



The Importance of Aerospace Research, High-Value Design and Manufacturing to the Somerset Economy

Somerset has a well-established, nationally significant, globally competitive aerospace cluster

There is significant global demand for new aircraft. The UK has the second largest Aerospace sector in the world, with 17% of the global market. 80% of the jobs in the sector are outside London and the South East. The South West Aerospace cluster is the second largest in Europe. All 15 of the global leading Aerospace companies in the world have bases in the South West.

Aerospace in Somerset is part of this globally significant South West cluster. Somerset has a unique UK specialism in rotorcraft, particularly helicopters, with Leonardo as the only industry prime in this country with a complete end-to-end capability, although there are businesses involved in fixed-wing supply chains too. Other leading Aerospace businesses in Somerset include Honeywell, Thales, Tods Aerospace, BAE Systems and Taunton Aerospace.

This is particularly valuable to the Somerset economy. Some 4,300 people are employed in Aerospace in Somerset, with around 2,800 of these employed by Leonardo. This does not represent the full impact of the sector, as many more people are employed in precision engineering companies that supply to the Aerospace sector and other sectors. Advanced Manufacturing employs around another 6,000 people in Somerset. South Somerset has 21 times the concentration of employment in Aerospace than in the national economy. The aerospace sector as a whole generated around £300 million of GVA to the Somerset economy in 2015. Productivity in Aerospace in Somerset is nearly 30% higher than productivity across the whole economy.

Aerospace in Somerset is valuable to the UK economy, including exports, with over 50% of sales from the Somerset Aerospace sector being made overseas. The helicopter industrial capability in Somerset is the only end-to-end original equipment manufacturing (OEM) process

Images courtesy of the National Composites Centre (NCC). Access to the wider HVM Catapult network is a key asset for South Somerset Aerospace industries

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in the UK, from research to design, development, manufacture, support, training and servicing. Whilst aerospace is recognised for its importance to the UK economy generally, in Somerset it is a critical strength. For Somerset, neighbouring Dorset, and the wider region, maintaining this strength and capitalising on significant future growth opportunities will be absolutely vital to increasing productivity and meeting the ambitions of the UK Government's Industrial Strategy.

There are significant opportunities for future growth, and significant challenges to be overcome

The Aerospace sector is buoyant and the South West is an attractive location for businesses. Although global growth is forecasted in Aerospace, the rotorcraft market has suffered as a direct result of low oil prices. Drivers of future growth are likely to include: future advanced helicopter designs; increased demand for the civilian market and diversification away from military; increased use of composite materials; increased sustainability and reduced environmental impact; increased use of digital technology; demand for unmanned aerial vehicles (UAVs); further development of tilt rotor technology. Given

the increasing reliance on new technologies and approaches, the sector is likely to become more reliant on networks of SMEs to drive its innovation. Therefore, investment in developing high-value design capabilities, as well as networking and collaboration, will be important to the future success of the sector.

However, the sector in Somerset is facing challenges that it needs to overcome. Employment in the pure Aerospace sector has declined in Somerset in recent years, against a national backdrop of steady employment. Although orders for existing helicopters are strong, the industry is in a mature phase, with no new UK helicopter models currently being developed. Leonardo is Italian owned, and decisions about its future activity are driven by its global corporate aims. Any decline in high-value design in Somerset would have repercussions throughout the national and local supply chain. Enabling the local supply chain to work closely with the high-value design function will enable it to retain competitive advantage against developing lower cost economies. It is important to maintain the high-value design capacity in Somerset through the current period, so that Somerset is well placed to be at the forefront of the next phase of new product and technology development.



It is critical to keep High Value Design and innovation capacity in Somerset to realise the opportunities and overcome the challenges

High-value design, new technologies and crucially, people with the requisite specialist skills, are critical to the future of the Aerospace sector in Somerset. These will be the future drivers of growth in both aerospace and associated advanced manufacturing activities, rather than particular products. New technologies, new materials and ongoing innovation mean a greater reliance on networks of collaborating SMEs in the future. Having the skills, capabilities and flexibility to drive innovation and respond to new opportunities will be more important than fixed assets in the future. New materials and new technologies will require expertise from a wider range of expert SMEs, many of whom are working in a number of sectors and not just Aerospace. Initiatives such as the iAero innovation centre in Yeovil will help to facilitate and drive a collaborative approach to future growth in the Aerospace and associated sectors.

