Fifty-sixth Report of Session 2022-23

Department for Business and Trade

Supporting Investment into the UK

Introduction from the Committee

The government sees inward investment as important for supporting economic growth and for generating investment to support its priorities, which include meeting the net zero climate emissions target, reducing equalities between regions of the UK by levelling up, and becoming a science and technology superpower through innovation. Factors that may attract investors to the UK include growth opportunities, consumer demand, ease of setting up a business and an established rule of law. While the UK is an attractive destination for inward investment, it competes with other countries. Obstacles to investing in the UK identified by investors include a lack of financial incentives to invest and lack of skills in the workforce. The government aims to develop relationships with investors and to persuade them that the UK is the best destination for their investment.

In 2021–22, the Department for International Trade spent approximately £80 million on supporting inward investment. An estimated 634 of the Department's staff in the UK and overseas supported investment through identifying opportunities for investment in the UK, promoting these opportunities to potential investors, and seeking to attract and retain high-value investors. In 2020, the Department established the Office for Investment, jointly reporting to the Department and to the Prime Minister's Office, to improve its service for high-value investors where more effective cross-government working could help secure foreign investment. In February 2023, the government created the Department for Business and Trade, bringing together the business functions in the Department for Business, Energy & Industrial Strategy and the Department for International Trade. The new Department for Business and Trade shares responsibility for supporting inward investment with other government departments who hold responsibility for policy in specific sectors or policy levers that are important for investment, such as tax, regulation, and visa requirements.

Based on a report by the National Audit Office, the Committee took evidence on 6 March 2023 from the Department for Business and Trade. The Committee published its report on 9 June 2023. This is the government's response to the Committee's report.

Relevant reports

- NAO report: Supporting Investment into the UK - Session 2022-23 (HC 1080)
- PAC report: Supporting Investment into the UK - Session 2022-23 (HC 996)

Government response to the Committee

1. PAC conclusion: The Department for Business and Trade and the Office for Investment are not doing enough to understand the impact of their work to support investment.

1. PAC recommendation: The Department should do further work to understand its impact. This should include surveying investors who decided against investing to establish why not and taking a systematic approach to learning lessons. The Department should also do more to understand why other countries are successful in attracting investment and what it can learn from them.

1.1 The government agrees with the Committee's recommendation.

Target implementation date: June 2024

1.2 In the Department for Business and Trade's, (previously the Department for International Trade) (the department or DBT) Outcome Delivery Plan for inward investment promotion, the activity is designed to deliver against cross-government strategic ambitions. These include strengthening national wealth, making the United Kingdom a science and technology superpower, accelerating the shift to net zero, and supporting levelling up. Combined with the department's pursuit of attracting and supporting more higher value investments, the department's contribution will be in greater employment and stronger gross value add investments. As an example of this, the department's Official Statistics can be used to identify three key indicators through a levelling up lens: projects landed and associated new jobs created; and investments and new jobs created from Ten Point Plan investments and research and development investments.

1.3 The department will explore the feasibility of expanding on the department's existing surveying of successful investors the department has supported in a financial year. This will include survey options for investors that abandoned their plans to invest in the UK. The department recognises the learning options contained in this advice.

1.4 The department continues to evaluate the data that is available for analytical purposes relating to the operations and achievements of other investment promotion agencies. Such information is typically kept away from the public domain, but the department will use opportunities through international organisations and other avenues to identify different approaches to investment promotion.

1.5 The department will work to define a suitable timeframe for this in the next 12 months.

2. PAC conclusion: The Department focuses more on securing investment deals in the short term, rather than understanding the long-term economic benefits from investment.

2. PAC recommendation: The Department should review major investments it has supported over the last five years to check the current position on forecast benefits and wider economic impacts and use this to inform future work. It should also implement a structured approach to monitoring and evaluating progress with achieving benefits, for high-value investments in particular.

2.1 The government agrees with the Committee's recommendation.

Target implementation date: June 2024

2.2 The department's investment operations are based on new and existing relationships with multi-national companies. Recognising that it is the companies themselves that make the decisions rather than the department directly, the department's main focus is on landing, retaining and expanding their UK presence.

2.3 The Gross Value Add (GVA) methodology is applied to estimate the economic benefits of the department assisted Foreign Direct Investment. Pipeline data – the data reflecting the investment projects in progress – is used to estimate outcome of the department's investment work. However, specific details relating to the data employed to estimate economic impact is often missing early on, making it harder to accurately create performance expectations, and later performance evaluation, with a high degree of precision. However, the department welcomes the challenge to improve data quality and will seek to improve the department's ways of working in this area.

3. PAC conclusion: Insufficient digital capacity is putting the Department's plans to increase impact at risk.

3. PAC recommendation: The Department should review the portfolio, priorities and capacity of its digital teams following the creation of the new department. Based on this review, DBT should assess the impact on the delivery of its investment transformation programme.

