

17 August 2010

Clerk of the Committee
Business, Innovation and Skills Committee
7 Millbank
London SW1P 3JA

Agricultural Engineers Association
British Automation and Robot Association
British Paper Machinery Suppliers Association
British Plastics Federation
British Turned Part Manufacturers Association
Confederation of British Metalforming
Gauge and Toolmakers Association
Manufacturing Technologies Association
Printing Industry Confederation
Processing and Packaging Machinery Association
UK Industrial Vision Association

Dear Sir/Madam

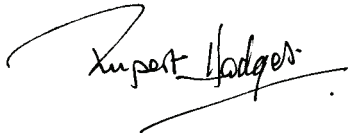
Engineering and Machinery Alliance -- the New Local Enterprise Partnerships

As requested please find attached a hard copy of the submission sent in today by e-mail.

Thank you very much for allowing us a few days grace.

With best wishes

Yours sincerely



Rupert Hodges
Alliance Secretary

cc Member associations

Engineering and Machinery Alliance Submission for Business Select Committee Inquiry into The New Local Enterprise Partnerships

Summary

- The Engineering and Machinery Alliance represents the views of 1,600 mostly SME mechanical engineering firms. Members are widely distributed across England and Wales. The sector is largely dependent on exports (78% of sales in 2008). (*Introduction*)
- To provide rewarding careers for people of all aptitudes, the UK needs to provide productive jobs in manufacturing as well as in all types of services. With its value adding technologies, manufacturing provides a wide range of rewarding upper-middle income jobs. (*Manufacturing and sustainable development*)
- From a mechanical engineering industry point of view the RDAs played an important, positive role in terms of local information and local delivery. The problems arose where they drove policy differences that cut across manufacturing supply chains, which don't usually follow regional boundaries, and where they added administrative complexity to areas that should have been driven nationally. (*Previous experience – supply chains*)
- There is a danger that the increase in the number of local contact points that LEPs will represent will lead to further fragmentation, added complication and cost when liaising on nationally-led initiatives. For example, despite a very supportive Manufacturing Advisory Service (MAS), it still took EAMA two years to brief all nine regional MAS operations on the UK's poor performance on manufacturing automation, its implications and possible solutions. (*5-12*)
- The downside of promoting favoured regions is the well known 'post code lottery', which undermines companies' hard-won competitiveness in regions that aren't eligible for support. (*14-15*)
- Public sector dependence is not the only factor that will determine economic development need. With 46% of UK regions producing less than the EU average GDP per inhabitant, LEPs across the country need to play a dynamic role in helping to: 1) release support from UK and EU bodies, and 2) team up with other LEPs and nationally-led initiatives to optimise their development. (*16-18*)
- As the Regional Growth Fund Panel is likely to be a focal point for most of the necessary information about LEPs' initiatives, there might be an opportunity for the Panel to act as a co-ordination forum or information channel about those plans and activities. But that still leaves the other side of the matrix, the nationally-led activity streams, uncovered. A strong framework ensuring open communication will be required. Trade associations could help. But there are hidden costs and they will also need a link through which to 'funnel' information to LEPs. (*19-22*)

Introduction

The Engineering and Machinery Alliance represents the views of the 1,600 mechanical engineering firms in 11 subsectors represented by the following organisations:

- Agricultural Engineers Association
- British Automation and Robot Association
- British Paper Machinery Suppliers Association
- British Plastics Federation
- British Turned Part Manufacturers Association
- Confederation of British Metalforming
- Gauge and Toolmakers Association
- Manufacturing Technologies Association
- Printing Industry Confederation
- Processing and Packaging Machinery Association
- UK Industrial Vision Association

Together they represent mostly SME firms with a total turnover of some £8 billion split pretty evenly between finished capital goods and components for capital goods. Members are widely

distributed across England and Wales. Our sector surveys show that these firms are fully representative of the UK's mechanical engineering sector.

UK mechanical engineering sector turnover in 2008 was some £32 billion, 78 percent of it from exports -- we are one of the few UK manufacturing sectors to regularly run a positive trade balance. Our customers are in other manufacturing sectors, automotive, aerospace, medical, food and materials handling and processing for example.

Our main markets are USA, Germany, France and, growing quickly our fifth largest market, China.

UK mechanical engineering in 2008

Sales £ billion ¹	Exports £ billion ²	Trade balance ³	Exports % sales	GVA £ billion ¹	No. of firms ¹
32	25	+3.4	78	11	10,079

Sources: 1) Annual Business Inquiry (June 2010 reporting 2008 data)
 2) EAMA/ISSB HM Customs Returns
 3) Monthly Review UK External Trade (January 2010)

Manufacturing and sustainable development

There is now a broad consensus that the UK economy needs to be rebalanced. Rebalancing means different things to different people. But whatever it means to you, we believe you will agree that to provide rewarding careers for people of all aptitudes, the UK needs to provide productive, value adding jobs in manufacturing as well as in all types of services.

