HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Supporting investment into the UK, HC 996

Monday 6 March 2023

Ordered by the House of Commons to be published on 6 March 2023.

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Members present: Dame Meg Hillier (Chair); Olivia Blake; Dan Carden; Sir Geoffrey Clifton-Brown; Mr Jonathan Djanogly; Mrs Flick Drummond; Mr Mark Francois; Peter Grant; Nick Smith.

Gareth Davies, Comptroller and Auditor General, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-102

Witnesses

I: Amanda Brooks CBE, Director General for Trade Negotiations, Department for Business and Trade; Gareth Davies CB, Permanent Secretary, Department for Business and Trade; Daniel Gieve, Chief Executive Officer, Office for Investment, Department for Business and Trade; and Ceri Smith, Director General, Strategy and Investment, Department for Business and Trade.

Report by the Comptroller and Auditor General

Supporting investment into the UK (HC 108)

Examination of witnesses

Witnesses: Amanda Brooks, Gareth Davies, Daniel Gieve and Ceri Smith.

Q1 **Chair:** Welcome to the Public Accounts Committee on Monday 6 March 2023. Overseas investment in the UK is an important part of the economy, generating—we hope—jobs and wealth, and helping to drive innovation. In the current economic climate, it is particularly important for it to go well.

The Department for International Trade, which is what it was called when the National Audit Office looked at this area, is now the Department for Business and Trade, bringing the Business part of the former BEIS Department into this important area of work, supposedly joining them up. It works to support overseas investment. In 2021-22, the Department spent more than £80 million on that work, in an attempt to drive in the investment that we so need.

Today, we question officials from the new Department, although I think all of you are from the old one, about how that money is spent and also—crucially, from our point of view as constituency MPs—about the quality and longevity of the jobs created, and whether the investment supports some wider Government initiatives, like achieving objectives such as net zero.

I welcome our witnesses. From the Department for Business and Trade, we have Gareth Davies, the Permanent Secretary; Ceri Smith, the Director General for Strategy and Investment; and Amanda Brooks, the Director General for Trade Negotiations. From the Office for Investment, which sits within the Department for Business and Trade, but also works with No. 10, we have Daniel Gieve, the Chief Executive Officer. Before we go any further, Mr Gieve, will you explain how the Office for Investment works across those two bits of Government?

Daniel Gieve: It might be worth stepping back a bit and talking about why we exist—that probably gives an idea.

Chair: Yes, briefly. I think that will be useful for those watching—we are all fairly new, as it is not an area we cover a lot in this Committee, so it would be helpful, thank you.

Daniel Gieve: It starts with the story of a large, quite famous automotive company considering where to put its base in Europe, about four or five years ago. At the time, the UK put in a bid to try to get the company to locate here, but it chose to go elsewhere in continental Europe. The feeling in Downing Street at the time was that we had not got our act together as well as we should have done for an investment of that scale, an opportunity of that scale. It therefore wanted more of a grip and more of an ability to convene Government and drive them forward, so that our offer was as good as it could be for the small number of really high-profile investments that could be conceived of. The idea of the Office for Investment was born there.

We are entirely Department for Business and Trade staff, so Ceri is my DG and Gareth my permanent secretary, but we are linked to No. 10 through the No. 10 business unit. We have the ability to convene in Downing Street both external and internal meetings, therefore leveraging the brand of Downing Street to get things done. That is really important, because the Government are hugely wide, with lots of separate fiefdoms and possibilities of failure of co-ordination. The Treasury and Downing Street both have a right and authority to convene people in an effective fashion, so we are borrowing from that—

Chair: Effectively, appropriating the brand that is No. 10 Downing Street.

Daniel Gieve: Yes, exactly. Also, Downing Street itself is a big private office for the Prime Minister, and it thinks about what the Prime Minister is doing with his time. Lots of companies out there feel that they should have the attention of Downing Street at any given moment, and by borrowing slightly from the brand we are able to give structured engagement for companies that are doing potentially important things, in a way that core Downing Street would not be able to.

Q2 **Chair:** Thank you, that is very clear. It is helpful to know how you fit in. Mr Davies, are there any big changes that we should know about, now the Department has a different name and has brought in the Business bit? Are there any issues, now that your remit has expanded?

Gareth Davies: The main headline, Chair, is the growth of the remit of the Department. Essentially, rather than having a Department for international business and then a Department for domestic business, you have a single Department for Business, which has obviously a lot of logic to it. I was speaking to John Harrison, head of Airbus UK. Before, he would have to speak to BEIS to talk about R&D support and come up to DIT to talk with UK Export Finance about export finance. Now, there can be a single conversation. The idea is that there is a single Department for Business with a very simple role—supporting businesses to grow, invest, export and create jobs.

Q3 **Chair:** How far along the integration route are you now?

Gareth Davies: We are three and a half weeks in. The priority is focusing on bringing everyone to the same platform—locations, pay, terms and conditions, and the good things like logos. But of course, now you are doing it digitally, which makes that a lot simpler. I was there at the start of the creation of BEIS, and I have been through a number of machinery of government changes before. The NAO and the Institute for Government have also done a number of reports on these machinery of government changes, so it has been important to ensure that—

Q4 **Chair:** It is certainly slicker than it used to be. You always put a good face on it, so we will see.

Gareth Davies: Some of the digital platforms and some of the changes the Cabinet Office has made have actually made it simpler. For example, BEIS staff and DIT staff were all on the same digital platform. Some of that architecture helps. The real question is not just the "lifts and loos" issue, as I call it; it is how you get the benefits of having a single Department for Business. That will take longer.

Q5 **Chair:** So you personally are having to lead quite a big cultural change.

Gareth Davies: Yes, that is the heart of my role.

Chair: We wish you good luck with that. Before we go into the main brief, I know that Sir Geoffrey Clifton-Brown has a couple of important questions.

Q6 **Sir Geoffrey Clifton-Brown:** Good afternoon, Mr Davies, and congratulations on your new appointment.

Gareth Davies: Thank you.

Sir Geoffrey Clifton-Brown: Graham Lanktree in *The Times* on 1 March speculates that the UK Government are on the verge of reaching an agreement in principle to accede to the 11-nation comprehensive and progressive agreement for trans-Pacific partnership—the CPTPP. That would be huge trade news. Are you able to tell us anything about that?

Gareth Davies: I might bring in Amanda in a minute to give an update, because she has been in the middle of the negotiations in the latest round in Vietnam. As you say, this would be big news. It is an 11-state free trade area, with a GDP of $9 trillion. The scale of what we are talking about—the opportunity to connect ourselves more deeply and integrate more deeply our trade flows with a region that is going to be responsible for over half of global GDP growth in the period to 2050—is a massive opportunity and very exciting.

Amanda Brooks: I'm afraid that I cannot really add terribly much in detail in terms of negotiations that are ongoing. The Secretary of State will no doubt shortly update the House on progress in the most recent round, but negotiations are ongoing. We are absolutely committed to making it work the best we can for the UK—in more complicated circumstances, because it is an accession—but I'm afraid there is no further news at this point.

Q7 **Sir Geoffrey Clifton-Brown:** On that subject, or a similar subject, the Foreign Secretary was in India last week. Are we any closer to getting a trade deal with India?

Amanda Brooks: We will be having a round of negotiations with India later this month. That will be the next round of negotiations. The number of issues that are open continues to reduce over time, but there is still quite a gap between the two sides and much to be done before we will reach the conclusion of that deal.

Q8 **Sir Geoffrey Clifton-Brown:** Mr Davies, can I raise a totally different subject? It is the issue of VAT reclaim in shopping. The Treasury so far has robustly refused to do this, because it says that it will cost £2 billion. There has been a recent very high-powered report by Oxford Economics that says, first, that that £2 billion figure is wrong and, secondly, that the gross value added could be up to £4 billion. We know from figures that spending by UK visitors in the UK was back to only 101% of 2019 levels, but in France it was 226%; in Spain, 201%; and in Italy, 190%. So there is huge value to be gained from this. Can I ask you to look at that Oxford Economics report and support calls by the DCMS Committee, the Treasury Committee, the Mayor of London and many Back-Bench MPs for the Treasury to ask the OBR to examine the figures in that report to see whether it thinks they are correct?

Gareth Davies: I think you may remember, Sir Geoffrey, that in my previous role I was second permanent secretary at the Department for Transport. This issue was raised regularly with, particularly, the airports, which see this as a particularly important issue. Tourism is a big export sector for the UK economy, and really important for hospitality as well as retail. In terms of the report, obviously there are a lot of balancing factors that need to be taken into account. The modelling, as you say, is interesting, and Oxford Economics is certainly a very reputable economic consultancy firm. Although tax is an issue for the Treasury, I am very happy to have a look at the report and understand the consequences. As you know, it's the tax revenues as well as the impact on individual sectors that will need to be looked at in the round. I am very happy to speak to Oxford Economics on the back of your question.

Sir Geoffrey Clifton-Brown: That is very helpful. Thank you.

Q9 **Nick Smith:** Mr Gieve, I liked your introduction. It gave a flavour of your Department being a sort of daughter of Downing Street. I like that. Can you give us an example of where you would use the power of the Prime Minister's office to make an impact? Give us a real-life example.

Daniel Gieve: Just to clarify further, we are a small team and deal only with a very limited number of cases. We generate the cut-off. I like to see it as things that the Prime Minister is or should be interested in—it probably does not work out quite like that. Over the last two and a half years, we have been involved in probably 50-ish projects. A recent example where we have played a role— We are a small team; government is massive. There are people in post, in the policy departments and in what was DIT that we work alongside, so it is never just us.

Q10 **Nick Smith:** That's great—really modest of you—but I'm just trying to work out where you and the Prime Minister have delivered a project and got it over the line.

Daniel Gieve: Earlier, mid-way through January, the Government signed a heads of terms, or an MOU, with BioNTech, the technology company behind the Pfizer-BioNTech covid vaccine, for them to come and do a huge amount of clinical trialling and R&D in the country. They have done so because our health system is extremely well organised for them, and we have lots of great people coming out of the universities who can work for them. Our slight role in that was to convene all of the relevant senior stakeholders across the health service, the Departments that support the health service, and the regulators and what-have-you, together in Downing Street to meet the founders in the kick-off meeting so that they could feel the whole of government willing them to be there, so that they could understand the whole of the system in one go. They could see the head of the MHRA, the head of UKHSA and the head of the NHS sitting there together all speaking with a single voice. That sort of access and sense of their importance to our health sector plays a role. It is a marginal gain. Everything that we do in the Office for Investment is very much a marginal gain on top of the opportunity and the fundamentals.

Q11 **Nick Smith:** What was the outcome in terms of size of contract or jobs?

Daniel Gieve: I don't think that we have put out figures on the level of investment, but it is several hundreds of millions over a 10-year period. We are still working through the details of how the MOU works, and the Office for Investment continues to be part of the oversight committee to make sure that they get what they need from our system, and the system gets the benefits, too.

Q12 **Nick Smith:** And what did the company itself say about that session?