Aerospace in Somerset will continue to contribute to the UK's global trade position in the future. By maintaining high-value design in Somerset, there

will be broader economic impacts throughout the local economy. Moreover, continued foreign investment will depend upon Somerset and the wider region continuing to be recognised as a world leader in high-value design and manufacturing capabilities.

Support from central and local Government is needed to recognise the importance of Aerospace to the Somerset, South West and UK economies. Support for developing the right skills, driving innovation and improving supply chain quality are required; as well as overcoming locally specific challenges such as road and rail connectivity and digital connectivity.

It is also important that MoD procurement considers the short-term and long-term impacts on the UK economy rather than being primarily driven by achieving the lowest cost. Supporting high-value design and manufacturing in the UK through strategic procurement will support long-term growth following the UK's exit from the EU. Moreover, in order for the ambitions of the Industrial Strategy to be realised throughout the UK, MoD procurement decisions will need to consider the disproportionate impacts (both positive and negative) on particular localities.

Aerospace in Somerset aligns with the ten pillars of the proposed UK Industrial Strategy

Supporting Aerospace in Somerset strongly aligns with the pillars of the proposed UK Industrial Strategy.



Pillar of the UK Industrial Strategy	Somerset Aerospace Alignment
Investing in science, research and innovation	Companies in Somerset are investing in research and innovation, and working together with the public sector to deliver projects such as the iAero innovation centre in Yeovil where primes and SMEs can innovate together in a collaborative environment.
Developing skills	The sector has a high skills base, but requires more skilled people to replace those who are retiring, to innovate and explore new opportunities, and to support overall growth.
Upgrading infrastructure	Whilst the sector as a whole needs continued Government investment in infrastructure for training (e.g. FE and HE in Somerset) and innovation (e.g. iAero and the National Composites Centre), Somerset needs help to overcome locally specific infrastructure challenges such as improving road, rail and ICT connectivity.
Supporting businesses to start and grow	As new technologies and materials are introduced into the rotorcraft industry, innovation and development are increasingly driven by collaborations between SMEs and primes. Supporting the growth of SMEs is vital, through initiatives supported by the national Aerospace Growth Programme, and more local actions such as the iAero innovation centre in Yeovil.
Improving procurement	Current MoD procurement needs to consider the wider and long-term impacts on the UK economy. Concentrating only on cost means that the industry in the UK suffers, cannot invest in innovation, and loses its global competitive edge.
Encouraging trade and inward investment	The UK has the second largest Aerospace sector in the world. The South West is the second largest Aerospace cluster in Europe. Over 50% of sales from the Somerset Aerospace sector are made abroad. The sector has potential to deliver strong export sales in the future.
Delivering affordable energy and clean growth	The Aerospace sector is working towards greater energy efficiency in its manufacturing processes, and in the products that it delivers.
Cultivating world-leading sectors	Aerospace in the UK is a world-leading sector, and the industry in Somerset is a key part of this. Whilst helicopter manufacturing is currently in a mature phase, there are drivers of significant future growth, including UAVs and tilt rotor technology.
Driving growth across the whole country	80% of the Aerospace sector in the UK is outside London and the South East. The South West is the largest cluster in the UK. Somerset is a core part of this sector, with the only end-to-end aircraft design, manufacturing and support process in the country.
Creating the right institutions to bring together sectors and places	Industry and the public sector have come together and created iAero to drive forwards the Aerospace sector in the South West. Government recognition and support will help to drive this even further.

1 Somerset has a well-established, nationally significant, globally competitive aerospace cluster

1.1 The UK has the second largest Aerospace sector in the world

The UK has the second largest aerospace sector in the world¹. It accounts for 17% of the global market. In addition, 80% of jobs in the UK sector are outside London and the South East, which chimes with the UK Industrial Strategy objective to drive growth across the whole of the country. Productivity in the sector has grown by 50% since 2009, at 20 times the UK average.

