

Vehicle Certification Agency New Commercial Models Project

Market Engagement Phase 3 Report

1. Background

The VCA New Commercial Models Project conducted phase 3 of market engagement during September 2013. One objective of the sessions was to gain more insight to test and inform the proposition intended for release with the OJEU notice.

Market engagement took the format of one-to-one meetings with potential bidders who responded to the PIN notice in July 2013 or who attended the Project's Industry day in August 2013.

2. Interested Organisations

The following is a full list of market engagement meeting attendees:

- **BSI Group**
- **Capita**
- **DEKRA**
- **Applus & IDIADA**
- **I.M. Group**
- **Institution of Mechanical Engineers**
- **Intertek**
- **Millbrook**
- **MIRA**
- **Mott MacDonald**
- **PA Consulting**
- **Serco**
- **SGS**
- **Transport Research Laboratory**
- **TUV Rheinland**
- **TUV National Engineering Laboratory (part of the TUV Sud Group)**

3. Summary of Findings

- A wide range of potential partners are interested in the JV opportunity
- The commercial proposition and potential for growth were very attractive to attendees. Growth is expected from emerging technologies, offering new services, growth in existing services such as Management Systems Certification and in overseas markets such as the BRIC countries.
- Some outstanding issues remain, but these are not present across all potential partners and none are deal breakers. The retention of pension liabilities was raised as an issue by a number of attendees, but this is expected to be resolved by the implementation of New Fair Deal.
- All attendees recognised the importance of the VCA staff and stressed their commitment to effective employee engagement.

4. Questions Set

The attendees were sent the draft commercial proposition along with a set of questions to be used as the basis for the meetings. The following is a summary of the findings of the meetings broken down by question.

What are your initial views of the general principles?

- All attendees were uniformly content with the general principles of the proposition.
- The majority of organisations understood the key constraints that were limiting VCA's capability and capacity to grow the business.

What are the greatest opportunities for NewCo, how would you grow the business, and why do you want to invest in the opportunity?

- The majority of organisations viewed the JV as a great opportunity to create synergies between the organisations.
- Growth was seen as important to the organisations and all considered that growth (in various forms) was achievable.
- Non-UK based organisations in particular viewed this as an opportunity to engage better with UK government.
- The majority of attendees viewed expansion of services overseas, especially the emerging markets, as a key driver for the business. Other areas of growth were linked to emerging technologies, offering new services and growth in existing services. Management Systems Certification was seen by some, but not all, attendees as offering growth potential.

What do you see as the optimum share ratio between the Secretary of State and the PSP? For how long would you see the Secretary of State being involved in NewCo?

- Most organisations were flexible. Of organisations that had a clear view, most would like to see government having a very low shareholding, around the 20% level. One favoured a 49% government stake.
- The majority of organisations would prefer longer than the proposed 7+3 year length of the Type Approval contract. However most were happy with this or accepted it and expected that the business could 'double or treble in the medium term'.
- A key concern for the majority of organisations was what happens after the 7+3 year term in respect of the remaining NewCo operations.

VCA's staff are integral to the delivery of their quality services. What potential do you see for employee incentivisation and/or a mutual element to NewCo?

- All organisations understood the importance of VCA staff.
- Organisations were keen to stress their support for employee engagement, including incentivisation schemes such as bonuses, and their experience of transition and mutualisation.

What are your views on the proposed funding of NewCo and the mechanisms to pro rata initial partner contributions?

- Organisations that were able to give a view had no concerns with the financial aspects of the proposition.
- Further financial information was required by the majority of organisations before they could answer the question fully.

Maintaining a significant presence in the UK is a strategic objective for Government. How would this fit with your potential plans for NewCo?

- All organisations intended to maintain a significant UK presence. For some, growing their UK presence was an attraction.
- Some organisations particularly wanted to understand VCA's overseas operations in more detail.

Do you see potential conflicts of interest with your current business? How might you manage these conflicts?

- Some organisations did not see any conflicts of interest between VCA services and their existing operations. Those that did recognise potential conflicts of interest understood the need to avoid conflicts between development and certification activities.
- Some organisations already have in place a separation of activities to manage conflicts of interest and are designated Technical Services Providers for other TAAs.

What are your views on the restriction of services and proposed reserved matters?

- On the whole there were no major areas of concern on the restrictions of services and proposed reserved matters outlined within the document provided.
- The majority of organisations wanted Secretary of State (SoS) involvement in operational decision making kept to a minimum.
- Attendees expressed a need for SoS to be clear about objectives so that there are clear guiding principles for potential partners.

What do you consider to be the value of the Crown Brand for NewCo and how would you protect it?

- A majority viewed the Crown Brand as a key asset of VCA. A minority of the organisations did not feel that it was as important because of the strength of their own brand.
- The majority of organisations would prefer full use of Crown branding for all services that NewCo would provide.
- All organisations showed flexibility around this issue.

Do you have any views on the Department's use of the negotiated procurement route?

- After explanation, attendees had no issue with the use of the negotiated route.
- Some of the attendees stressed the need to keep the route simple in order to reduce costs.
- The majority of organisations requested sight of more financial data to inform their own business cases and decision to bid.