Daniel Gieve: They were extremely positive about it. I have seen them several times since—the couple who founded it, plus their business development lead—and they feel a strong connection to a feeling that the centre of government values them and their place here, and also that the health system as a whole is working to create the right conditions for them to succeed. I hope they would be really positive. Obviously, you would have to ask them. They were very friendly.

Q13 **Chair:** Mr Gieve, you left the civil service in 2015 and came back to set this up. What did you do in between?

Daniel Gieve: I worked for Finsbury, now called FGS Global, which in common parlance is a PR company, but it would probably call itself a comms consultancy.

Chair: So it's quite specialist.

Daniel Gieve: Specialist—largely M&A.

Chair: We don't need their CV; I just wanted to know whether you had been working in trade or business. Mr Davies, you look like you want to say something, briefly.

Gareth Davies: I was going to build on Mr Smith's question about the role of the OFI. The other point to bring out is that when we reviewed the work of our inward investment teams in 2019, we looked globally to see what was best practice, and a lot of investors focus on Ireland—the IDA are very good—and Singapore in particular. In a previous life, when I have been in the private sector, I have dealt with the EDB on the other side of the table. What they were very good at was this point that Dan raises—the integration of services. Before, lots of businesses had to almost knit together the different parts of the package themselves and speak to local government teams around planning and the Home Office on visas. It is that single service for our biggest, most important strategic clients—

Q14 **Nick Smith:** It sounds like a really good thing to do. It is a good example. It is great to hear it and it is great for our country. How many roundtables have you organised as a department in the last year?

Daniel Gieve: Each project is different and the intervention will be different. On some things, we lead and we are the co-ordinating force. In the case of BioNTech, the Office for Life Sciences was the co-ordinating force. We have probably worked on 25 or 30 projects of approximately that size over the last year. They often take longer than a year, so we have been working on some pretty large projects for coming up to 18 months—that's not a terribly clear answer.

Nick Smith: Okay, thank you.

Chair: Some of those may come out in questioning. I will now move into the main session, and ask Jonathan Djanogly to kick off.

Q15 **Mr Djanogly:** Good afternoon. Mr Davies, what factors currently make the UK attractive to foreign investors?

Gareth Davies: I think there are some perennial factors for the UK. Often it is very easy, when you focus on the media, to feel doom and gloom, but when you stand back and look at the core components, I would say it is a combination of things. First, it is the rule of law and the clear business environment that we operate in. There is the strength of our scientific base—you heard the Prime Minister's announcement on his 10-point plan today. Time zones make a big difference, and the long history of professional and financial services are specific factors, along with advanced manufacturing.

So there are a number of areas—both general business environment along with specific sectors in the UK economy—that show our comparative advantage. Certainly, having worked across Europe and in east Asia, it is almost by seeing the country from the outside in that you see where there is the differential that the UK can offer. In fairness, some of that is reflected in the numbers you see. If you look at the FDI numbers—obviously, those we are talking about today—we have £2 trillion of stock of FDI, which is up 40% on the last five years alone.

Q16 **Mr Djanogly:** Those are very pertinent issues. One aspect of supporting foreign investment in the UK is having a supportive financial equity fundraising infrastructure. Last week, the Irish CRH, the owner of building suppliers Tarmac and a FTSE 100 company, announced it had shipped its listing to New York. Also last week, Japanese SoftBank announced that its Cambridge-based company, Arm, close to my constituency, which is the foremost global tech provider of processor IP and once a FTSE 100 company, is also going to be listing in New York.

Page 7 of the NAO Report says: "Over the past decade, the value of FDI flowing into the UK peaked in 2016, primarily because of higher merger and acquisition activity." So I am seeing conflicting messages here. Has the situation or climate changed so dramatically in recent times? Or does all this mean we are good at getting in FDI to the UK but much less good at keeping it in the UK?

Gareth Davies: Obviously the news on Arm—and some of the other recent announcements—is disappointing. These are about listings, of course, rather than that they are moving their economic activity, necessarily. If you look at Arm, their commitments on R&D that were made at the time of the SoftBank acquisition still stand, so the economic impact, which the Chair mentioned was the focus of today's conversations around jobs and the impact on your constituents, is relatively unchanged by this.

Obviously, we want to have a deep and vibrant financial services sector in the UK, particularly with the ability to raise capital of all different sizes. Some of the Chancellor's recent announcements for the Edinburgh reforms will play some part in this. You can look at the Skeoch review and the work on Solvency II, which should unlock around £100 billion of insurance assets of investment.

Your point was around keeping and maintaining—that we both attract and also maintain. If I come back to the stats on the stock of FDI, that reflects both the in-bound and the net out-bound. A decade ago that was less than £1 trillion—it was about £918 billion. The latest figures show that has exceeded £2 trillion, so it has doubled in a 10-year period. That is the overarching position—

Q17 **Mr Djanogly:** Are you saying we shouldn't be worried about it? Or are you saying that this is something you are taking up with the Treasury team and that you are very concerned about it?

Gareth Davies: We are never complacent on FDI, because it is incredibly competitive. If you look globally, you can see all the investment promotion agencies upping their game in the last five years. I have already touched on the role that Singapore plays, which it is often seen as best in class. We should recognise that France has a very good service offering, which is focused on the companies it wants to see based in the country, but actually some of the stats are not necessarily as positive as some of the brand that it reflects.

If you look at, say, greenfield investment, which is new investment, in terms of capex—so, in terms of the actual value of it, rather than by projects—globally that has fallen by 2%. In France, it has fallen by 16%. Across the EU as a whole, it is up by 40%. But in the UK over the last five years it is up by 57%.

We are never complacent and it is really important to make sure that we can continue to attract, hence the reforms you have seen around the OFI and what Ceri will be able to talk you through in terms of the investment transformation system in our Department.

The stats for the last five years—an incredibly turbulent time in the global economy, it is probably fair to say—have been very impressive.

Q18 **Mr Djanogly:** Mr Gieve, the NAO Report indicates that since 2020 you have begun to develop a new investment strategy to focus on high value. Is that right?

Daniel Gieve: I am going to hand to Ceri, who is responsible for that.

Ceri Smith: We have engaged in a pivot within our investment focus. I think that a couple of years ago we could legitimately have been criticised for spreading the jam too thinly. We offered the same level of service to every investor and we were, I would say, not as focused as we should have been on where the value was.

Now, there are quite good reasons why you might want to offer your services to smaller investors. You could argue that that is where the additionality is higher; larger investors will tend to be able to afford professional advice. But in terms of the impact on the UK and the outcomes for jobs and communities in the UK, clearly the larger investments will deliver more in that space. Ministers took the view that they wanted to shift the focus to putting our resource into the largest deals.

Now, there are some consequences that come with that. If you look at the international statistics, the UK has always done incredibly well internationally; it is something that we can be incredibly proud of over a number of years. However, most of the stats tend to focus on the volume—so, the number of deals done. One of the things that we are acutely aware of is that if we shift from volume to value, that may translate through into a reduction in the number of deals that we do.

One of the things that I would like to socialise with the Committee now is that you may see a reduction in the volume but you shouldn't see a reduction in the economic impact of the activities that we do.

We have been talking to the market and that has been picked up by the market. It is appreciated by the market and it is reflected in the numbers. You will see that R&D intensity is higher, so we are getting more of the high-value investment into the UK and we are getting a higher number of jobs coming through, but we will potentially see a slipping back internationally in the league tables around the volume.

Q19 **Mr Djanogly:** I am a little bit confused as to what you mean by "high value", because at one point you did say "the largest deals", but I think you have gone back on that a bit and you are looking at things other than size—quality, as well.

I say that because, again, if we go to the area that I know—the Cambridge area—we have got a lot of money going into early-stage tech companies. They get up to a sort of middle level—not large deals, but middle-level deals—and then they are sort of being snaffled away to the United States by private equity companies. Now, they are not large deals, but they are what I would call high value, in terms of their potential. Could you just explain what you mean by high value?

Ceri Smith: We are necessarily talking about proxies. Very high-value deals, you spot them—they are the very large and famous marquee investors that you see, so with those ones, it is obvious. But you are absolutely right; every firm starts small and grows, and what we want to do is to capture the small ones when they are potentially going to grow.

For those, we have specific tailored programmes. One of them is the global entrepreneurship programme, where we go out and we try to woo entrepreneurs around the world and set out the benefits of the UK and provide them with support to locate their headquarters, or relocate their business, in the UK.

It is difficult. When you get a report, you will have some clear numbers and you will be looking for certainty. Some of this is a term of art rather than science, so what we have to rely on is judgment. We cannot just go for, "I'm not going to get out of bed for £100 million or less". You have to rely on where we think the value is going to come from in the future.

The other thing is that there are a number of competing priorities that we try to respond to. The economic impact, the levelling-up agenda, the transition to net zero and becoming a science R&D superpower are all Government priorities that we try to support through the investment activity.

The final thing that I wanted to say is that we are a small part of the ecosystem. There have been lots of reports asking, "Where are the Gorillas, the Googles and the Facebooks in the UK?" That is a much broader question than what I deal with; I am looking very much at foreign investment coming in, and a lot of that is to do with domestic investment.

For example, now that we are an enlarged Department, the British Business Bank has come within our purview, so we are going to be better, I think, at reflecting domestic investment needs and international investment needs. The British Business Bank has the British patient capital programme, through which it is trying to catalyse the growth of more risk capital spending in the UK. The bank is looking to attract US and other international venture capital to the UK to invest in those terms, to ensure that we provide that escalator.

What the British Business Bank does will be complemented by the venture capital unit that I have, which tends to focus more on corporate venturing, whereby we are, again, trying to encourage overseas firms and investors to come to the UK and invest in the incredibly rich and diverse SME growth sector in the UK. It is difficult, because there is a risk, and I hear a lot about whether these things will flip, so we try to put in place measures to deal with that. *[Interruption.]* I can see that the Chair wants me to shush.

Chair: No, I am just very interested because I represent Shoreditch.

Q20 **Mr Djanogly:** It may be helpful if Mr Smith could write to the Committee about what his Department does to try to avoid flipping.

Ceri Smith: I would be very happy to call on my British Business Bank colleagues to supply me with something.

Mr Djanogly: Please—that would be very helpful to our inquiry.

Chair: It is always easy to promise that someone else will write.

Q21 **Mr Djanogly:** Chair, if I may, I want to press ahead on Mr Smith's earlier questioning. There is the question, perhaps for Mr Davies, of how we can ascertain what DIT added value is in this process. Can you say what proportion of FDI has happened because of your Department's efforts? I note that the Report says that 74% of investors "definitely or probably" would have invested anyway; does that help to answer the question?

Gareth Davies: As ever with most public services, it is very hard to work out—they call it the dead-weight question. If you were speaking to my colleagues in the Department for Work and Pensions, it would be a very similar question: of the proportion of people who go to Jobcentre Plus, what proportion would have gone into work regardless of the intervention from Jobcentre Plus? This is a perennial question to make sure that we are spending taxpayers' money effectively.