The Aerospace Growth Partnership (AGP) is a collaborative partnership between industry and Government which is intended to support the growth of the sector. The AGP's latest strategy² considers helicopter manufacturing as part of the Aerospace sector, and states:

The UK's Industrial presence in the commercial helicopter sector is growing in breadth and depth, including every aspect of design, manufacture, assembly, test, delivery, maintenance and support of commercial helicopters. Sustaining our world-leading capability in rotor systems and transmissions is a particular priority.

This capability is supported by the presence of a significant number of first and second tier suppliers making a wide range of systems, components and equipment in the UK as well as other major markets. The commercial rotary wing sector in the UK now accounts for around 8% of the UK aerospace footprint.

The UK aerospace sector is expected to grow at a rate (Compound Annual Growth Rate) of 5% over the coming years³. To 2031 there is an estimated global requirement for over 27,000 new passenger aircraft worth circa \$3.7 trillion. Over the same time period, the global market demand for new commercial helicopters is expected to be in excess of 40,000 units, worth circa \$165 billion. The maintenance, repair and operations market is growing rapidly and represents a significant opportunity for the future.

The global market for Unmanned Air Vehicles (UAVs) was worth around \$5 billion in 2010 and is projected to increase to more than \$11.5 billion per annum over the next decade.³

¹ <http://www.theagp.aero/uk-aerospace/>

² Means of Ascent (2016) The Aerospace Growth Partnership's Industrial Strategy for UK Aerospace

³ Department for Business, Energy & Industrial Strategy (2016) Science and Innovation Audit for South West England and South East Wales: Appendix G - Aerospace and Advanced Engineering Theme Report

1.2 Aerospace in Somerset is part of the globally significant South West cluster

The South West has a strong and buoyant Aerospace sector. All 15 of the leading Aerospace companies in the world have bases in the South West⁴. The supply chain inputs from within the South West region are dominated by services rather than goods⁵. One quarter of goods and services used in the South West Aerospace sector are purchased from within the region, 28% from rest of UK, and 47% from overseas. Aerospace in the South West is a strong export sector, with sales of 1% to businesses in the South West; 26% to the rest of UK; and 53% overseas.

The South West Aerospace cluster has specialisms in both fixed-wing aircraft and rotorcraft, and these two areas can share research and development (R&D), innovation and technologies rather than competing with each other. Product development in Aerospace is a very long-term process, providing many years of work and economic benefit.

The Aerospace sector in the South West is estimated to be worth £7-8 billion per annum to the regional economy. Aerospace and advanced engineering industries in the Heart of the South West area employ more than 23,000 people and contribute over £1 billion to the economy⁶.

1.3 Somerset has a specialism in rotorcraft

As part of this broader South West Aerospace cluster, Somerset has a specialism in rotorcraft, with Leonardo as an industry prime, including research and high-value design. The Somerset sector does have some companies involved in fixed-wing supply chains as well as rotorcraft. Somerset has an established cluster of businesses, including:

- BAE Systems
- Honeywell
- Leonardo
- Taunton Aerospace
- Thales
- Tods Aerospace

Somerset also has advanced manufacturing and precision engineering companies outside the Aerospace sector, but which share a focus on high-value design and innovation. These include:

⁴ South West LEPs (undated) Europe's Aerospace Powerhouse: Think Aerospace, Think UK South West

⁵ NJSE (2012) The Economic Role of the Civil and Defence Aerospace Sector in Somerset

⁶ South West LEPs (2015) Aerospace and Advanced Engineering Sectors: Submission for Joint Inward Investment Activity

- Ariel Motor Company – producing sports cars
- Brecknell Willis – involved in transport electrification
- Elecsis – switchgear manufacturing
- Gooch and Housego – photonics technology
- Hayley Engineering – steelwork manufacturing
- Numatic International – manufacturing vacuum cleaners
- Singer Instruments – making instrumentation for research
- Supacat – producing high mobility vehicles

Somerset is close to Bristol and the rest of the South West Aerospace cluster, which includes many fixed-wing businesses and suppliers, and centres of excellence such as the National Composites Centre.

