Executive Board Cover Sheet – 18 February 2019

Paper Number EB2.3.

Security Level:	Confidential	Restricted	Unclassified ▣	Commercially Sensitive

Meeting & Date:	Midlands Engine Executive Board 18 February 2019		
Subject:	Supply Chain Initiative – National Manufacturing Competitive Leads		
Attachments:			
Report of:	Chair of the Midlands Engine Operating Board	**Total no of sheets:** (inc cover sheet)	5

Papers are provided for:	Approval	▣ Discussion	Information

Summary & Recommendation:

Summary

This report sets out a proposal for a single, cross-sector, national and quality assured approach to measuring and improving the competitiveness of manufacturing supply chain companies, raising workforce capability and boosting economic growth and export across the UK, post-Brexit, starting with a large-scale pilot in the Midlands.

This initiative was one of the budget bids submitted to Treasury in 2018 and this report seeks the support of the Midlands Engine Executive Board to continue discussions with Treasury given the growing importance of Supply Chain in the post-Brexit economy.

Recommendation
Executive Board is asked to:

1) Endorse further dialogue with Treasury about taking forward this initiative as a priority for the Midlands Engine.

State of the manufacturing sector

1. The UK is relatively strong in manufacturing being ranked as 6th in global share of manufacturing[1]. The largest manufacturing sectors in the country are hi-tech, food and drink, chemicals, rubber, plastics, and non-metallic minerals. Hi-tech manufactured goods accounted for 43% of total manufacturing exports in 2014.

2. The UK has emerged as an innovation leader in major manufacturing sectors such as automotive, aerospace, and pharmaceuticals among others and accounted for a 17% share of the global aerospace market revenues, largest in the European region and second only to the United States.

3. The Midlands economy covers a diverse and substantial area, built on a globally significant advanced manufacturing base particularly in Automotive, Aerospace, Rail and Industrial Engineering with the UK's largest concentration of supply chain companies.

4. The significance of these sectors and the opportunities they present for the UK economy are summarised below:

Automotive Industry	- 1.7m vehicles assembled in UK 2017 vs. 2011 1.35m - £71.6bn industry turnover and £19bn GVA - Increase in UK domestic sourcing 36% to 44%, aspiration of 50% by 2022 - Significant supply chain export opportunity
Aerospace Industry	- 33,070 new aircraft required in next 20 years. Doubling of fleet 2016 to 2035 - £31.8bn industry turnover and £8.9bn GVA - UK order backlog 9 years-worth £195bn - 60% of companies expect growth > 10%
Rail Industry	- Transport for London – 250 trains c. 2,500 carriages c. £2.5bn. First delivery 2022 - Jubilee and Northern Line - 27 trains, 170 cars, Contract award Q3 2017 - HS2 – First phase, contract award end 2019 – with 60% of content to come from small and medium manufacturers.
Nuclear Industry	- Domestic market size £75bn - Current UK industry size £18.5bn - Global Market £1.2tn - UK Supply chain £6.1bn - UK workforce 87,500

Supply Chain Challenges

5. Despite these opportunities there is an urgent need to support UK based advanced manufacturing supply chain companies.

[1] Deloitte 2016 Global Manufacturing Competitiveness Index

6. As UK companies have achieved significant technological advancements, their processes and operations have not always kept pace. As a result, the UK manufacturing base faces a number of challenges linked to productivity, output, competitiveness and high labour costs.

7. Whilst the productivity levels of automotive and aerospace are considered better than other UK sectors, this is largely driven by a small number of efficient companies with the bulk of the supply chain in need of development. In particular, changes such as the transition towards electric vehicles will require a step change in the work of Small and Medium-sized Enterprises (SMEs).

8. Prevailing political and economic uncertainty around Brexit also post a major risk for supply chain companies.

9. For over two decades, trade between the UK and EU has been based on trade agreements that allow free movement of labour, goods, services and capital. As a member of the EU, the UK currently benefits from 40 trade agreements spanning five continents estimated to cover 37% of global GDP[2].

10. The economic uncertainty caused by the UK's decision to leave the EU and the uncertainty for businesses has undoubtedly led to a slowdown in investment. In the latest survey of business opinion by employers' organisation the CBI, 80% of companies reported that uncertainty around Brexit had had a negative impact on investment decisions.

11. A regional analysis by the CBI reflects a high dependency in the Midlands on EU trade relationships, with goods accounting for 86% of the East Midlands exports and 90% of the West Midlands exports, with over half of these going to the EU[3].