The OECD did a global survey of evaluations of investment promotion agencies, and it praised the UK's approach and saw it as best in class in terms of its use of both qualitative and quantitative analysis. We use an annual client survey—you quoted some of the stats—to try to get a handle on this issue. You have seen the figures in the report: 89% of people are satisfied with the service they get, and the net promoter score of +26, against an average of +10 across the private and public sector, is very positive and is easily into the top quartile of scores.

The question of additionality is difficult. We do a number of things. The survey, while helpful, is not perfect. It is a yes/no question—"Would you or wouldn't you have invested?"—but of course that is just one dimension. It does not look at the scale of the investment or the size.

Q22 **Mr Djanogly:** Does it include people who didn't invest as well as people who did?

Gareth Davies: No, so there is a methodological bias in how we approach this. It is focused on people who did, so it is very hard to spot the dog that didn't bark in the night. It is also hard to spot whether the scale of the investment was larger or smaller than it might have been and the speed at which the investment was made. As Ceri said, we are not just interested in the overall volume of inward investment, or even just the value; we also want to focus on the big strategic objectives such as levelling up, the net zero transition and the work around becoming a science superpower. It does not quite capture that.

The econometric analysis does suggest that there is an additionality. You then work your way through the numbers. What we do is calculate the GVA—the impact on national income from the inward investment. If you then adjust for the dead-weight, as much as you can get your hands around that, and compare that to the cost of the operation that Ceri and Dan run—that is about £80 million—that gives you a benefit-cost ratio of roughly five or six to one. In other words, for every pound that we spend, we think we have an impact of at least between £5 or £6 on GDP, which I think stacks up pretty well. If I can reflect back, Chair, to previous times I have appeared in front of you, with transport investment proposals, I would have been very happy with a five or six to one benefit-cost ratio, as I am sure you would have been.

Chair: Absolutely, and I think Ms Kelly would be very happy with that.

Gareth Davies: Exactly.

Q23 **Peter Grant:** Good afternoon to all our witnesses. To follow up on Mr. Djanogly's question, this is obviously a difficult issue. There is no exact scientific answer as to how many of these jobs are new and how many are additional, but how many are still there five years later?

Gareth Davies: How many jobs are maintained?

Peter Grant: What percentage of the jobs that are announced are still there in the longer term?

Gareth Davies: Our evaluation and monitoring is on the initial impact in year one. We look at that and what we understand from the business cases that are presented to us. What we have not got in place is a long-term evaluation of the individual projects. If you look at the number of projects—over 1,000 a year—the question is about the proportionality in terms of how far we evaluate this.

I think it is a good question around the overall long-term impact, and it would be good to look at that with internal and external experts. The thing I reflect back on, though, is the focus not on the individual projects but more on the overall impact on GDP. If you look at external assessments from people in places like the LSE, they suggest a positive impact from FDI more generally on the economy—firms are more productive and tend to have higher employment and higher wages. What we do is look at it at the macro level rather than the micro level of individual projects.

Ceri Smith: I believe—I will write to the Committee and correct this if I am wrong—that our methodology for scoring the jobs is that we look at jobs that will be there for two years; we do not have the five-year number, but the two-year number. We are looking at jobs that are sustainable, but it is just a different length of time.

Q24 **Peter Grant:** The words you used were that you look at jobs that will be there in two years' time. Does anyone ever go back two years later and see if all the jobs are still there, or is it just the case that, when the job was created, you expected it to be there for two years?

Ceri Smith: Let me come back to you on that. I will find out the methodology that we use.

Chair: Do you think you will find out during the hearing?

Ceri Smith: It is possible that somebody behind me might well know the answer.

Chair: That is what I was thinking—that there is some clever person behind you.

Gareth Davies: Most of the evaluation of FDI, which is incredibly positive in terms of the impact on employment and R&D, is at the macro level rather than the micro level. *[Interruption.]* I am not familiar with the microeconomic analysis, but Ceri might be now.

Ceri Smith: There is an approximately 1.5% drop-out rate in the first 12 months, and each job has last at least three years to be counted.

Peter Grant: Thank you.

Chair: Behind every top civil servant, there is an even more brilliant younger civil servant.

Ceri Smith: Absolutely. People who know stuff—always very helpful.

Q25 **Peter Grant:** Given how difficult it is to know whether a particular collection of jobs have happened because of your work or would have happened anyway, it must become impossible when you try to aggregate things up to the macroeconomic level. You can look at what you have done and at what changes there have been, whether in investment, turnover, GDP or whatever, but how can you, with any accuracy or any degree of reliability, say that a change in GDP has happened because you were there?

Gareth Davies: This is difficult, but luckily we have good economists in the Department who try to work their way through on this one, and it's not just the economists in the Department—we also draw on our external academic panels to understand the impact. The way we look at it is, essentially, that we drive it off our client surveys. As I mentioned, that gives us an indication of the people who would have invested and what the delta is between people who would have invested anyway versus those who would have required our support. You can then look top down—you can look at the macro picture to understand the differential impacts.

Just to give you a flavour of the academic analysis we use, the World Bank did a survey of the impact of investment promotion agencies globally—so not just in the UK but right across the world. While recognising that there are uncertainties here, their econometric analysis suggests that a 10% change in the spend on investment promotion agencies increases FDI by around 2.5%. That suggests that there is a positive impact. It is often easier to do it in aggregate than case by case, and you start to look at averages and variations between countries. That is often how we try to get a handle on this. You ask an interesting question about looking back five or 10 years in the evaluation. The judgment call is essentially about the proportionality between the costs of having to follow up investments from a number of years ago and trying to unpick that. As I said, the overall econometric analysis suggests a positive impact of investment promotion activity.

Ceri Smith: Can I add to that? This appears to be a theme of the hearing. The numbers are not as good as I would like on the certainty of the impact, but some of that is because in the past we have tried having a more target-driven, numbers-driven culture. To be honest, that led to ambulance-chasing behaviour and perverse incentives for staff who wanted to hit their targets. There would be more activity, which we could measure and we would look very good, but in terms of the impact, it was easy to hit the target and miss the point.

Part of what we have had to do is move back to something where we rely on people using their judgment. They are professionals and they are trying to do the right thing and use their judgment. As a result, we do not have the numbers as starkly as we once did, but I think the quality of our data and evidence is better. Finally, we have national statistics and we report things to UNCTAD and elsewhere. There are methodologies that are well established internationally and which we use. I think that they could be better—they could always be better—but we do not want to let the best be the enemy of the good when it comes to data. We want to understand the impacts as best we can and adjust in flight. I do not want to move back to a culture where everything is driven by trying to get to the targets, and we end up with some perverse outcomes.

Q26 **Peter Grant:** The NAO has made an analysis of the geographical nations and regions where jobs are being created. Why is there such a massive bias towards London in the jobs that are being created in these projects?

Gareth Davies: London and the south-east are responsible for around 35% of GDP and there is a skew on that, but if you look at jobs—I am trying to get the exact statistic—the majority of jobs are now outside London and the south-east.

That partly reflects the nature of the underlying UK economy, which is skewed to London and the south-east. Over the past five years, we have seen a shift in the number of projects outside that area: 60% of the projects that we support are now outside London and the south-east. There has been a change in the nature of business as a result of some of the transformations that we have made in our service offer, along with a change in metrics which we use to try to drive behaviours.

Ceri Smith: There is something that we hear all too often. Investment happens in a place and it comes from abroad. We have a network of people around the world who have those conversations with people in their post. Very often, we are trying to encourage them to invest in the UK, but they have only heard of London—they might have heard of Manchester—so part of what we try to do at post is say, "Actually, the UK is a much broader place." As well as having people from the Scottish Government, the Welsh Government and so on at some posts, we have a northern powerhouse team, a midlands engagement team and suchlike, who are there to try to educate posts.

You will no doubt come to this in the Report, as there is a question about how much we know about regions, but we address that as best we can by trying to ensure that investors are aware of the huge numbers of opportunities across the country, with things like the investment atlas. As Gareth says, we are not making the decisions on where the investment happens. Businesses are making the decisions, but we are trying to influence them at the margins and ensure that they understand the opportunities that exist in Scotland, Wales and across the UK.

Q27 **Peter Grant:** You said that things have improved recently, but the figures we have are for 2021-22—those are the most up-to-date figures that we have. With the 16,000 jobs created in London, that is more than were created in total in Scotland, north-east England, north-west England, and Yorkshire and the Humber. Between them, those nations and regions have a population of about 21 million, compared with 9 million in London. How would you defend yourself against the charge that all you are doing is helping people to invest in the parts of the United Kingdom where investment would happen anyway, and you are not doing enough to encourage investment in areas where it would possibly have much more significant social benefits?

Gareth Davies: Daniel might want to talk in a minute about how the OFI is structured and its regional footprint. Ceri touched on the support that we have. In the past, I would almost characterise the service that we offered as quite reactive—it was reactive to where businesses wanted to invest. Naturally, much as our knowledge of other countries might be limited, so would theirs, and there would be a natural tendency to focus on London and the south-east, given the dominance of London and the south-east in our overall GDP.

The work we now do for things like the investment atlas is to identify high-potential opportunities right across the country, so thinking about the vaccines opportunities around Liverpool, or rail opportunities around Doncaster. When investors show interest in investing into the UK, we can broaden their horizons to the opportunities available right across the country. Of course you have to work with the grain of where investors want to go, but our more strategic approach, the change in how we measure results and the KPIs we set our teams look to lean against that. In terms of projects, you see a shift away from London and the south-east to other areas. You can question whether the shift is fast enough, but it has gone from 40% to 60% in the last five years.

Daniel Gieve: Actually, we are at more like 75% of our projects outside London and the south-east.

There are two points to make: first, in the last year we have expanded our geographic footprint, so we now have people in Manchester, Darlington, Northern Ireland and Cardiff; we are soon to be in Edinburgh, and in due course in Birmingham and the south-west. We have people on the ground in the regions and nations.

Secondly, it is unfair to characterise investment promotion as following investments that would have happened anyway. Central to the way the Office for Investment works is the principle that if it is going to happen, we do not get involved, because it is not worth expending energy on. One of the criteria for whether we get involved is the value, or indeed the narrative value, for the country; but another is whether we are needed or can make a positive difference.

Ceri Smith: We have very good relations with the devolved Administrations investment promotion units and those of the metro mayors. Reflecting on a conversation I had with SDI—Scottish Development International—about the role of the OFI and making sure we all work as collaboratively as possible, he was very clear that not that many £100 million-plus deals are going to go into Scotland; that is not likely to be a significant chunk of where the investment will go. But we completely agreed that there will be second-order impacts that are not captured in our statistics, because they are very difficult to measure.

One of the things we do not understand well enough in London, but that, in our view, the devolved Governments do understand better, is supply chains. What we need to do is ensure that where we are promoting an investment in a particular area, we are able to be very clear with potential investors that there are supply chains across the UK, and to capture some of those benefits. Although the direct jobs that get in our data are as you said, there are second-order impacts that potentially are distributed across the UK. Take the example of financial services: you have potential jobs in Leeds, Edinburgh, or Birmingham as well as jobs in manufacturing and suchlike.