3.1 The government agrees with the Committee's recommendation**.**

Target implementation date: March 2024

3.2 As the Committee recognises, digital capacity across government is stretched. Capacity is constrained by the department's ability to recruit the right calibre of people in a competitive market. To mitigate this, the department operates a blended staffing mix of civil servants, contractors and outcome-based suppliers. The department has implemented a specialist Digital, Data and Technology (DDaT) pay framework and there are ongoing pay discussions with the Central Digital Data Office which have contributed to recruiting 100+ civil servants in 2022-2023. The creation of the department has put further pressure on digital teams, yet the impact on the Investment Transformation Programme (ITP) is minimal. Capacity challenges have not constrained the department's DDaT capacity on the ITP and all of DDaT's contributions to workstreams are set to deliver as per the critical path.

3.3 The ITP aims to provide a differentiated service offer to investors, proportionate to investment projects value and impact on UK government strategic objectives. This supports the department's shift-to-value strategy and ensures the department's teams are focusing their efforts on projects delivering the most impact. As part of this, DDaT has developed a new digital service to provide business support for foundational investor enquiries which is on track to be piloted in the coming months. DDaT have also delivered improvements to the Customer Relationship Management system and are supporting data transfer and tech roll out for Investment Services Teams contract closure. There is a robust monitoring and evaluation plan in place to understand the success of digital interventions, which will be used to inform future development.

4. PAC conclusion: The Department is not yet doing enough to encourage investment into the areas of the UK where it can have the most impact on local economic growth.

4. PAC recommendation: The Department should work with the Department for Levelling Up, Housing and Communities to develop a more focused target for supporting investment across the UK, which reflects that Department's levelling up objectives and is directed at the geographical areas where investment is most needed. For example, the department for Business and Trade could consider a target for supporting investment 10–15 miles outside of a city centre.

4.1 The government agrees with the Committee's recommendation.

Target implementation date: Autumn 2023

4.2 Levelling Up is a key priority for the department and the department already directs its efforts to encourage investment across the UK. The department's published inward investment results for 2022-23 shows many areas outside London and the South East have seen significant gains in foreign direct investment compared to previous years.

4.3 Working with the Department for Levelling Up, Housing and Communities and other government departments, the department has several areas of work in progress to better target its support at the geographical areas where investment is most needed. This includes:

- working across government and with external experts to develop a deeper understanding of the relative strengths and competitive advantages of different parts of the UK. This will inform not just the targeting of the department's promotion efforts but also policy development and advocacy efforts, reflecting that for some areas improving their overall business environment can increase their ability to attract investment.
- working with UK Freeports to establish each as a national hub for global trade and investment; including support in developing and implementing their go-to-market strategies and providing targeted investment promotion and support services to encourage inward investment.
- engaging on the Investment Zones programme; bringing expertise from across the department to help places shape and inform their sector-market focus for investment, and scoping the department's support for each Investment Zone once they are fully mobilised.
- delivering the Key Account Management Programme in the North and Midlands which provides additional targeted strategic account management to regionally important foreign owned companies so that they are retained, grow, and reinvest.
- promoting High Potential Opportunities to investors, with 40 out of the 43 opportunities located outside of London and the South East.

5. PAC conclusion: Overseas posts have a range of roles and priorities and may not be consistent in promoting investment across the UK.

5a. PAC recommendation: The Department should work with the Foreign, Commonwealth and Development Office to ensure that supporting investment is part of the overall priorities of overseas posts and, where required, staff receive any training they need to build knowledge on strengths and opportunities for investment throughout the UK.

5.1 The government disagrees with the Committee's recommendation**.**

5.2 The department recognises the concern and wants to reassure the Committee that senior Foreign, Commonwealth & Development Office (FCDO) leaders in overseas posts play an important role in delivering the government's investment ambition. Through the annual investment business planning process, the department ensures that investment priorities align to the strategic direction set by ministers, and investment targets are agreed directly with His Majesty's Trade Commissioners (HMTCs). HMTCs articulate key investment objectives and delivery strategies for their respective regions in Regional Trade Plans (RTPs). RTPs are internal business planning documents (due to the level of detail requested), however they are recognised in the public DBT Outcome Delivery Plan for Investment.

5.3 HMTCs collaborate at a local level to consolidate country plans into their broader RTP, delivery against their investment ambitions is monitored through the department's investment governance structure which reports to the Direct General for Strategy and Investment. This ensures a consistent and strategic approach across multiple markets and accountability for performance at monthly Investment Governance Boards.

5.4 The department agrees with Committees' assessment that it should invest in learning and development. The department is doing this through the Investment Academy training offer, delivered by an outsourced provider, therefore department takes a proportionate approach to ensure value for money.

