, to support the research, would also need to be factored in. There is a very obvious difference here in the potential cost to government. We will work to take this forward as appropriate government funding sources become available.

Co-ordination

29. It is important that all parts of the network of Centres of Excellence work together effectively. We recommend that the Government creates a small, lean team responsible for ensuring that the work of the centres is properly co-ordinated, without placing additional burdens on the research organisations. They represent a national resource and cannot be left to work in regional silos. (Paragraph 164)

We agree that it is important that the centres of excellence work together effectively to ensure consistent strategic direction and quality of services.

We are addressing this in our close working with Regional Development Agencies. For example, we are working with the South West Regional Development Agency and others to ensure that there that the National Composites Centre is the hub for the UK's efforts to develop and implement rapid composite manufacturing technologies and systems. The National Composite Centre will lead the co-ordination of a strengthened network of regional centres of composites excellence, provide direction and focus for fundamental research and collaborative links with UK universities, and help to develop and co-ordinate training to support the skills base necessary for applying advanced and specialist composite technologies

As highlighted in the response to recommendation 26, the Hauser Review published on 25 March recommended that Government should capitalise on the UK's research and science base strengths by providing sustained funding for a network of elite business-focussed technology and innovation centres in areas where the UK has the potential to gain substantial economic benefit. The Government will take forward this recommendation and develop a strategy by the 2010 Pre-Budget Report that identifies key strategic technologies and outlines a 10 year vision for the UK.

Government R&D spending

30. When the Department decides on the funding allocation to the higher education sector, the science and research savings announced in the 2009 Pre-Budget Report must be managed in a way that minimises the impact on research that supports higher value-added manufacturing, and areas of research which are directly linked to the UK's competitiveness. (Paragraph 171)

The Government remains committed to the ring-fence and the ten-year Science and Innovation Investment Framework. We shall continue to prioritise funding to deliver a world-class research base, capable of addressing key challenges including energy and living with environmental change. As with every government department, BIS needs to make some savings to contribute to the unprecedented pressure on public finances. The Pre-Budget Report announced £600 million of savings in 2012-13 across Higher Education teaching, student support and science and research budgets. To put this into perspective, £600 million represents less than 5% of the current combined science, research and Higher Education annual budget. This was a pre-budget report, not a Spending Review. It set out where savings will be needed by 2012-13. No decisions on how savings will be achieved across these budgets will be made ahead of the Lord Browne's independent review of Higher Education Funding and Student Finance and the Spending Review.

Investment in science & research is key to our future economic success and plays a role informing the debate about our national strengths and potential. It is right that the science and research base engages with industry and the drive toward ensuring that the UK exploits the benefits of the research that the taxpayer funds will continue. Public funding is governed by the

principle of excellence – any research base which does not include a substantial element of fundamental, curiosity-driven research will not be relevant economically in anything but the short term. However, by better understanding and reinforcing the relationship between research pathways and wider economic and social impacts, strengthening the long term collaborative ties between universities and the private and public sectors, and continuing to focus resources on developing concentrations of world class research excellence in the UK, we will ensure that public investment in research is producing demonstrable and substantial gain for our society and economy as a whole.

31. We also agree with Rolls-Royce that there should be a strong presumption in favour of large research projects being funded, on a national basis, by a single organisation. The Government should use its current review of research spending to investigate ways in which the system could be adapted to make this possible. (Paragraph 171)

We note the committee's recommendation. Currently aerospace research & development seeks government funding from all available sources. For research & technology this includes the Technology Strategy Board, the Regional Development Agencies and the Devolved Administrations. While it would not be sensible to advise companies such as Rolls-Royce to ignore funding sources, we recognise that there could be a considerable additional bureaucratic burden associated with trying to coordinate multiple funding sources. The Technology Strategy Board has instigated a process for large project applications which ensures that the lead partners and all potential funders have a shared understanding of the project, and expected contributions.

Defence Research

32. While defence research is primarily the responsibility of the Ministry of Defence it is important that the Government acknowledges the fact that defence research has an impact on other areas of R&D, especially other high-tech industries. The Department for Business, Innovation and Skills should be involved in any discussions about funding for defence research to ensure that the impact of any reductions on advanced manufacturing industries is minimised. (Paragraph 173)

We welcome the support from the Committee for this policy. The National Aerospace Technology Strategy takes an overview of both civil and defence research needs in aerospace. The National Defence Industries Council Research and Development Group proposed partnership approach in research and development between all parts of Ministry of Defence, industry and other government departments.