Data from the Office for National Statistics (ONS) shows that the Aerospace sector is particularly concentrated in Somerset and South Somerset. Some 4,300 people are employed in South Somerset in the manufacture, repair and maintenance of aircraft⁷. Around 2,800 of these are employed directly by Leonardo. This accounts for 6.5% of all employment in South Somerset District. Advanced Manufacturing in Somerset employs another 6,000 people⁹. In South Somerset, Aerospace has a Location Quotient of 21 (i.e. 21 times the national concentration of employment in these sectors). For Somerset, the Location Quotient is 6, so many times the national average. Caution should be exercised with this ONS data, as it is based on a survey so subject to the constraints of a survey approach; it may not fully cover the Aerospace sector, as it does not include all precision engineering suppliers that work in Aerospace and also in other sectors.

1.4 Aerospace is very valuable to the Somerset economy

Gross Value Added (GVA) and productivity in Aerospace and Advanced Manufacturing in Somerset are higher than in the rest of the economy. The Leonardo plant produces GVA of £66,900 per employee⁸. The Somerset Aerospace sector produces £57,500 of GVA per full-time equivalent employee (FTE)⁹. The overall Somerset economy creates £46,200 of GVA per FTE, i.e. over 20% less than the Aerospace sector.

Leonardo as a business generates £125 million of GVA in the Somerset economy every year⁸. Aerospace as a whole generated £300 million of GVA to the Somerset economy in 2015⁹

⁷ ONS, Business Register and Employment Survey (BRES), data for 2015

⁸ PWC for Leonardo (2013) At the Heart of UK Manufacturing: Making a Significant Contribution to the UK Economy

⁹ Oxford Economics forecasts

1.5 This is especially valuable to the UK economy

The Somerset Aerospace cluster, built around Leonardo, is the only end-to-end aerospace and helicopter manufacturing cluster in the UK: from design to manufacturing, to operation and servicing. Having end-to-end capability, with high-value design, is important because it determines what the supply chain looks like. Having high-value design in Somerset benefits the rest of the supply chain. Without the high-value design and innovation, the rest of the sector is just competing on price. Leonardo helicopters in Yeovil spends over £450 million with 815 UK supply chain businesses, and 35% of them are small and medium sized enterprises (SMEs). Some 17,000 jobs in total are supported by Leonardo spend. Leonardo in the UK generates £600 million of export revenue annually – 10% of total UK defence exports⁸.

2 There are significant opportunities for future growth, and significant challenges to be overcome

There are a number of strong growth opportunities in the Aerospace and rotorcraft sector. However, there are also challenges that need to be overcome, including those across the whole of the sector, and those which are specific to Somerset.

2.1 Opportunities

The Aerospace sector is buoyant, globally. There is global demand for 40,000 new helicopters by 2034, worth an estimated \$165 billion². Within the global market, the South West is an attractive location for Aerospace businesses.

However, within rotorcraft specifically, we are currently at a point of uncertainty. The current product range is mature, but the next wave of new products is in the early stages of development, and this could produce another 20 to 30 year wave of growth. Drivers of this future growth could include:

- Increased civilian helicopter sales and diversification away from military. Oil and Gas and other industries create demand for helicopters, although Oil and Gas is not buoyant at present
- Increased use of composite materials, and exploiting the capabilities of composites in future design
- Unmanned aerial vehicles (UAVs) for both the military and civilian markets
- Tilt rotor technology, allowing aircraft to take-off like a helicopter and fly like an aeroplane

Aerospace design in the future, especially rotorcraft, may well be very different to the past, exploiting the drivers set out above. This calls for new skills, new approaches, and new technologies.