5.5 Since the report, the relationship between DBT UK and overseas teams on investment has been strengthened, with a renewed focus on training and building knowledge of regional strengths post-COVID-19 pandemic. In person and online engagement on the High Potential Opportunity (HPO) programme, which highlights strategic and commercially attractive Foreign Direct Investment (FDI) opportunities with a focus outside of London and the South East. Further engagement will ensure the department’s teams at post promote opportunities for investment throughout the UK.

5b. PAC recommendation: More training could be offered to staff of both departments when they are in the UK up to and including Ambassadors between different country postings.

5.6 The government disagrees with the Committee’s recommendation**.**

5.7 The department provides a core investment training offer through the *Investment Academy*, a programme designed to equip colleagues with the skills, knowledge and tools to deliver on the department’s investment ambitions. The programme is aimed at all colleagues in the department’s investment network, including those based in embassies and consulates general around the world. The programme is delivered virtually using Microsoft Teams, allowing colleagues based around the world to participate remotely. Programme content covers, among other topics, the foundational principles of inward investment, the key sales messages of the UK as an investment destination and the UK’s strategic priorities alongside technical skills such as account management.

5.8 The Investment Academy (IA), previously FDI Academy, was launched in December 2019, running for over 3 years and delivered as part of the Ernst and Young Investment Services Team contract. From September 2023 the (IA) contract will be held by OCO Global, the average annual cost across the 5-year contract is £211,277.06.

5.9 The department delivers ‘pre-posting’ training on its priority objectives to new Heads of Mission and Deputy Heads of Mission and provides updates as part of regular FCDO leadership conferences. The department and FCDO staff overseas have access to the Trade Faculty learning catalogue and the cross-government International Trade Profession syllabus to support broader and deeper skills on trade and investment.

6. PAC conclusion: Government is not doing enough to ensure that efforts to attract foreign investment are well-coordinated across Whitehall.

6. PAC recommendation: The Department should engage with industry and investors to understand what they need from government and consider how it can influence other government departments more effectively to help tackle barriers to investment. It should also review lessons learned to date from the work of the OFI.

6.1 The government agrees with the Committee’s recommendation**.**

Target implementation date: April 2024

6.2 The department actively engages with investors to understand what they need from government, and how the department can coordinate action across Whitehall to tackle barriers to inward investment.

6.3 The Investment Council provides a regular forum to gather investor feedback, including from CEOs and company founders. The Council provides a platform to coordinate and aggregate intelligence from investors’ experiences of doing business in the UK into insights that support the department’s policymaking.

6.4 In addition to this, the department's analytical function surveys investors annually, including on the barriers that investors face. The department is working on improving this process and increasing the response rate.

6.5 Despite this existing engagement, the department recognises that further steps are necessary to coordinate investment promotion effectively across Whitehall.

6.6 The Harrington Review is a key milestone, as one of the key focus areas for the report will examine how the department can extend the benefits of working across government on investment in key sectors. Following the publication of the report in September 2023. The department will look to implement any relevant recommendations. The department has also held workshops with the Office for Investment (OfI) and relevant department teams, particularly in relation to the OfI's creation and impact on cross-Whitehall working. The department will provide an update to the Committee in the next Treasury Minute progress report on the conclusions of this work, including where these could support the department's investment promotion efforts in the future.

6.7 Upon the conclusion of the Harrington Review, the department will take further appropriate action to improve the department's approach to cross-government working on investment promotion.

7. PAC conclusion: The recent machinery of government changes provide the Department with an opportunity to review its alignment with other government bodies that support investment.

7. PAC recommendation: The Department should review which government bodies have a role in supporting investment in the UK and consider how it could formalise working relationships, and align priorities and activities in supporting investment.

7.1 The government agrees with the Committee's recommendation.

Target implementation date: February 2024

7.2 The department has an important role to play in ensuring alignment between the government bodies that support inward investment. The creation of the department earlier this year established a single voice for business inside government, combining the existing business and international trade departments. The development of the department as an integrated department remains an ongoing process, and work to fully incorporate the investment function with other areas is underway.

7.3 The department will continue to work closely with the devolved governments of the UK to ensure all constituent nations benefit from inward investment. There are close working level relationships, including through the department's nations teams and these are formalised at the Executive Forum. At a regional level, department officials are working with local authorities to join up trade and investment promotion so a more effective offer can be presented to potential investors. Similar work is ongoing through colleagues focusing on regional investment at the OfI.

7.4 The department will undertake an internal assessment to review its existing engagement with the other departments and bodies that support inward investment and recommend whether any additional guidance or engagement is required to support the relationship with those organisations. The new Business and Growth Group brings together Permanent Secretaries from across Government and is co-chaired by DBT and HMT. It seeks to align priorities across economic policy, including investment.

7.5 In addition, the Harrington Review is investigating how to bolster the UK’s investment environment and take advantage of the recent structural changes in government to improve linkages with investor-facing departments such as the Department for Science, Innovation and Technology and the Department for Energy Security and Net Zero.