Q28 **Mrs Drummond:** The Global Infrastructure Investor Association and others say in their submissions that one of the biggest issues in investing is certainty and consistency of approach. That view is reflected, funnily enough, in all the businesses I talk to in my constituency. What relationship do you have with the Treasury and does the tax regime help or hinder investment?

Gareth Davies: I work closely with my colleague at the Treasury, and of course the permanent secretary at the Treasury used to be the permanent secretary at the Department for International Trade, so he understands the agenda well. When he was in the Department for International Trade, he spent a lot of time talking to investors, so he has good insight into the international business community.

One of the opening questions was: what makes the UK so attractive to investors? There are some perennial points, such as scientific excellence and the rule of law, but the tax environment is obviously incredibly important. All companies want lower corporation tax, and there is a balancing to be done between the incentive structures of corporation tax and the overall need to raise revenue. These are matters for the Treasury, but we make sure that investors' views are fed into that. Even with the proposed changes over the coming years, UK corporation tax is still the lowest rate in the G7, but we need to look at the tax regime in the round.

When I speak to investors, yes, they talk about corporation tax, but they also talk about access to skills, access to collaboration with universities, transport and infrastructure connectivity, and the scale of the domestic market. This is where the link to our trade agenda comes in and the ability to use free trade agreements to access the wider global market from the UK.

Q29 **Mrs Drummond:** I think it was the submission from BP that talked about skills and lack of skills. How much influence do you have over the Treasury? If you have companies coming to you and saying, "We won't. I'm sorry, but next door Ireland has lower corporation tax and better schools and universities," what influence do you have with the Treasury?

Gareth Davies: As ever, the Treasury gets lots of representations, particularly in the run-up to the Budget, for either additional spending or tax reductions. We work closely with the Treasury around economic policy, particularly business policy, just as previously, when I was in the

Department for Business, Energy and Industrial Strategy, I worked closely with the Treasury on developing industrial strategy. Looking at the track record, what is important with the Treasury—Ceri might want to talk about this as an ex-Treasury official—is to have credible propositions. There are always lots of demands on public expenditure, and we need to be very aware of value for money for the taxpayer, so the most critical thing is to have well evidenced policies and not just to reflect investors' or businesses' views. Yes, listen to them, but make sure that there is a good evidence base and that what is proposed will have an impact.

In my experience working with the Treasury, while they rightly start off with a degree of scepticism about new proposals, because they are the guardians of taxpayers' interests, they are open to well evidenced proposals. Back in 2017, in partnership with the Treasury we developed strategic investment funds on productivity and science investments, which built out collaborative R&D funds, which are now being used to anchor companies on our cutting-edge aerospace investments in the south-west. The Treasury is open to this, but there is natural scepticism, as you would expect in any finance ministry.

Ceri Smith: The Treasury wears two hats: it is the ministry of finance and the ministry of economics. We can argue about whether it wears one hat more than the other, and if you want to recommend that the Treasury needs to listen to me more, I would be very happy. But when it comes to the Treasury's ministry of economics role, we have an absolute coincidence of interests.

We are not quite in the heady days of 15 years ago, when I remember UKTI was given £10 million it wasn't expecting in a fiscal event because the Treasury liked it so much. Those days are way behind us, but I know that in the engagement I had with our spending team, on the investment side they think what we do is pretty good and they support us. Do we have as much influence as we want? Undoubtedly not. I have brilliant ideas the Treasury don't want to listen to.

Tax is undoubtedly a real positive for the UK. Of course, I would like the Treasury to do more to give incentives, to take a step back and take a view for the taxpayer overall. When the Treasury get really tired—I understand why—is when they are constantly bombarded with requests like, "We need a bung for this and a bung for that, and we can only do this if you cut that tax rate and give this relief." You can understand why they find that tiring and wearing compared with you going along there and saying, "Here's something where there is a very clear economic case. It is NPV-positive. The return and the economic benefits we get from this capital investment—it's not spending; you are investing here—definitely make it worth doing." An example of that might be remediation of an area or an infrastructure improvement that will allow an investment to take place. That is a straightforward business case and the Treasury will engage positively.

On tax, the UK had a wobble some months ago in stability and certainty—

Chair: That's what it's called is it?

Ceri Smith: A spasm maybe—but I think we're back in a situation where most investors think the UK has a pretty good tax system. It is not just the headline rates, but the effective rates. It is also the efficiency of collection. There are lots of things that make the UK a pretty good place to do business.

Chair: We are going to suspend for five minutes so people can have a short break.

Sitting suspended.

On resuming—

Chair: Welcome back to the Public Accounts Committee on Monday 6 March 2023. We are resuming our session on inward investment into the United Kingdom with the Department for Business and Trade. Over to Sir Geoffrey Clifton-Brown, the deputy Chair.

Q30 **Sir Geoffrey Clifton-Brown:** These questions are not meant to be destructive—no one is keener on inward investment than I am as a former shadow Trade Minister—but I want to examine this. We rather complacently say, "The UK's a great place to do business," and it is, but there are some downsides, so let us examine some of those.

Following on from Ms Drummond's questions, AstraZeneca is a FTSE 100 company, as we all know. It is worth £174 billion, employing 83,000 worldwide and 8,000 in the UK, so its decision to put its new research facility in Ireland was particularly disappointing. *The Times* quoted Sir Pascal Soriot, the CEO: "To encourage investment in clinical development, statisticians, regulatory experts, manufacturing and support functions, Soriot said access to green energy and a lower corporate tax rate was needed, but the tax 'unfortunately is going up'." I suspect that it is about not only corporation tax, but R&D investment relief being tightened up.

I am amazed. I do not know whether your Department—Mr Smith or Mr Davies—was involved in this decision, but considering the amount of money that the NHS spends with AstraZeneca, the fact that it already has a facility in the north-east—

Mr Djanogly: And Cambridge.

Sir Geoffrey Clifton-Brown: And Cambridge—and considering the fact that it employs so many people in the UK, I would have thought that there was a deal to be done there somewhere.

Gareth Davies: Yes, it was a disappointment that we lost on AZ this time around. There was a long series of negotiations, but unfortunately AZ seemed pretty set on Ireland. Pascal set out some of his views on the tax situation, which in the run-up to a Budget we would expect him to make. I would stand back, though, and look at the broader success of the UK life sciences sector over the past five or 10 years. Dan has already talked about Moderna and the BioNTech deal. Prior to that, there was the Merck investment—

Q31 **Chair:** With respect, Mr Davies, going back is all very well—we are not going to dismiss those achievements—but we are particularly focused on going forward.

Gareth Davies: That is a fair challenge. I was trying to put it in the context of a successful life sciences industry, and the Moderna and BioNTech deals were at the same time as the AstraZeneca deal. These companies make decisions; some will fall with us and, unfortunately, some against us. Some of the AZ decision was about the tax situation and some about the nature of what Ireland had to offer, particularly around medicines in the R&D environment and an unusual corporate tax environment. That one was a shame. I am not complacent by any stretch, but I am assured by what we were able to do on Moderna and BioNTech.

Ceri Smith: You are absolutely right that we must not be complacent. It highlights that the UK has had a long track record of attracting a lot of investment, and our colleagues in other countries have noticed this and significantly raised their game. The context in which we are operating is one of increasing, heightened competition, and we need to make sure that we do not become complacent. We have to continue to ensure that we monitor what is going on elsewhere and that we keep the UK competitive. It is an ongoing battle to make sure that the UK remains at the front of the pack.

We are not going to win everything. Some of that will be because we just do not think that it is the right thing to do to compete on the basis of subsidies; we have a wider range of things that we offer, as we highlighted earlier. Some of those will work and some will not. At the end of the day, sometimes we will not make the difference, but on a large number of cases we do make the difference, and we will continue to work with colleagues across Government.

One of the teams I have is the business environment team. It looks at the business environment and works with Departments to ensure that where we see barriers to investment, we highlight them with the Department. Sometimes they are the completely unintended consequence of a policy decision, and sometimes it a question of operational delivery, rather than the policy itself, but we work with other Departments to ensure that they understand some of the impacts on investors of their decisions.

One of the things that we are very clear about—well, we see ourselves as having a role—is working with other Departments to ensure that an investor lens is applied to policy decisions that are taken. This is something a previous Minister, Lord Grimstone, was very keen on—

Q32 **Sir Geoffrey Clifton-Brown:** I think we got the gist, Mr Smith; thank you. I do not know whether you caught the piece on Radio 4 last night about international trade, but one of the points it was making was that barriers to trade in the last 20 years have gone up hugely, particularly in the United States. The other point it was making was that the United States, as well as other countries and the EU, are increasingly subsidising certain businesses, and it described this as a race to the bottom. What is your view on the proposed reports that the Government are considering investing £500 million in Jaguar Land Rover to keep car manufacturing in this country?

Mr Djanogly: Batteries.

Sir Geoffrey Clifton-Brown: Yes, batteries.

Gareth Davies: Let me step back a moment on your wider point around what you could call an increasingly competitive or even protectionist trade environment. When you stand back and look at global trade flows, we are not in the 1990s anymore. From the mid-80s to the mid-noughties, essentially up to the global financial crisis, trade intensity increased faster than GDP. Essentially, it has plateaued since. However, I do think some of this is a bit overstated. Trade as a share of global GDP has plateaued since 2007; it has not retreated. People talk about deglobalisation, but that is actually not the case. What we are seeing, started during the covid pandemic but maintained since, is greater use of trade defence or protectionist measures right across the system.

There has been a lot of attention recently on the much-misnamed Inflation Reduction Act in the US, which is the best part of $400 billion of subsidies for the net zero transition. That is, frankly, catching a lot of people's attention. When I talk to industrial companies, I can see them focusing on that because that is the size of the price for them in terms of subsidies, and the impact on their investment decisions is obviously incredibly significant, but there is real risk in that subsidy competition in terms of, frankly, pure affordability. It is very easy to waste a lot of taxpayers' money, although you don't always see this written up because it is often written up as "Isn't it great that the US has £369 billion to spend on green tech?"

You can go back through the history of industrial policy to see large amounts of taxpayers' money wasted on some of these sorts of subsidies. The US in the late '80s and early '90s had a focus on semiconductor strategy—I think it was called SEMITEC—but TSMC is now the dominant semiconductor producer in the world. Subsidies can easily be ineffective and incredibly poor value for money. The question for the UK coming out of this is: where do we see our comparative advantage as a country? Which bit of the value chain should we be operating on? We know that we have advantages in design, R&D, at the high bit of value added. We need to understand that and be clear that, should we want to have either taxpayer incentives in the form of lower taxes or R&D subsidies, how that works to ensure we anchor long-term jobs, not just managing through subsidies.