Aerospace is likely to become less dependent on major primes, and more dependent on networks of SMEs working collaboratively in the future. Therefore strong industry networking (e.g. through initiatives such as the South West's iAero collaborative approach) is very important to the future growth of the industry. The iAero partnership is promoting regional cluster working, including the delivery of a dedicated innovation centre in Yeovil, which will help it to capture these opportunities. In the iAero innovation centre, Leonardo can work on R&D and innovation in collaboration with its supply chain (including SMEs), without the restrictions of working on a high security site.

2.2 Challenges

Helicopter manufacturing in Somerset is in a mature phase. No new models are currently being developed, and this is not something that has ever happened before. Without new products, high-value design capacity could start to decline. However, order books for helicopters are still strong, so there is little short-term market pressure to innovate. Innovation is costly, but without constant innovation, the long-term competitiveness of the Somerset, South West and UK rotorcraft industry will start to decline. Loss of high-value design capacity could mean that the rest of the supply chain will be competing purely on cost, and Somerset is unlikely to be the cheapest place to manufacture aircraft

Leonardo is Italian owned, so strategic decisions about its activities, including those in Somerset, may not necessarily be made in the best interest of its activities in the UK. Employment at Leonardo in Somerset has declined in recent years. There have been other local impacts such as the planned closure of GKN Aerospace and the closure of Critical Software, both in Yeovil. These are thought to be part of the normal process of churn in the sector, exacerbated by the mature phase in the product life cycle, rather than structural decline.

Any long-term decline in Aerospace in Somerset would have a direct and a wider impact on Somerset's economy through the loss of indirect spending. An example of this is the impact that the Lanes Hotel near Yeovil is already experiencing. The hotel accommodates many visitors to Leonardo and other Aerospace businesses, and has seen a decline in both the frequency and length of business visits in the last three years.

Recent MoD procurement of helicopters has by-passed Leonardo, with the UK Government using the US Foreign Military Sales programme which provides helicopters for the lowest cost, rather than inviting the domestic sector to bid for the work.

Overall employment in Aerospace in South Somerset has declined, compared to a relatively steady-state in the UK. In addition, many of the most skilled people in the Aerospace sector in Somerset are close to retirement. It is difficult to attract and keep skilled young people in Somerset to replenish the Aerospace and Advanced Manufacturing workforce. A broader range of opportunities in areas with a larger concentration of Aerospace and technology businesses, and a more vibrant lifestyle in cities, mean that young people often move on. A firm UK Government commitment is needed through the Industrial Strategy to halt this decline. A failure to do so could mean the loss of the innovation and high-value design base to foreign competitors.

The UK's decision to leave the EU creates uncertainty and may be problematic for European supply chain linkages, but it could provide the stimulus to reform Government support for the Aerospace sector in the UK, and could provide the incentive for companies to invest in new products and export markets.

2.3 Future growth

The rotorcraft segment in the Aerospace sector is in a mature phase at the moment, with limited growth. However, there are significant opportunities for growth in the future, particularly in the rotorcraft area. Industry cannot capture all of these opportunities without support from Government. Help is also needed to overcome the challenges facing the sector in the short-term, and maintain the high-value design capacity that will drive growth in the future.

3 It is critical to keep High Value Design and innovation capacity in Somerset to realise the opportunities and overcome the challenges

3.1 High Value Design and new technologies are critical to the future of the sector

High-value design drives innovation throughout the supply chain. There is strong global competition in Aerospace and rotorcraft. Without high-value design, Somerset could be competing solely on price and is unlikely to be the cheapest place to manufacture and service aircraft.

Somerset is unique in having end-to-end rotorcraft capability, from design to manufacturing, to operation and servicing, so it is important to maintain this for the future prosperity of the sector and the Somerset economy. It is likely that skills, capabilities and flexibility will be far more important than fixed assets in capturing growth and prosperity in the future of the Aerospace sector.

The innovation, research and development needed to create new products in Aerospace is so expensive that businesses cannot afford to do it on their own. They need Government support to do this, whether this is direct or indirect support such as the placement of major Government contracts with domestic businesses.

