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REPORT

UK FIRST?

IMPROVING NORTHERN ACCESS TO FOREIGN DIRECT INVESTMENT

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ABOUT IPPR NORTH

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EXECUTIVE SUMMARY

Our research explores the past and current performance of systems for securing foreign direct investment into the UK as a whole, and to the north of England in particular, with the aim of providing insight into the North's future potential to maximise these incoming resources. The work included a review of existing written evidence and targeted interviews with participants in, and users of, the inward investment system.

Current performance of the UK and the north of England

Securing foreign direct investment (FDI) has been a key element of subnational economic development strategy over successive decades. It has brought significant benefit to the north of England, supporting the growth of key businesses and creating and protecting jobs.

The overall environment for securing inward investment is difficult. The UK as a whole retains a good reputation as a place to do business and holds a good overall position in the FDI league table. However, the general trend in terms of projects secured has been downwards over the last few years.

The research has found that economic conditions – particularly weak levels of demand – are driving potential investors' decision-making about locating in the UK. Investments from key markets in Europe have declined significantly, although there are growing opportunities from countries like China, India and the US.

Furthermore, while the UK attracted inward investment from a record total of 58 countries in 2012, in part because of decline in investment from Europe and Australasia, it appears to be increasingly heavily reliant on a small number of countries for the bulk of inward investment projects, with a particular dependence on the US.

Looking at new and emerging sources, **inward investment from the BRIC countries (Brazil, Russia, India and China) appears relatively flat for the UK, while its share of FDI from India and China is on a downward trend.** The UK continues to be Europe's largest recipient of inward investment from India, but its share of Indian projects in Europe fell from 47 per cent in 2010 to 38 per cent in 2011 – that is, more Indian FDI is going elsewhere in Europe. Similarly, the UK's share of Chinese inward investment projects fell to approximately 22 per cent in 2011, compared to 28 per cent in 2010 (Ernst & Young 2012a).

At the regional level, different trends can be observed in recent years. **Numbers of new projects supported through FDI are largely holding up around London and the South East, from a high base, but other parts of the UK have experienced a decline in number over the same period, in many cases significantly.**

Taking employment impact as an indicator, while figures for specific regions are more variable from year to year, performance has held up overall nationally and in the North. These appear to have been buttressed by a relatively small number of large investments in projects such as the Olympics and the new investments in Sunderland by Nissan. Some commentators also argue that employment is a lagging indicator of FDI investment and so there is concern about whether a new programme of projects will be forthcoming, and about their distribution and quality in terms of overall economic impact.

Comparative regional performance

To underpin these general observations, this research has sought to differentiate as far as possible between the impact of the global economic downturn and of institutional arrangements on current performance, with a particular focus on how the system is supporting the economy of the North.

To offer a basis for this comparison, the research has considered the relative performance of Scotland and Wales, and compared it with the northern regions. This offers some basis for comparison – these two countries both operate within the context of the UK economy – but there needs to be some caution, as their respective administrations have taken different decisions about their institutional approach to securing FDI, in terms of both system structure and the level of resources available to it.

Scotland, which has taken a decision to retain and invest heavily in its own strategic inward investment agency, would appear to have consistently outperformed the northern regions in terms of jobs created since 2008, and even more so since 2010. Wales, on the other hand, has adopted a different approach since the mid-2000s, with responsibility for inward investment overseen by the Welsh assembly government's brand for inward investment, International Business Wales (IBW), working with UK Trade and Investment (UKTI) and a plethora of separate local and national agencies – and Wales seems to be performing poorly in terms of both number of new projects and number of jobs. Scottish Development International maintains a significant team in the UK and overseas offices; in Wales, as in the English regions, this capacity has been scrapped. **Many also attribute Scotland's consistent and jobs-rich inward investment performance to the stability of its inward investment institutions since as far back as 1975**. In England, by contrast, there have been several waves of fundamental changes in the equivalent institutions, to suit the fads of successive governments.

Looking more broadly, benchmarking internationally, over the same period, **other countries, including Germany in particular, are catching up. Notable features of the German performance are long-term strategic relationship-building in key markets outside of Europe** and the important role of trade associations.

Key issues emerging from research interviews

Looking at how the system has changed, and how it is responding to key opportunities and challenges for the UK as a whole and for the North in particular, a group of issues emerged as crucial to the level of future performance of the system.

1. Targets and measurement of performance

The research has thrown a light on an important debate about the tasking framework for the system. The current Treasury target for the UKTI-led system is to secure 750 'UKTI-involved' projects each year, with new and expanded projects counting equally towards this target. It has a further informal target of 1,000 projects, which includes those projects with which UKTI has had no involvement. Across the system, the current conversion rate is 3.5:1, meaning that each year UKTI and its partners at a national level need to identify around 3,500 leads to meet its target.

Interviewees from both the national and local levels highlighted issues with this target.