Q33 **Sir Geoffrey Clifton-Brown:** Thank you for that answer. Continuing my theme of what works and what does not work in the UK, paragraph 1.6 on page 16 of the Report says, "UK inflows were $27.6 billion (including investments not supported by the Department for International Trade (DIT)), 50% below 2012." That is figure 4 on page 18. It says, "The number of new UK FDI projects decreased by around one-third from 2,265 in 2016-17 to 1,589 in 2021-22". It says, and this is an agreed Report, so presumably, Mr Davies, you agreed with this, that the factors stated for why this has happened include "company mergers, acquisitions or consolidations, competition from other investment promotion agencies". Do you agree with that paragraph? If so, what actions are you taking to combat some of that?

Gareth Davies: I certainly agree with all the numbers in the Report, and I think it is a very good and very clear Report. The main thing I would say is FDI flows are incredibly volatile because there are differing components to FDI. We often think about the greenfield plant, the AstraZeneca manufacturing facility, the R&D investment and the Biome Tech facilities. That is just one part of it. You also have existing companies expanding—you can see what Nissan or Ford have announced recently—and M and A activity and in-country transfers.

Those final two—the M and A activity and the in-company transfers—we don't focus on or prioritise, because what we are interested in is the actual jobs impact. A change of ownership will typically have limited direct impact on economic activity in the country; it's just a change of ownership rather than actually a change of economic activity—the jobs question here.

Q34 **Sir Geoffrey Clifton-Brown:** Could I stop you there? You said this in an answer to Mr Djanogly, but actually if you changed the corporate headquarters such that they were out of this country, forevermore all the investment decisions, jobs and everything else would be the decision of that company, which would not have a headquarters in this country. Surely that is a serious matter.

Daniel Gieve: The listing and the headquarters can be in different places, but clearly there is a risk, if the listing moves, that the headquarters will follow it. That is a risk we are very aware of and alive to.

Gareth Davies: Yes, we are certainly not complacent on that. It's just that in terms of direct impact, where we focus our teams and where we have the impact is on greenfield investments and expansions. That is certainly what makes the difference.

You will see the numbers in figure 4. The 2016 number, for example, is obviously affected by the SoftBank/Arm transaction—that is a big driver of that number. But as I think Ceri said earlier, we have seen globally the number of projects has decreased over this period, so it's a global trend, not just a UK trend. What we are focusing on is obviously the value of greenfield investments—not just the number, but the value of greenfield investments.

If you look back over the period, the stock of FDI is what makes the difference in terms of jobs and economic activity; the stock of FDI has doubled since 2012, from just over £900 billion to just over £2 trillion in this period. This chart shows inflows rather than stock position. And if you look then at just greenfield flows over the last five years, the capex on greenfield flows is 57% up in the last five years.

Again, we are not being complacent, but there has been a shift over this period to fewer projects but fewer and higher-value projects and ones that are more jobs-intense as well, so we see some of the benefits from that. Obviously, the back end of this period is affected by the turbulence we have seen in the UK economy and the global economy. You can talk about covid. You can talk about the increased trade tensions between China and the US. The Russia-Ukraine situation is obviously having implications in terms of supply chains. Obviously, our exiting the single market and the customs union will play into that as well. But overall, the stock position in the UK is incredibly positive.

Q35 **Sir Geoffrey Clifton-Brown:** As you know, the UNCTAD figures on global foreign direct investment were up 64% in 2021; they have slumped back in ’22. No doubt it was that huge increase in FDI that helped us to become the world’s second largest. We can trade figures on FDI, but may I take you to paragraph 1.7 on this very subject? At the bottom of that paragraph, it states: “Obstacles to investing in the UK identified by investors surveyed…include difficulties with setting up a bank account, lack of financial incentives to invest and lack of skills in the workforce.” Do you agree with that, and what can be done to help? I know, as a private individual, that setting up a bank account is an absolute nightmare.

Ceri Smith: We have here one of those situations where you have competing requirements. There are very good reasons for the anti-money-laundering requirements on banks. The operational impact of that can be, for somebody who is coming in from overseas, that they find it very difficult to open an account.

I actually had a meeting earlier this week, or last week, with an organisation called GoSolo. They are a fintech start-up and they think they have a solution to that whereby they can provide banking services and it actually deals with some of these problems, because they have a different risk appetite and they use technology to be able to satisfy their requirements. We have previously had a service whereby we would refer people to providers where it was easier to get banking services, and open up a bank account, in the past.

We completely agree that these are challenges. The solution to them is incredibly difficult, but I like to think of us as a—we are a practical, problem-solving delivery organisation rather than a policy organisation. There are very good reasons why the policies in other Departments don’t always work for us, but they will be working for a range of other requirements and other needs. We need to make sure that when Ministers in those Departments are taking the decisions they are taking, they understand the impacts on investment so that they are trading those off against the other, quite proper objectives they are trying to deal with.

Where we would be doing our job badly is if they were not aware of the potential impact on investment. But where they are told of it, we are not always going to get what we want. Therefore, we go into a pragmatic mode of, "What are the solutions we can come up with that can provide workarounds for potential inward investments?"

Q36 **Sir Geoffrey Clifton-Brown:** Last question, Mr Davies—I could not resist this one, because it is a "good news" story. The premier league is worth £17.9 billion. Out of the 20 premier league teams, only six are UK-owned, so there is an awful lot of FDI coming into football. Do you have a special football team?

Gareth Davies: I do, and all I can say is I am very happy with my football team's investors, FSG Sports. I think the result on the pitch yesterday against Man United proved the benefit of inward investment—you might see the productivity in the number of goals scored—so I am very happy with the open ownership structures we have here.

More seriously, this is a question for DCMS in terms of striking the appropriate balance between the openness of our regime for investment with the need to manage the community interest in clubs, because clubs obviously have special connections to their local communities and we need to try—going back to what Ceri said—to balance the different requirements, as a policy maker, between the need for investment and what has made the premier league so successful.

We were saying before that one of the benefits of the premier league is in the perceptions of the UK globally. When I worked in Asia, and certainly when I was in Thailand, everyone knew about Leicester in a way in which they certainly would not have done without the premier league.

Q37 **Nick Smith:** I want to return to the earlier theme of evaluating expected benefits. On page 9 of the NAO Report, part 12 says: "DIT publishes a range of data on the number and value of investments it supports but this does not provide a clear view on its performance." Mr Smith, could we have a crisp answer, please? How will you know if the investment transformation programme that you have is on track to deliver the expected benefits?

Ceri Smith: We have a very clear monitoring and evaluation workstream as part of the transformation, which will be developing the criteria by which we will assess the impact of the programme. It is something we are very conscious of, so it is something we are working on.

Q38 **Nick Smith:** So it is something that is in hand.

Ceri Smith: Yes.

Q39 **Nick Smith:** Mr Davies, you talked a lot earlier on about wasteful subsidies, which sound terrible—nice one—and you talked about supporting credible propositions. We like that, too. But what you are doing to understand how your Department's activities influence long-term trends in investment flows into the UK?

Gareth Davies: We do a number of things. First—I have touched on this before—the client survey is the core information that we use to understand whether people would or would not have invested, and what their feedback is on the delivery of the service. As I say, the net promoter score is a good indication of whether people find the service useful.

We then do econometric analysis, based on that client survey, to understand the additionality question—effectively, what dead weight there might be—and the impact of that. Then we use external academic panels to understand the long-term impact of foreign investment on the UK economy.

My answer to Mr Grant touched on the macroeconomic evaluation of what FDI does. Typically, the impact on productivity and the scale of the business—that is essentially what we do. There is a very valid question there around tracking individual investments and looking backwards in terms of the evaluation of those investments, versus the overarching impact on the economy.

Q40 **Nick Smith:** So surveys and panels.

Gareth Davies: Survey and panels, and econometric analysis.

Q41 **Nick Smith:** I understand that the number of projects with a research focus has dropped since 2019-20. Are you doing enough to support innovation? You talked about influencing GDP earlier. The Government has an ambition for our country brilliantly becoming a tech superpower, and wants us to invest 2.4% of GDP in research by 2027. What is your Department doing to support tech and research?

Gareth Davies: If you look at the Prime Minister's announcement today, he announced his 10-point plan on science. I think point three was around inward investment—essentially, attracting R&D-intensive companies to come and base themselves in the UK. That is where we are working with our colleagues in the Department for Science and Technology.

Q42 **Nick Smith:** How do you make a difference on bullet point three?

Gareth Davies: The difference we will make is essentially in how we are actively targeting those companies that are R&D-intensives. When you talk about the 2.4% ambition—

Nick Smith: Massive ambition.

Gareth Davies: Massive ambition. That is not just public spending; that will be a mix of public spending and private spending. Fifty companies are responsible for 40% of all global private sector R&D.

Q43 **Nick Smith:** What will your Department do to help meet that objective?

Gareth Davies: We are working to target those companies to encourage them to invest in the UK. That could be around new investment or expanding existing investment in the UK.

Q44 **Nick Smith:** Do you have a target or measure for investing in research projects?

Gareth Davies: I would have to look to Ceri regarding the specific targets year on year. Part of our metrics—our KPIs for our staff in the investment services—will be around net zero, levelling up and science superpower.

Ceri Smith: We do have internal targets that we give to posts.

Q45 **Nick Smith:** Internal targets—are they published?

Ceri Smith: No, they are internal targets. One of the problems with having external targets on which we are held to account is that, as I said earlier, it can drive very perverse behaviour; we have seen that in the past.

Q46 **Nick Smith:** Do you have internal targets?

Ceri Smith: We have some internal targets. I used to refer to us as the armed wing of BEIS, before that was abolished. Take BEIS: they have to set a strategy and are looking at nanotechnology, and they want to get some nanotechnology investment. We say, "What kind of nanotechnology? And who does that? Well, there are five companies in the world." Then we can task our posts to encourage those firms to come into the UK. There is a clear line through, but it is dependent on the owner of the policy rather than necessarily on us.

Q47 **Nick Smith:** Mr Gieve, how does the Office for Investment track its performance?

Daniel Gieve: Everything that we are involved in—and to the degree it is scored—is scored within the overall DBT.

Q48 **Nick Smith:** How do you track that?

Daniel Gieve: As I said, we only really get involved in projects—

Nick Smith: Crisp answer, please.

Daniel Gieve: On an ongoing qualitative basis, rather than quantitative. The value is responses from the people we have worked with and responses from the Departments we work with.

Q49 **Nick Smith:** Surveys?

Daniel Gieve: No—we have only worked on approximately 50 projects so far, so we are not quite at the survey level. It is a small team of 25 people.

Q50 **Nick Smith:** How do you track it, then—anecdotal comments?

Daniel Gieve: Yes: surveys; probably communication post end of project; and feedback.

Ceri Smith: There is a pipeline and then either it has landed or it has not landed. It is easier with OFI because it is smaller and more focused. You can say, "This is a project we are targeting on" and then you can work out, "Have they invested? Are they still worth keeping live?"

Q51 **Chair:** Do you evaluate when one doesn't? Do you go through why it didn't invest with a fine-toothed comb?

Daniel Gieve: Yes, and you learn quite a lot—

Q52 **Nick Smith:** Show us how you evaluate it.