3.2 New technologies and innovation mean a greater reliance on networks of SMEs in the future

Areas such as digital technologies, composites and battery technology are becoming increasingly important to the future of the Aerospace and rotorcraft sectors. These are areas of expertise that sit outside the industry primes, so there is an increasingly important role for innovative SMEs in the Aerospace sector. The Aerospace cluster in Somerset and the South West is likely to be driven by expertise in high value design, and not simply focused on certain products.

The iAero partnership between business and government is critical to the success of the Aerospace sector in Somerset, the South West, and ultimately the UK. iAero provides a regional platform for innovation and growth in the sector. It is a regional delivery mechanism for the actions set out in the AGP strategy².

To deliver the iAero partnership approach, an iAero innovation centre in Yeovil is being developed. This will provide an environment where industry primes, lower tier suppliers, SMEs, researchers and others can come together to carry out collaborative work. Whilst Leonardo will play an important role in the early years of this innovation centre, it is

ultimately intended to be about more than Aerospace and Leonardo – supporting growth in other parts of the Advanced Manufacturing sector also.

High-value design capability, a complex and collaborative supply chain, and shared technological innovation create ‘stickiness’ in Somerset i.e. attracts and captures other high value activities. With end-to-end capacity that is integrated with the high-value design, the Somerset and South West supply chain is not competing solely on price.

3.3 The Aerospace supply chain covers advanced manufacturing and precision engineering as well as Aerospace

As mentioned above, the impact of Aerospace in Somerset is wider than just the pure Aerospace companies. In the lower tiers of the supply chain, many precision engineering and service companies provide goods and services to a number of sectors, and not just Aerospace. There are opportunities and risks associated with this position, i.e.:

- Any temporary downturn in Aerospace is not necessarily ruinous to businesses throughout the supply chain, as they have clients in other industry sectors
- But any decline in Aerospace will have impacts beyond the pure Aerospace sector
- Having a range of employment opportunities in other high value sectors (e.g. new nuclear build) could make Somerset a more attractive place for highly skilled people to come, and develop their careers
- Rapid growth in other sectors (e.g. nuclear new build) could prove more attractive than Aerospace in the short-run, so constraining capacity in the supply chain

3.4 Aerospace in Somerset can contribute to the UK’s global trade position

Aerospace is a globally traded sector. As mentioned above, over 50% of the output of the Somerset Aerospace sector is exported. Because of the high-value design in Somerset and the end-to-end capability, the sector is hugely valuable to the Somerset, South West and UK economies.

Government needs to recognise the importance of the sector to the Somerset and UK economies, and support it appropriately.

3.5 Action is needed to make Somerset a more competitive location for Aerospace

It will be important to ensure that the infrastructure and ecosystem of support for the Aerospace sector are suitable to support its future growth. We don’t know what the products will be, but we know that high-level skills will be needed, and technologies such as composite materials and digital technology are likely to be at the heart of future innovation.

There needs to be a focus on driving up the quality of the sector and not just the quantity of people in employment. With employment levels generally high in Somerset and indeed much of the South West, this will be key to future productivity growth. Companies that are innovating and delivering high productivity will have a focus on delivering the best and most commercially viable products rather than on job creation.

It will be important to set a vision for the future of the Aerospace sector in Somerset and communicate it well, with strong branding. This could be done through the iAero partnership that has already been established and is widely recognised.

Skills development will be important, both for young people, and those already in work. Future growth in the Aerospace sector will need young people with STEM skills coming into the sector, and the constant updating of the skills of those already in work. Appropriate training needs to be delivered at the Higher Education as well as the Further Education level.

Support to SMEs is needed to ensure that they provide maximum value in the supply chain. Programmes such as SC21¹⁰ and NATEP¹¹ that are delivered under the AGP will be important in this respect.

Business incubation and incubators (e.g. the iAero centre in Yeovil and the Yeovil Innovation Centre Phases 1 and 2) will be important to help with the establishment and growth of SMEs, and encouraging collaborative work between industry primes and SMEs.

At a more locally specific level, communications infrastructure needs to be improved, to make South Somerset an accessible place to do business. This means investing in communications technology, especially fibre, but also in transport infrastructure such as roads and rail. International air connections (e.g. to Seattle, Rome etc) from Bristol would also improve the connectivity of the sector. Affordable local housing has been highlighted as an important issue because high house prices restrict labour mobility; and ensuring that South Somerset is an attractive place to live and work will help to attract more skilled workers to Yeovil.