Up to the 1950s defence innovations drove aerospace technology. The situation is now very different, with defence looking to exploit technology advances across a very wide range of sources, many of them non-aerospace, such as electronics, information technology and computing. The highest

priority military research drivers have tended to reduce the emphasis on the air vehicle and move it more towards the provision of increasingly sophisticated, agile, integrated on-board and off-board systems, enabling increasingly information-led networked operations and precise delivery of effects in challenging environments. This is now central to the sustainment of the military edge against rapidly evolving threats. In contrast, major drivers for the civil market such as greener, more economical air travel mean that the civil sector is now dominant in certain airframe and propulsion technology areas. In addition the size of the UK defence market has contracted so for business, viability depends on the export market potential. Areas where the UK Ministry of Defence can depend on a sovereign procurement capability have correspondingly reduced. This changing landscape brings with it new motivation for partnership and research programme alignment across the industry, but also new challenges for the sustainment of critical national research, development and manufacturing capabilities. BIS is working with the Ministry of Defence to maximise the benefits of this partnership.

Changing Priorities

33. The previous success of the aerospace industry should not preclude it from receiving R&D grants in the future. While we understand the desire for Government to support innovative new industries it is important that established sectors—with successful track records—are not disadvantaged as a result. We recommend that the Government ensure that the desire to support new industries is not disproportionately directing funding away from established industries such as aerospace and motorsport. (Paragraph 176)

We note the Committee's comments and are well aware of the importance of the aerospace sector to the UK in terms of the scale of the market opportunities and the potential to capture value added activity. For example, business capability and capacity are key factors in prioritising support by the Technology Strategy Board and this is reflected by the fact that a number of large innovative aerospace projects have been funded.

R&D tax credits

34. We support the Government's moves to simplify and increase the reach of the R&D tax credit system. We note the arguments made by some that directing resources from tax credits to the Technology Strategy Board would be a more effective use of public funds. We believe that this is something that the Government should address as part of its review of R&D tax credits. However, we remain concerned that such a move could penalise R&D intensive SMEs, including those in the motorsport industry, who would find it difficult to apply for grants through the Technology Strategy Board. (Paragraph 181)

R&D tax credits are one of the Government's most important policies designed to promote innovation in the UK, playing an effective and increasing

role in supporting business investment in scientific and technological R&D across all industrial sectors.

Since 2000, almost £3.9 billion of support has been provided to UK companies, through payable credits to SMEs not in profit or as tax relief. In financial year 2007-08, the last year for which published figures are available, there were 7,670 claims totalling £790 million, based on almost £8.7 billion of business investment. Around 75% of claims are made through the small and medium sized companies scheme.

As noted in the Committee's Report, evaluation of the R&D tax credit scheme is expected to be completed by the end of 2010. A range of qualitative evidence has already been gathered which addresses the views of a cross-section of SME and large businesses about their use of R&D tax credits when reaching investment decisions. This evidence has already yielded valuable information about how companies perceive and use grants and R&D tax credits, and the relative value of each scheme for individual companies.

The emerging picture is that both grants and R&D tax credits are effective in encouraging business R&D generally within the UK economy, providing complementary government support for the full range of innovative companies in the UK, including the motorsport and aerospace sectors.

The Technology Strategy Board delivers a number of schemes which have SME participation rates of between 60% for Collaborative R&D and 100% for SBRI. The Technology Strategy Board has over the past two years has increased the flexibility of the Collaborative R&D programmes it delivers to better meet the needs of SMEs, including introducing smaller feasibility grants.

Business-academic engagement

35. While improving industry-academic relations is primarily a task for industry and academia, the Government has an important role to play in facilitating engagement and providing a positive policy framework within which this can happen. However, the Government has yet to communicate successfully this need to the SME sector. We have yet to be convinced by the Government's proposal of an SME university, and we believe that it should instead concentrate on promoting and expanding its existing work in areas such as the Innovation Vouchers Scheme. (Paragraph 190)

It is not the Government's proposal to build an SME university at Silverstone, it is part of the Silverstone Development Brief working alongside local universities to build a facility to focus on motorsport engineering and design.

Green Agenda

36. Both motorsport and aerospace are engaged in a plethora of initiatives aimed at improving their environmental record and “greening” their technologies. However, both industries remain of the view that Government does not fully recognise these initiatives. Government and the industries need to co-operate fully to better articulate the “green” initiatives currently under development in motorsport and aerospace. (Paragraph 199)

We welcome the Committee’s comments and remain committed to working with stakeholders in order to deliver the recommendations of the Aerospace Innovation and Growth Team, which includes that "The UK must be at the forefront of international sustainable development of the Aerospace Industry in the areas of..... the environment". The publication of the Sustainable Aviation strategy in 2005 was a world first for the aerospace manufacturing sector and its airport, airline and National Air Traffic Services partners, and we will continue to work together to identify the most appropriate ways to support the sector through mechanisms such as the National Aerospace Technology Strategy.

37. We also agree with the Government that motorsport has the potential to shift the debate about carbon emissions away from a dry conversation about carbon budgets, towards a more valuable debate on the role that technology and innovation can play in addressing climate change and green issues. We welcome the fact the Government is considering this as an area of action. (Paragraph 200)

We note the Committee’s comments and believe that motorsport can play a role in the transition to an ultra-low carbon road transport future, both in its development of technologies with potential for wider application and in its potential to contribute to changing hearts and minds of drivers.



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