Daniel Gieve: I can write to the Committee with, I suppose—

Ceri Smith: It is a "lessons learned". After each one, we would do a "lessons learned", because one of those barriers to investment might have been the critical thing.

If there is a big project and we know that the thing was tax—they could not get the ROI they needed and the tax didn't work—we can use that. Because if it is a small but very large—a lot of political interest—case, you can take that one to the Treasury and say, "Here is evidence that shows that this was a problem," or it might be something else. It depends what the problem is.

Q53 **Chair:** What if the problem is, say, schools? If you go to Whitehaven and Cumbria—the whole West Cumbrian energy coast—there are a lot of opportunities for investment there, and there is a lot of drive over the years to deliver that, but there have been challenges with schools in that part of Cumbria.

Ceri Smith: If it is OFI level investment, that is something that I will be able to pick up with my opposite number in DFE and say, "Your skills partnership process isn't working here." But if it is on a more general thing—

Q54 **Chair:** But does that really make a difference in a Department like the Department for Education, whose focus will be nowhere near like that of International Trade; it will be a tiny corner of the permanent secretary's and the Ministers' responsibilities?

Ceri Smith: I cannot speak for Susan—

Q55 **Chair:** But they are not there to consider inward investment, are they? They are there to educate and skill-up our population.

Ceri Smith: Maybe they are just very good at dissembling, but in the conversations I have with them they are really keen. They want a business-led skills system that is delivering.

Of course, part of the way they measure it is whether people who come out of their skills system and education system are getting jobs. They want to have good jobs there that people are able to do. If they have a load of businesses in the area who are complaining or the LEP is complaining or the Metro Mayor is complaining, they will respond to that. In practice, I think it can make a difference.

Daniel Gieve: I am going to come back to your question, if that's okay, and say that one of the things the NAO recommended was that we learn the lessons from how the OFI is going. The truth is that we are just learning those lessons. It is two years in, with a small number of people and a small number of projects, and it is really just qualitative data—

Q56 **Nick Smith:** All power to your elbow, but can you write to us afterwards and show us how you track your performance, please?

Daniel Gieve: I would love to.

Chair: In the end, money is going into OFI and if it is not delivering then your sponsor Department—everyone—needs to know that. If it is delivering, we need to know what is working and what could be replicated.

Q57 **Mr Djanogly:** Does your team stand up well to your competitor teams in foreign countries and how can you measure that? Do you do polling or canvassing of clients to see how you compare?

Daniel Gieve: Is this specifically my team in the Office for Investment?

Mr Djanogly: Yes.

Daniel Gieve: Again, the Office for Investment is not directly comparable with other IPAs. We are essentially a small group of fixers who work only on a very limited number of projects. There is a question, which is part of the investment transformation programme, about how we provide a differentiated service all the way the value chain. I think the NAO Report found that the investment transformation programme was essentially aiming to deliver a much more comprehensive and organised service across all the different value points, which in the end would be comparable with an IPA in another country.

Q58 **Mr Djanogly:** Are you saying that other countries are more joined up than us?

Ceri Smith: If you look at Singapore, it is tiny. If you look at Ireland, you wouldn't say it was tiny, but it is certainly smaller than us. It is easier—they do not have the co-ordination problems we have in the UK where you have a skill system that is operating on a national basis and a whole range of local authorities that control different things. It is really complicated to run a country as large as ours. We have complexity. If you are dealing with a much smaller city state, it will obviously be easier for them to co-ordinate across the different actors.

Q59 **Mr Djanogly:** Let me turn that around. If you guys all moved to other jobs, what would happen?

Ceri Smith: As in, we are not replaced?

Mr Djanogly: Yes. Your role has disappeared.

Chair: This is not a manifesto commitment.

Mr Djanogly: Where would we lose out?

Gareth Davies: I feel slightly worried, three weeks into this job, that you might know something I don't—

Chair: Apart from in having four very disappointed senior civil servants.

Mr Djanogly: I am just trying to get an international comparator.

Q60 **Chair:** What difference are you making?

Gareth Davies: There are two points. One is about us individually, and the other is about us as a system. Individually, we want to build a machine that works. Obviously, the individuals are absolutely critical—these guys are amazing, as are their teams—but it is about making sure that there is a replicable machine that operates well.

Coming into this role, I have been very impressed by the strategies underpinning the investment transformation service. It is well thought through and well evidence based. The way it has drawn on comparisons with other countries' systems and best practice from either the OECD or World Bank makes it a very rigorous and effective strategy. It is all about the delivery, now, but the strategy is right—

Q61 **Mr Djanogly:** But you are looking at what is going on in other countries. How do you do that?

Gareth Davies: In 2019, we looked globally and we speak to the companies that work with other services. We also have a network through some of the multilateral forums, so you can understand how they are structured and how they operate. Obviously, they slightly protect their information and the way in which some of their services work, but we have a pretty good understanding.

Ceri Smith: I have people in 90 countries, in my posts around the world, and they are able to report back. We talk a lot to companies; they will come in and say, "Well, Ireland do it this way." You hear a lot of evidence like that.

At the heart of your question is what would happen if we did not do the investment function. Most investment would still happen. We are marginal. Businesses would take their decisions to invest in the UK, but they would find it harder. At the margins, it would not happen. There would be a lot more botheration factored into trying to do things.

We deal with Government failure, with information asymmetries. We try to smooth the entry of firms into the UK, but many of them would still come. What I suspect you would find, though, is that you would have a lot more local activity from local authorities and parts of the regional structures, and much more fighting—you would have people competing more for certain kinds of investment. It would be a more chaotic environment. I do not want to pretend—

Chair: We appreciate the candour—marginal but important.

Q62 **Nick Smith:** Mr Smith, you have talked about the different scale of the Republic of Ireland—there are 5 million people there, and we have many more here—and I think Mr Davies talked about how the tax benefits of investing in Ireland have been successful for them. What do you think has worked well for your counterparts in the Republic of Ireland? What do you think they have done well, and are any of those things applicable here?

Ceri Smith: It is very interesting. Whenever I hear people ask, "Why aren't you as good as this country?" they are invariably talking about smaller countries, so it is very difficult for me to say that I can directly apply things. There are certain things. Singapore has a very different system. On the calibre of their staff and the amount they pay them, it is a very different outfit and operation.

Q63 **Nick Smith:** Are you saying that they have higher calibre staff and that they pay them more? What do you mean?

Ceri Smith: I don't know about—

Chair: I am sure you don't want to say that they're of a higher calibre.

Ceri Smith: I am digging myself into a hole here.

Nick Smith: You're of a high calibre—come on, don't put yourself down.

Gareth Davies: The salaries are very different.

Ceri Smith: The salaries are very different. They have large numbers of MBA people who are business analysts. It is a very different context. I would argue that they are more commercially focused, with more commercial experience. They are smaller and are more like the OFI—everything they do is more like the OFI, and it is because they are smaller that they can do that.

The country that I would say keeps me awake at night is France. When he came in, Macron was very clear that he wanted to change the way in which his country was viewed by business, entrepreneurs and suchlike. I think that has cut through and that there is traction there. I think we do some things better than them. I stand by my assessment that our global investment summit is better than their effort in Versailles. But his level of senior engagement has really cut through and transformed some of the perceptions, because the perceptions of France previously—

Q64 **Chair:** So it is a senior political lead in that case.

Ceri Smith: Yes. What would we do? Well, whether the top of the office is going to be as committed as Macron is a political decision above my pay grade. But with OFI we are able to do some of that by aligning the stars and demonstrating significant political commitment, and we can give the really big, significant international investors a service similar to what they feel they may get from France.

I find it frustrating that there are other things that we cannot necessarily do because some Departments have a very different set of priorities and do not want to do pro-investment things that cut across what they want to do.

Q65 **Nick Smith:** Is it hard for you to get other Departments to support your agenda?

Ceri Smith: It can be, but that is because they are delivering their agenda.

Q66 **Nick Smith:** Give us an example. Where have you tried to do something but not got sign-off from others?

Ceri Smith: An example of where there can frequently be some tension is the visa regime. We would want to make it much easier for businesses to come, but, quite reasonably, the Home Secretary and the Home Office are trying to balance a whole range of competing factors. Even on something as simple as the fees that people are charged for their visas, clearly I want those fees to be as low as possible for business visitors. The Home Office have to balance their books, so—

Q67 **Nick Smith:** Mr Gieve, you are in No. 10. Can you help with this?

Ceri Smith: Go on!

Nick Smith: It's a fair challenge, isn't it?

Daniel Gieve: One of the benefits of the Office for Investment has been the convening power—our ability to get top-level politicians and leaders of any sort into the room quite easily and quite quickly.

Chair: And bang their heads together.

Daniel Gieve: And ask nicely—we have the privilege of being able to ask nicely rather than the privilege of being able to tell people what to do. We are very specifically not part of policy advocacy; we are a delivery mechanism and are entirely project focused. However, we do get—

Q68 **Nick Smith:** You described yourself earlier as a small group of fixers.

Daniel Gieve: But practical fixers rather than policy fixers.

Ceri Smith: He can ensure that if I am unconfident that the true impact of a particular policy decision has been appreciated by officials and therefore has not been presented to Ministers in the way that I want, there is another route to ensure that at least the arguments are there.

Q69 **Mrs Drummond:** I have a supplementary question. BP has asked for "a specific forum which looks closely at the UK's competitiveness in a global setting, enabling Government to work with the top UK-based international investors to both identify measures to create a more positive environment to attract other global corporations to the UK." That seems to be what your job should be, but that is the latest submission from BP, so they don't know about it or about you. Is this something that you are going to move towards? Whose job would it be? I would have thought Mr Gieve's, but maybe not. I don't know.

Daniel Gieve: BP do know about the Office for Investment. We are working with them very closely on their investments in the north-east.

Q70 **Mrs Drummond:** Would you be prepared to bend a little bit, and look more at the UK's competitiveness? We talked about it earlier.

Daniel Gieve: BP may well feel there are things that could be improved in our business environment. I take every opportunity to lobby Ministers on the projects that we work on with BP. There are things that are going well and things that need more work, but BP seem to be quite engaged with them. Obviously, I would be happy to get back in touch with them and make sure.

Again, we are not a policy advocacy unit. We are a practical unit, looking at practical investment problems in front of us on specific projects. When we were set up, there was perhaps a feeling that the Government weren't joined up enough on really big investment propositions. We were the first step in changing the way the Government thought about that. We were a sort of precursor to the investment transformation programme, but also part of it. Hopefully we are part of an arc of improvement rather than a step back.

Ceri Smith: Quite frankly, when you knock on the door of a Department, normally they are not very pleased to see you. They view you as parking tanks on their lawn. I have seen only two examples of when it works well. One was with UK Government Investments, where I previously worked, where you could work collaboratively because you were helping them deliver their goals by providing technical support. OFI is another example. It is what I am trying to get all the investment directors to be viewed as. We are helping Ministers in a particular Department to deliver their policy goals by attracting investment, so we are there to try to support them. The example I gave about nanotech is an example of that, where a Department has a policy agenda.