3.6 Government needs to play a role in achieving this economic potential

Government needs to set out a long-term vision for how it will support the Aerospace sector in Somerset and the wider South West region e.g. over a period of 20 to 30 years. This will provide industry with the confidence to invest in innovation, research and development to deliver the next wave of new technology. Support for the iAero partnership in the South West will be important to this.

¹⁰ Supply Chains for the 21st Century

¹¹ National Aerospace Technology Exploitation Programme

Central Government must recognise that Somerset has a high-value Aerospace sector and provide specific support to this sector. This will include:

- Innovation support, through continued support for national research centres such as the National Composites Centre
- Supply chain support , such as continued support for initiatives such as SC21 and NATEP
- Skills support to provide young people with the right skills, particularly STEM skills; and to deliver lifelong training for those in work, to ensure that they have the skills that are needed now

Government support is also needed to ensure Somerset has the connectivity to enable growth. This will include:

- Delivering promised support for road and rail upgrades which are specific to Somerset and limit its potential.
- Supporting the delivery of the very best digital connectivity, which will be essential to supporting high-value design and world leading digital technologies.

3.7 Government procurement must take account of the wider impact on the UK economy

Government can provide indirect support for the Aerospace sector in Somerset by ensuring that the future MoD procurement of helicopters (and all military equipment) considers the impact on the UK economy, and does not just focus on lowering costs. MoD procurement should also consider the ability to adapt products/aircraft to meet UK military needs, as a US produced helicopter is likely to be designed primarily to meet US needs, which may be different in the future.

It would also be very valuable for the UK, South West and Somerset if there is greater flexibility in the requirement for military helicopters, thus allowing industry primes to develop platforms that can be sold in both military and civilian markets, thus achieving best value from investment in innovation, research and product development. This will sit alongside and be integrated with the highly specialised advanced military battlefield and maritime support helicopters that Leonardo currently produce for both the UK and the foreign military market.

Whilst the future of rotorcraft and many of the greatest opportunities for growth may not be defence oriented, Government support and MoD procurement will still be essential in the short to medium term, to safeguard capabilities in high-value design and enable diversification and innovation.

4 Summary

4.1 Summary

Somerset's Aerospace industry is part of the South West's well-established cluster, and the county's businesses have a specialism in rotorcraft. With Leonardo, Somerset has the only end-to-end OEM process in the UK, including aircraft design, development, manufacturing, support, training and servicing. As well as industry prime Leonardo, Somerset has a number of other Aerospace companies and advanced manufacturing companies, which also supply to the Aerospace industry. South Somerset has 21 times the national average concentration of employment in Aerospace, and this makes a major contribution to the county's prosperity. Aerospace makes a major contribution to Somerset and the UK's export trade. It is vital to maintain the Aerospace sector in Somerset.

There are a number of high growth potential areas in the rotorcraft sector, including new advanced designs, increased demand from the civilian market, increased use of composite materials, increased sustainability, increased use of digital technology, demand for UAVs, and tilt rotor technology. However, the sector is also facing a number of national and local challenges which could affect the growth potential of the sector in Somerset.

The future prosperity of the sector depends on maintaining the high-value design function in Somerset. Without this, there could be adverse effects throughout the national and local supply chains. The future of the sector will involve much more collaboration of industry primes with suppliers, especially SMEs. Initiatives such as the iAero innovation centre in Yeovil will help to facilitate this approach.

Support from central and local Government will be vital to maintaining the Aerospace sector's contribution to the Somerset and UK economies, and enabling it to exploit future growth opportunities. Support is needed in areas such as training and skills development; innovation; supply chain development; and overcoming more local challenges such as connectivity. MoD procurement needs to consider both the short-term and long-term impacts of the design and manufacture of new rotorcraft on the UK and Somerset economies, rather than being primarily driven by achieving the lowest cost.

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