While services and manufacturing require different skill sets of the people who work in them, manufacturing is important for the way it drives technological innovation and development. It is responsible for 75% of private sector R&D and half of all UK exports. With its value adding technologies, high value manufacturing provides a wide range of rewarding upper-middle income jobs. The challenge for government at all levels is to lock in those opportunities here in the UK, rather than let them move offshore to benefit citizens in other countries.

Previous experience – supply chains

From a mechanical engineering industry point of view we believe the RDAs played an important, positive role when it came to local information and local delivery. The problems arose where they promoted policy differences or activities that cut across manufacturing supply chains (particularly where the customer was in an export market) and through the administrative complexity they brought to areas that should have been driven nationally.

Supply chains are of course demand-driven (top down). But it is misleading to consider them in local or regional terms.

There is a general consensus amongst OEMs (Original Equipment Manufacturers such as JCB) that their own competitiveness and long term sustainability depend on their supply chains (bottom up). But after the manufacturing shake-out over the last thirty years the firms that make up these supply chains may or may not be regionally/locally based.

When it comes to the newer or higher-value manufacturing sectors, such as renewable energy or nuclear, supply chain member firms may be even harder to find regionally/locally than they are for well established sectors like automotive and aerospace, not least because there may be so few of them around the country. For example, there just aren't that many companies with the 19-metre machining beds that are needed when it comes to building a nuclear submarine.

These are therefore areas that need to be driven from a national perspective to develop and maintain competitive edge.

The UK isn't large as a geographical space. So putting transport and communications infrastructure problems to one side for the moment, relative proximity should give UK-based supply chains something of an advantage. That is as long as local and regional bodies don't add cost or complexity when trying to further their local economies.

The New Local Enterprise Partnerships

Functions of the new Local Enterprise Partnerships and ensuring value for money

Our comments here are limited to our preferences and concerns about the concept of increasing the number of local contact points national sectoral organisations will have to make, as relatively little is known about the detail of the LEPs and indeed there is a certain amount of flexibility allowed in the way bidders may come together to develop their specific partnership to meet local needs (e.g. City Region, new partnership of business with several local authorities, even former RDA areas).

1. We agree that LEPs should provide the longer term local leadership and vision for the area, sewn into the overall fabric of the national economic strategy with other functions best led nationally.
2. LEPs should therefore have a catalytic role, facilitating development by clearing local issues or constraints and bringing in new expertise, resources or services to release local entrepreneurial initiative.
3. We agree that to achieve this it is important that the partnership has strong local business buy-in.
4. Business and local authorities don't always work well together, particularly if there is a strong local political dimension.

Comments

5. There are clearly going to be more than one LEP per former RDA.
6. If this means increased fragmentation, based on our experience it will complicate liaison and impose even further costs on organisations that have a national or sectoral focus.
7. For example, working in conjunction with a very supportive Manufacturing Advisory Service (MAS), it still took EAMA two years to make all nine regional MAS services aware of the UK's weak performance in manufacturing automation. (For more detail please see the summary at www.eama.info/downloads/Chancellor%20Osborne%20Final%203%206%2010.pdf in EAMA's Emergency Budget paper).
8. If MAS is now operated and managed on a national basis (it does have a consistent model nationally), it would be much easier and less costly for EAMA (and other organisations) to introduce new ideas and technologies to UK manufacturers.
9. Theoretically, these externalised costs, forced on organisations that had to deal with RDAs in the past (and LEPs in the future), should be taken into account when assessing value for money. The problem is how without inordinate paperwork and cost. However, in these straitened times, if government has the requisite experience and expertise to make a sufficiently-accurate- to-be-useful but nonetheless approximate assessment of the alternative opportunity costs to the economy of the proposed routes, the results could help guide interaction and support across LEPs and nationally-led services such as MAS.
10. But what is going to happen to MAS and the other support services, previously provided via the RDAs?
11. Again based on past experience, support services transferred to LEPs will likely become more local and more difficult to coordinate and that will also make it more difficult for other bodies to work with them.
12. In this regard ministers have mentioned the need for certain roles (inward investment, sector leadership, business support, innovation and access to finance) to be led nationally. This is clearly not a comprehensive list. For example, given the new and very special problems that globalisation poses for local development we would also add skills and exporting to the manufacturers' list.

The Regional Growth Fund

13. According to the Consultation on the Regional Growth Fund all areas of England will be eligible to apply for funding. The objectives for the Fund are to:
 - Encourage private sector enterprise by providing support for projects with significant potential for economic growth and create additional sustainable private sector employment;
 - Support in particular those areas and communities that are currently dependent on the public sector to make the transition to sustainable private sector led growth and prosperity.