12. The prospect of higher tariffs, border delays and administrative costs are a particular risk for the automotive sector in the West Midlands. Transport equipment makes up the greatest share of manufacturing GVA in the region at over 35%, significantly higher than the UK average of 15%, with motor vehicles representing the greatest share of this.[4]

13. There may also be issues for the manufacturing sector with skills shortages in the labour force, as skilled EU workers may seek employment elsewhere.

14. Clearly any approach to Supply Chain competitiveness will need to incorporate the changing landscape post-Brexit.

A blue print for post-Brexit: upgrading supply chains

15. Industry specialists Turner and Townsend published a report in 2014 which predicted an increase in global focus on supply chains, with Governments around the world

[2] http://www.cbi.org.uk/news/uk-staring-danger-in-the-face-on-trade-deals/
[3] http://www.cbi.org.uk/insight-and-analysis/impact-of-a-no-deal-brexit-across-the-uk/impact-of-a-no-deal-brexit-across-the-uk-continued/#eastmidlands2
[4] http://www.cbi.org.uk/insight-and-analysis/impact-of-a-no-deal-brexit-across-the-uk/impact-of-a-no-deal-brexit-across-the-uk-continued/#westmidlands2

recognising that infrastructure is a strong driver of economic development and committing 'serious proportions of GDP to it'. [5]

16. As well tackling a legacy of supply chain underperformance, the UK now needs to plan for a world where trade agreements and relationships may be very different. Managing a supply chain between the UK and EU has been relatively straightforward, however, the UK's vote to leave the EU is expected to bring large-scale change, with a range of challenges as well as potential opportunities.

17. The National Manufacturing Competitiveness Levels (NMCL) programme provides a single cross-sector national quality assured approach to measuring and improving the competitiveness of manufacturing supply chain companies, raising workforce capability and boosting economic growth and export across the UK.

18. The Midlands strong history of manufacturing and large number of Original Equipment Manufacturers (OEM) makes this the ideal place to test, refine and lead national roll-out.

19. The NMCL programme is designed to support the Government's Industrial Strategy agenda for improved productivity and competitiveness, increased exports and the development of UK SME supply chains, along with the following objectives:

    a) Roll out a standardised, single, cross-sector, national approach to measuring the competitiveness of manufacturing supply chain companies
    b) Adopt a single national approach to developing impactful competitiveness improvement plans for manufacturers, regardless of size, which are underpinned by a sound business case
    c) Provide a single common platform which addresses the challenges set out in both Automotive and Aerospace and Rail industrial strategies with an opportunity to leverage into other manufacturing sectors
    d) Provide a common, cross-sector core, of quality assured services to manufacturers supplemented with sector specific services where necessary.
    e) Ensure the approach is recognised and adopted by the UKs largest manufacturers as the prime path for transforming supply chain performance
    f) Ensure the framework allows nationally consistent collaboration between manufacturing businesses and Local Enterprise Partnerships (LEPs)

20. By exploiting leading UK sector knowledge, securing OEM led participation and building on what we know works, Government and industry could work together to build globally competitive supply chains across several sectors to secure as much market share of future opportunities as possible (automotive, electrification and connectivity, future aircraft platforms, digital, rail – HS2, Jubilee line upgrades and nuclear – Hinckley Point).

21. The NMCL is a tried and tested, plug and play solution. Plots have already been conducted through to business case stage in automotive, aerospace, rail and nuclear sectors. Forty-two companies are either in the NMCL process or awaiting assessment. A range of well-developed infrastructure is in place that could be leveraged by the Midlands Engine.

[5] http://www.turnerandtownsend.com/media/1227/supply_chain_focus_vxroe-1.pdf

Outcomes

22. The programme could look to increase the productivity and competitiveness of 100 companies across the identified sectors (aero, auto, defence, rail and nuclear) with the ability to expand into other sectors in due course. As a result of rolling out NMCL to the supply chain, it is estimated that there would be an overall increase of revenue of £100m for a 4-year period. This is based on a conservative growth of 5% per annum over an average of 2 years for 100 companies, with an average turnover of £10m. This growth will drive increases in corporation tax, employment tax, national insurance, GVA and exports.

Recommendation

23. That the Midlands Engine Executive Board endorses further dialogue with Treasury about taking forward this initiative as a priority for the Midlands Engine