There was a recent inward mission on quantum. I was involved in that and I hosted a dinner, partly to try to ensure that the then BEIS—now DSIT—was able to get those investors in on quantum, because we are trying to deliver on their policy agenda. What we don't want to do is set ourselves up in competition on policy, because then it becomes a sterile debate. We spend so much time arguing among ourselves that we lose sight of the bigger picture.

Q71 **Nick Smith:** Mr Smith, there has been talk about levelling up and net zero, and innovation projects. How many of those types of projects have you supported so far this year compared with last, given they have gained so much prominence?

Ceri Smith: I'm afraid I do not know the stat off the top of my head. Can anyone remind me?

Gareth Davies: Shall I come in on that one?

Ceri Smith: That would be helpful, because I am struggling.

Gareth Davies: In terms of levelling-up projects, there were 664 in 2021-22 compared with 600 the year before.

Q72 **Nick Smith:** So an increase of 5%?

Gareth Davies: Yes. If you go back over a five-year period, there has been a shift increasingly to those areas away from London and the south-east, and more so if you look in terms of capital value and jobs.

Q73 **Chair:** Can I just be clear how you define that investment in levelling up? Is it by geographical area?

Daniel Gieve: By geographical area.

Q74 **Chair:** Entirely by geographical area? So certain postcodes, even within a city?

Daniel Gieve: Typically within regions.

Q75 **Nick Smith:** Mr Smith, when did you start recording whether the projects you support are aligned with our net zero commitments?

Ceri Smith: I joined in April 2021, and that was a focus then. I don't know the date, but it would have been before then.

Chair: If we move on, I am sure the able people behind Mr Smith will be able to help him.

Ceri Smith: On the 10-point plan, I am reliably informed that it was October 2020 that we started tracking against that.

Daniel Gieve: In the formation of the Office for Investment, it was in our priority areas. When we were started in December 2020, it was already there.

Q76 **Nick Smith:** Mr Davies, you talk about levelling up, and in previous discussions you talked about your investment atlas and understanding supply chains locally—that's good stuff. What else are you doing to tackle barriers to investment in areas that have historically received less investment?

Gareth Davies: We are doing a number of things, some of which we have touched on already. First, we are working with local authorities and the nations of the UK, and their investment bodies. I am working with the investment bodies to ensure we have a clear, coherent offer to international investors. As I have mentioned before, when international investors think of the UK, they may just think of London, and potentially some other areas, so we want to broaden out exactly how people understand the UK. The investment atlas makes that tangible. Rather than having the in-principle idea of "Invest Wales", we identify specific opportunities in, say, the bay area. I have mentioned the vaccines high-value opportunity in Liverpool. Investors can then see specific things that they can invest into.

It is fair to ask—the NAO picked this up in their Report—whether we have a deep enough understanding of the comparative advantage and the real strengths of different areas. There is further to go; that is work in progress. In previous roles, I have worked with universities to really build out their focus on their local economic impact, where they have research strengths and what that means for companies. I would like to do more of that.

Ceri Smith: I also contract a range of people. As part of the investment transformation, we are bringing the investment services team in house. That is a contract that we currently have with EY. They have people across the country—about 100 staff. There are partnership managers who will be talking, at a local level, to LEPs and regional authorities.

Q77 **Nick Smith:** I don't know who is best to answer this question. Who can tell me about your Welsh investment hub's relationship with the Welsh Government? Is it a good one? Does it work well?

Ceri Smith: I think it is very positive. Daniel has just employed a new member of the OFI, who is based with that hub. That is relatively new. I regard the relationship that I have with my Welsh opposite number as very positive. We have very open and frank conversations about what we can do to support each other.

One of the things we recently identified as an area for further work is our handover. We often get investment leads that come in from overseas—somebody who is interested and thinks that Wales is a very good location. Either that is about a specific location or is geography-blind, so we pass it round to a lot of people through our networks. If they are smaller investments—if they are not investments that we track centrally—we will pass them to the Welsh Government to track forward. We are not entirely sure that that handoff is working as effectively as it could be, so I want to look at that with Andrew to make sure we are, in an operational sense, giving them leads that they can develop.

Q78 **Nick Smith:** One final question from me. Mr Smith, how do you decide which specific sectors to prioritise for investment in each of the nations or regions? How do you decide to cut it?

Ceri Smith: Whether to push a green investment to a particular geography?

Q79 **Nick Smith:** Yes—which sectors?

Ceri Smith: There is a whole range of things. We don't necessarily have a view that we are going to put all this kind of investment in one area. Quite often, there will be more than one place that is appropriate for the investment, so economic geography and actual geography will determine, to some extent, where there are natural attributes that will make an investment worthwhile.

We work closely with the devolved Administrations to ensure we are not in competition. After all, this is a concurrent power, rather than devolved or retained, so we need to ensure we are having open conversations. We try to promote areas where there are competitive advantages. Wales has a compound semiconductor cluster, which is something that we can build on and will attract other investors.

Q80 **Sir Geoffrey Clifton-Brown:** Following on from Mr Smith's question, paragraph 2.8 on page 27 says: "DIT has not yet developed strategic plans that set out how it aims to attract investment in the English regions. In contrast, the Scottish Government and the Welsh Government have each published infrastructure investment plans". Mr Smith, what about Northern Ireland? Particularly now we have the protocol issue resolved, hopefully, I would have thought there was huge scope for inward investment in Northern Ireland—a well-trained workforce, there must be big scope.

Ceri Smith: There are enormous opportunities in Northern Ireland. Indeed, with our colleagues in Northern Ireland, we will be organising a large trade and investment conference—I think it has been announced for later this year—to highlight the enormous opportunities that are there. Northern Ireland has enormous strength and opportunities—

Chair: It is facing both ways now.

Amanda Brooks: Just to add, if I may, I appeared with Minister Hands, when he was still in the Department, in front of the Northern Ireland Affairs Committee. The response of the Select Committee to how the then DIT and the Northern Ireland Office were working with the Northern Irish investment agency was very positive.

Q81 **Sir Geoffrey Clifton-Brown:** It would be nice to attract some investment that would otherwise have gone to the Republic.

Moving on, from when I was involved, this paragraph absolutely hits the nail on the head: "Potential investors' first contact with DIT is often with staff in overseas posts." I found that, and I found the quality of the staff and their knowledge, even among ambassadors, were very variable. Is that still the case?

Chair: Ms Brooks, you were a deputy high commissioner.

Amanda Brooks: I was, once upon a time, in Singapore. You have been running around my old patch quite a lot. We are very lucky in our overseas network in practice—certainly my experience in Singapore was that many of the staff were there for many years, and had therefore built up great expertise about the UK market, across the entire UK, and had worked closely with teams back in the UK to drive that. Of course, there is some variability, but that is the foundation for a really important learning and development programme to make sure that people are skilled up and able to maintain their skills and knowledge over time. But it is something that I was very focused on, certainly when I was in an overseas post—making sure that people had that up-to-date knowledge.

Ceri Smith: Last November, I organised a conference in Edinburgh for all our senior investment staff, including from posts. We organised it to have the devolved Administrations attend as well, and part of that was to ensure that as people came over, they were more aware of the opportunities that existed. In addition, we have taken specific steps to address that particular problem. With northern powerhouse or midlands engine, our teams have specific programmes in place to ensure that posts are fully educated about the opportunities that exist in those areas. It is something that we can undoubtedly do more of, but it is something that we have been taking steps on.

Q82 **Sir Geoffrey Clifton-Brown:** The second part of my question was about variability among ambassadors. There used to be a scheme whereby they more or less had to go on a certain amount of training before they became an ambassador. Does that still exist?

Ceri Smith: I am sure they have to do lots of training, but I am not quite sure what training you are referring to.

Q83 **Sir Geoffrey Clifton-Brown:** If there were such a thing, presumably your Department, Mr Davies, would be involved in framing the training. Does it exist, or does it not exist?

Gareth Davies: The focus we have is on the trade commissioners, which have been an important innovation over the past six years. We have a senior person responsible for trade and investment. We focus on that side of it, rather than the ambassadorial side.

Q84 **Sir Geoffrey Clifton-Brown:** But you know how an embassy works—certainly Ms Brooks knows how an embassy works—and, basically, the ethos of each embassy comes from the ambassador. If the ambassador does not have the knowledge or the interest in trade matters, the embassy tends not to.

Amanda Brooks: If I may add, in the work we did when we were first setting up the Department for International Trade, we were hand in hand in developing programmes to increase learning, skills and particularly knowledge in trade policy areas. That was available through taught programmes and through online learning, which is available to any member of Foreign Office staff, just as they are available now to any member of DBT staff. Extensive provision is available as part of that.

Each ambassador—sorry, I am talking outside the Department's remit, but you are asking the question—produces a country plan, which needs to reflect the trade and investment objectives that would be delivered through their Department for Business and Trade team. So, there is a single, overarching view of what is being delivered at post through that plan.

Gareth Davies: I do not know the details of the Foreign Office's training programme for ambassadors and ambassadorial teams, but Amanda touched on the incentive framework for ambassadors and local staff, which is certainly aligned to ours. I work closely with my opposite, Sir Philip Barton, and we talk regularly about trade and investment issues. Also, if I just look at my diary, I know there are a number of ambassadors who want to talk to me, particularly in the US but also in Japan—the countries where we are recipients of big inward investments. We are having a continual conversation in terms of managing some of these critical relationships with the global multinationals. I am sure there will always be variability in the system, but when I look to the critical markets, I am confident that the ambassadors are very focused on achieving both their targets and, more generally, the strength of relationships with these global multinationals.

Q85 **Sir Geoffrey Clifton-Brown:** I am sure they would not gone up through the FCDO tree to become ambassador to Japan or even the United States without having considerable trade experience. I am not so worried about them. I am worried about the smaller ones, where there may be only one or two deals a year but how it is handled could make a difference to whether we get that deal or not. Therefore, may I suggest that you perhaps take an interest and talk to your opposite number about what training the FCDO is providing?

Gareth Davies: That is a very good point. I take assurance from the role of the trade commissioners with the local ambassadors in some of those smaller markets, but I think that is a very good point and I will take it away.

Q86 **Sir Geoffrey Clifton-Brown:** Thank you. This is probably one for you, Mr Smith, I'm afraid. Can I take you to paragraph 2.19? This is relation to the DIT's investment transformation programme. Worryingly, on the capacity, it says that "the capacity of the Digital Design and Technology team, which is critical to delivering important elements of the programme as well as other initiatives across DIT, remains a considerable risk." What are you doing about that?

Ceri Smith: It is a risk, and I think that our recent merger will only increase some of the pressures on existing central resources, so it is something I am very mindful of. I had a conversation earlier this week with the director of DDaT. He is very honest about there being pressures on him: as a result of the merger, he will have to reprogramme and work out how we do it. I will have to take that into account and work out whether we need to buy in additional resource, and whether the programme itself will be in some way delayed. I don't know the answer to that; it is something that is worrying me.