Comments

14. Given the scale of the cutback targets over the next two years, it seems right that the Fund's immediate aims for 20011/12 and 2012/13 include a bias towards areas and communities currently dependent on the public sector.
15. However, this will inevitably mean that some companies based in those 'favoured' areas will gain advantages over UK firms that won't be able to access the same support or funding because they are in a region that's less dependent on public sector jobs. In the short term, this return to the 'post code lottery' is acceptable, but only on the basis that the objective is to return to normal, sustainable business conditions from April 2013.
16. The EU's Regional Development Directorate and the Organisation for Economic Co-operation and Development report increasing evidence of 'effective spill-over' from one region to others as firms at the micro-level increase their business with companies in other regions when they succeed in growing their sales. As a result for example, the OECD reports "... a shift away from redistribution and subsidies for lagging regions in favour of measures to increase the productivity of enterprises and encourage private investment, including an emphasis on endogenous assets " (*OECD Building Competitive Regions – strategies and governance*)
17. As far as the UK is concerned, we can see that Inner London has a very special place on UK and EU Top Ten Regional GDP Chart (see annex 1. Note Outer London's performance is very close to the EU average). However UK GDP per inhabitant is below the EU average in 46% of the UK regions, not only in the North but pretty much across the country. German and French regions similarly below the EU average include the former GDR regions and France's overseas 'Department' territories. (Please see the Eurostat website for more detailed information
<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=0&language=en&pcode=tgs00006>)
18. From this we can clearly see that UK regions need to have the wherewithal to attract investment and win development funding from UK and EU bodies. The LEPs could be dynamic players in these roles, but will need to be flexible in their approach so that they can team up with other LEPs or national initiatives where it will strengthen their development.

Government proposals for ensuring co-ordination of roles between different LEPs

19. Conceptually the approach to localism encourages individual authorities to do their own thing, which is fine when it relates and is specifically limited to development decisions that only have local implications. But the moment that there are broader ramifications, that affect other regions or a national initiative there needs to be a forum or framework that facilitates co-ordination between the interested parties.
20. At the moment the Regional Growth Fund Panel is likely to be a focal point for much of the necessary information about partnership initiatives. There might therefore be an opportunity for the Panel to act as a co-ordination forum or information channel. But that leaves the other side of the matrix, the nationally-led activity streams, uncovered.
21. If the Panel has a direct feed on nationally-led activities, this would help ensure that the projects the Panel funds benefit from or tie in with those national initiatives.
22. But the question of how to link co-ordination on nationally-led initiatives across the LEPs remains. It will require a strong framework that keeps communication channels open under all circumstances. Trade associations with their direct links to member firms, often by sector, may be able to help communications here. But they will need a single, direct channel to 'funnel' communication across LEPs.

Annex 1
Top Ten EU Regions by GDP per inhabitant (*Purchasing Power % EU average*) (Eurostat 4.8.10)

Regions	2003	2004	2005	2006	2007
Inner London	331	336	338	339	334
Luxembourg (Grand-Duché)	248	253	255	272	275
Région de Bruxelles-Capitale	248	240	237	228	221
Hamburg	200	198	201	196	192
Praha	154	154	159	162	172
Île de France	175	170	172	168	169
Southern and Eastern (Eire)	158	158	161	162	166
Oberbayern	169	168	170	166	165
Groningen	153	153	161	174	165
Stockholm	167	172	167	164	165

UK Regional GDP per inhabitant (*Purchasing Power % EU average*) (Eurostat 4.8.10)

Region	2003	2004	2005	2006	2007
Inner London	331	336	338	339	334
Berkshire, Bucks and Oxfordshire	169	172	167	164	156
<i>North Eastern Scotland</i>	161	162	156	157	153
Gloucestershire, Wiltshire & Bristol/Bath area	140	140	135	131	128
Bedfordshire, Hertfordshire	132	137	138	130	127
Cheshire	130	131	133	129	124
Surrey, East and West Sussex	131	131	126	126	122
<i>Eastern Scotland</i>	120	122	121	122	120
Hampshire and Isle of Wight	118	121	120	120	117
Leicestershire, Rutland and Northants	121	123	119	117	114
East Anglia	110	113	111	113	110
<i>East Wales</i>	121	121	116	113	110
Outer London	110	114	111	110	107
Greater Manchester	111	115	112	109	105
West Midlands	116	115	112	107	105
<i>South Western Scotland</i>	107	108	109	107	104
West Yorkshire	115	114	112	109	103
North Yorkshire	112	112	106	103	101
Derbyshire and Nottinghamshire	106	108	108	106	101
Herefordshire, Worcestershire and Wawicks	104	109	107	108	101
Northumberland, Tyne and Wear	102	102	105	102	98
Essex	104	105	101	102	98
Dorset and Somerset	98	99	103	103	97
Kent	99	101	103	97	93
<i>Northern Ireland</i>	96	99	98	96	93
Cumbria	92	91	87	91	90
Lancashire	99	99	97	95	90
East Yorkshire and Northern Lincolnshire	98	101	96	94	90
South Yorkshire	92	95	93	91	90
Shropshire and Staffordshire	94	96	92	92	89
Devon	90	96	93	93	89
<i>Highlands and Islands</i>	83	88	88	89	87
Merseyside	90	88	86	85	83
Lincolnshire	94	92	85	84	83
Tees Valley and Durham	85	89	84	84	82
Cornwall and Isles of Scilly	77	78	76	77	75
<i>West Wales and The Valleys</i>	76	78	79	77	73