Q87 **Sir Geoffrey Clifton-Brown:** How many vacancies do you have in your digital team?

Ceri Smith: That I don't know, but there are more than we would like.

Q88 **Sir Geoffrey Clifton-Brown:** Can we have a little bit more precise a note than "more than we would like"?

Chair: This is a bit of a theme across Departments at the moment.

Ceri Smith: I am very conscious that they are fishing in a very small pool. One of the constraints on us being able to get contractors is that the security requirements mean that they have to be SC-cleared, which means that it is an even smaller pool they are fishing in.

Chair: It is similar with the Ministry of Defence.

Q89 **Sir Geoffrey Clifton-Brown:** As the Chair says, it is almost in every

Department, so it is real problem, obviously. It was not meant to be a trick question.

Finally, can I ask about UK Export Finance? How well do you work with them? They supply investment grants to those wishing to invest in the UK. How good is your relationship with them, and how well are they working to provide the incentive for some people to come and invest in the UK?

Gareth Davies: Obviously, UK Export Finance is a separate Government Department reporting to the same Secretary of State.

Sir Geoffrey Clifton-Brown: I know. That is why I asked the question.

Gareth Davies: It is important to make sure that we don't feel like we are two silos trying to do the same thing, so the way we have structured it is through a memorandum of understanding, which explains how we operate and how we work. Then we integrate at senior levels, which sets the tone for more junior members of staff. Tim Reid, the chief executive of UK Export Finance, sits on the Department's executive management committee. The chair sits on our overall departmental board as well, which gives the integration and a single line of sight up to the Secretary of State, so she and her Ministers are able to make sure that our two agendas are aligned, just as I am with Tim to make sure there is alignment between his KPIs and ours. Cascading that down, Andrew Mitchell, our director general for exports, sits on UKGI's management board, and on UKEF's management board as well.

Coming back to the Chair's opening question about the creation of the Department and the issues, but also the opportunities, with the new Department, we also have the British Business Bank, Companies House and a whole range of arm's length bodies that are responsible for ensuring the competitive environment of the UK business environment, so one of my early goals is to make sure we can align the work of all of our partner bodies around this mission, rather than just UKEF.

Q90 **Sir Geoffrey Clifton-Brown:** May I suggest that you add the UK Infrastructure Bank to that list? Increasingly, one of your objectives is green investments, and you need to work very closely with them.

Gareth Davies: I certainly know John, and I have been speaking regularly with John already, but I think that it is entirely right. The Government have built a range of institutions that are about promoting investment and we need to make sure they are properly aligned.

Daniel Gieve: In practical terms, UKEF, which generally offers Government-guaranteed commercial lending, is very much part of the offer. Coming back to a lot of our projects, they don't offer grants. There are pots of incentives around the Government, so we will be looking at those, we will be looking at UKIB, who can provide subordinate debt and in some cases equity, and we will be looking at UKEF, who can provide guaranteed loans. All of that, on any given proposition, will be in the mix for the different levers that we can look to pull.

Q91 **Chair:** I have a couple of quick points. Mr Davies, when you talked about levelling up and the money that is being invested, you said "everything that's not in London or the south-east". That is a very imprecise model for areas of levelling up. You said "by area". Are you going to get more precise than that in your measurement? It seems to me that you can argue whether levelling up is a slogan or a policy—it is probably a bit of both, let's be honest—but it boosts the idea that lots of money is going into levelling up parts of the country, whereas actually, not every part of the country outside London and the south-east is in equal need. Is it as imprecise as I am reading?

Gareth Davies: No, look, it is a pretty blunt indication. It is trying to give an indication, because before it was very skewed—

Q92 **Chair:** So you could have just said "everywhere outside London and the south-east" but you have used the language of the Administration.

Gareth Davies: Yes, we use "levelling up". You can use "levelling up" or "local economic growth" or "regional economic disparities". We are working with the Department for Levelling Up to have more granular focus, and certainly we can break it down by constituency and the like.

Q93 **Chair:** When you say you are working on that, when will we have a better idea of where that is?

Gareth Davies: We can certainly write to you. We have more granular information, rather than just the regional numbers I have given you today. I can write to you on that.

Q94 **Chair:** Okay, that would be helpful. I have another quick question, with a yes or no answer. Were you involved in the Britishvolt takeover by Recharge?

Gareth Davies: No.

Q95 **Chair:** Not at all?

Gareth Davies: I wasn't, no.

Q96 **Chair:** Mr Smith talked about you being at the margins, but there was no marginal—

Gareth Davies: We can certainly talk a bit about Britishvolt—

Daniel Gieve: The Office for Investment was involved in the Britishvolt project. The takeover by Recharge was handled entirely by the administrators, who I think were EY. So that was outside any Government—

Ceri Smith: Purely commercial.

Daniel Gieve: It was purely commercial. We are hopeful that Recharge can deliver on the plans it has set out.

Chair: We all hope that it will deliver, absolutely.

Q97 **Mr Djanogly:** You were talking before, Mr Smith and Mr Davies, about avoiding a race to the bottom in terms of providing subsidies for foreign investment, and I understand your rationale. However, we have Jaguar Land Rover demanding £500 million to invest in its new car battery business in the UK, in what is a clearly a key strategic, high-value industry. I am not asking you to say whether Ministers are going to hand out the money, but is it adequate just to say that we have to avoid a race to the bottom when it is actually happening?

Gareth Davies: The first thing I would say is that I cannot comment, as you said, on any commercial conversations. There will be all sorts of media reports; who knows the accuracy of them? When I say we don't want a race to the bottom, that is quite right. We don't want a race to the bottom, and we certainly don't want to waste taxpayers' money, because industrial policy is an area where you can easily waste a lot of taxpayers' money.

That is not to say we don't do anything at all. If you look at the scale of investment through Innovate UK and UKRI, or the funding we have through the automotive transformation fund and the support we have given to automotive companies over the years, that is not no subsidy. It is just saying what we are not doing is blindly chasing whatever the US, China or the European Union might be doing. We have to be very focused on our comparative advantage as a country, value for money for taxpayers and the impact any investment would make.

Q98 **Sir Geoffrey Clifton-Brown:** Mr Davies, going back to your previous answer, it was a recommendation of this Committee that you should have an MoU with UKEF. You talk about having conversations with your opposite numbers in the British Business Bank and the UK Infrastructure Bank. Would it make sense to have similar MoUs with them?

Gareth Davies: I would want to reflect properly on that. The reason why I hesitate before I say yes is the different institutional relationships those organisations have with the Department. The British Business Bank is a partner body of the Department, so already we have a formal relationship with them in terms of sponsorship, management and governance and my responsibility as accounting officer. The UK Infrastructure Bank is a partner body of the Treasury, so they will have their formal relationship. That is not to say there isn't a role for making sure we are aligned. Whether that involves a formal MoU or something different, I don't know, but I will certainly take that away and reflect.

Q99 **Sir Geoffrey Clifton-Brown:** That is very helpful. I have a question for you, Mr Gieve, about the combined UK Government effort on inward investment. While this may not be under the direct control of your Department, I just get the impression that the MoD's exporting and inward investment activity is going downhill. For example, the French are outselling us on Rafale fighter jets compared with the Typhoon. How much do you get involved with other Departments' efforts on inward investment and exports?

Daniel Gieve: On exports, very little, except where it drives specific inward investments to export and so there is working with UKEF. On defence in general, it is as and when those projects require the support. We have open communications with the MoD on a number of different projects, but not specifically more than any other Department.

We work with whichever Department is in front of us. Obviously, they all changed their names recently, but in old money, we had a very close working relationship with the different sector teams across BEIS on offshore wind, hydrogen, automotive and aero; with the old DCMS on digital and telecoms infrastructure; and with the MoD and the old BEIS on space specifically. We are open to partnering with whoever is there. Indeed, people are relatively positive about the service we provide and therefore seek us out when they need extra help bringing Whitehall together or, indeed, want some form of escalation as part of their conversations.

Q100 **Sir Geoffrey Clifton-Brown:** Who is it that is alive to the possibilities in what I call non-traditional Departments in terms of inward investment? I am thinking of Departments like the Department of Health and Social Care and the Department for Education. Who is alive to possibilities from those types of Departments?

Ceri Smith: For education, one of our teams actually looks after education exports. I can't remember the exact name, but we have a sector team specifically looking at professional services in education as part of what they look at. On defence, there is UKDSE, which sits within the Department and leads on investment and on export. So we have sector teams that do both investment and exports, across a range of areas. For health, we work very closely with the OLS, but we have a life sciences team.

If there are non-traditional areas we should be focusing on, I am really very keen to hear about them, because if there are investment opportunities, I want the money. I will be very happy to hear about them and we will try to find it.

Q101 **Sir Geoffrey Clifton-Brown:** Presumably the epidemic must have thrown up possibilities for inward investment to increase the UK's capacity in medical equipment.

Ceri Smith: Absolutely, and there's a huge amount. But of course the BioNTech and the—

Daniel Gieve: Yes, we haven't talked about Moderna. The Government, just before Christmas, struck a 10-year vaccine supply deal with Moderna, and I think yesterday they announced that they were going to build their factory in Harwell in Oxfordshire, which will also bring in a huge amount of R&D money. So yes, I think the pandemic and the relatively positive narrative around our response to the pandemic—the Government's willingness to take a forward-leaning position—have opened up people's eyes to the way our health system works. I think both Moderna and BioNTech, which are two of the most exciting biotech companies out there, noticed that, and that is probably what originally opened the door to detailed conversations.

Ceri Smith: It also changed officials' and, dare I say it, Ministers' views on supply chains and the need to ensure that we are not quite so dependent on single suppliers as we were in the past.

Q102 **Sir Geoffrey Clifton-Brown:** Mr Smith, you mentioned the sales body for defence and the sales body for education. Who is it in the Department of Health who does this work? It looks, from what Mr Gieve is saying—

Daniel Gieve: The Office for Life Sciences.

Ceri Smith: The Office for Life Sciences is a joint unit between DSIT and the Department of Health that works closely with our sector team in life sciences, and together we collaborate. I actually used to be the director of the OLS many years ago. It is a great area where we were trying to bring together the health agenda. They desperately need innovation. They want to get access to the latest drugs. We want to build on the incredibly strong UK life sciences sector, but they will be looking at it from their perspective. The old BEIS would bring in a particular business focus. That has now moved to DSIT, but I think it is a success story and something we should be proud of in the Government—that collaboration between commercial and health.

Chair: It has been a fascinating session. One thing we like to see is things that are measurable, but obviously there is a degree of alchemy around this: everything from—I think we were in private session, and Mr Carden was not with us, when we were talking about this—music in Liverpool to what opens the eyes of other countries and companies to invest in the UK. Obviously, this is pretty critical as we need to grow the economy, and everyone would agree with that.

Thank you very much indeed for your time. The transcript of this session will be published on our website in the next couple of days. Thank you to our colleagues at *Hansard* for their work on that. It is published uncorrected, so if you have any comments, please let us know. We will aim to publish a report, likely now after the Easter recess. Thank you very much indeed.