- **The annual nature of the target is seen to focus behaviour on securing the easiest projects, rather than those of greatest strategic economic importance**. It can also lead to inaccurate reporting in terms of the number of projects that are counted as 'UKTI-involved'. A strong consensus emerged in the interviews, particularly among those from the national level, that the targets needed to be changed to refocus behaviour within the system. The preference is for indicators that are focused on employment numbers and contribution to economic growth, and for these to be delivered over a longer timeframe than one year to allow for longer-term relationship-building.

- **A key goal is to shift the proportion of FDI projects administered from new projects to expansions of existing projects.** It was reported that, currently, 35 per cent of UK projects secured are from existing investors, compared with 70–80 per cent in other countries. Yet these are the projects which are more likely to build extended capacity and jobs on top of small initial investments and to embed an investor in the country. In considering this evidence, the perspective of the interviewees was that these were the projects most likely to deliver investment into sectors present in the North.

2. Structure of vital capacity
According to our interviewees, the key capabilities required in the system to secure these longer-term returns include:

- **Strong intelligence capability** to both identify and capitalise on investment opportunities by building and maintaining long-term relationships with investors, and which can communicate a detailed and up-to-date understanding of the opportunities existing throughout the UK.
- **Strong specialist capacity** to translate trends in industries and markets into commercial opportunities and investments and to interact with all parts of the system.
- **Good 'aftercare support'** in local environments to embed an investor in place, to secure ongoing investment into its focus area and support the development of a wider value chain locally and into wider regional and national territories.
- **Strong and settled partnerships** and coordination between policymakers at all levels, including local authorities and local enterprise partnerships (LEPs), national departments and other agencies, in order to ensure that the economic environment can build confidence and maintain support for investors, in areas such as transport, infrastructure and skills.

3. Spatial awareness and focus of the system
UKTI interviewees in particular described the spatial blindness of the current approach, with the goal being to meet the demands of investors rather than to influence their decision-making.

Currently, a framework of eight high-priority sectors and 40 subsectors drives resourcing and targeting decisions for the UKTI system, shapes information acquisition through the 'Surfacing the National Offer' process, shapes the UKTI customer relationship management (CRM) system, and provides a focal point for staff based nationally and overseas. These priority sectors are software, advanced engineering, life sciences, finance, environmental technology, ICT, creative and media, and business services.

In the past, regional development agencies (RDAs) played a key role in keeping overseas offices informed about the offer from their regions, ensuring that local and regional opportunities were brought forward. Different views were expressed about the way they had performed this role.

- RDAs were judged to have been effective in linking with investors, organising the support systems in their regions, supporting local agencies, and promoting projects both within and outside of the national priority framework. Many also maintained international offices and promoted regional opportunities directly to potential investors. They had an understanding of how to secure second-phase investment built on investments into London and the South East.

- Less positive aspects of the RDA system included overt competition and a lack of collaboration between RDAs, which could be seen in competing desks at trade fairs, negative briefing, and attempts to capture all investor resources to their own regions. It was also reported that RDAs showed an unwillingness to collaborate across regional boundaries to build supply chains outside their regions, even where it might cement relationships with investors.

The research found that national-level interviewees believed that the closure of the RDAs had addressed these issues of perceived competition; local participants believed that it had also removed a degree of brand confusion around the core cities, which were seen as the key investment assets for the system but had been previously subsumed beneath regional brands.

However, the consensus from these interviewees was that, overall, a heavy price has been paid for closing down the RDAs in terms of the infrastructure which has been left behind. **Interviewees reported a difficult and incomplete transition, with problems replacing lost capability and a much-degraded capacity less able to promote local and regional opportunities.** This is supported by data about the overall reduction of resources within the new system, and reports from interviewees that key knowledge and skills were lost, not least because of the haste with which the closures took place. There is also evidence that LEPs are now competing in a similar way to the old RDAs.

The research also suggests that while the structure established under the UKTI national system has set about seeking to maintain momentum, restoring capacity, and building relationships with local partners, and while the more established local inward investment agencies have been able to provide at least some of the capacity, there is a general decline in both capacity and momentum across the North. There appears to be a particular problem in Yorkshire and the Humber, in part due to the particularly rapid closure of its RDA.

For the longer term, there are concerns that the emerging system is fragmented and under-resourced; there is doubt as to whether it can achieve a new equilibrium in its current form. One national interviewee summarised a general view:

> **'We lost bodies of significant economic size that mattered in their regions. Many LEPs are too small to do their role, although some are performing well.'**

New capacity is being developed slowly, but it remains less extensive and the system is still in transition. City-regions are now a more important scale for working in this area, and their relationships with local authorities are crucial in creating the conditions to support investments, but they are under-resourced. In some areas, new business-winning functions are being created at both levels. The local role has always been in place to some extent, because the needs of investors for infrastructure, skills and support on the ground have been addressed by local authorities. In addition, some of the more developed city-regions have maintained strong and successful local infrastructure, such as in Merseyside and Manchester. However, other areas are significantly underdeveloped; continuing investment to support development of capacity here is required.

A significant amount of work has been done and is continuing to retain knowledge and skills, to ensure that the system can access and keep up-to-date information about the opportunities, can support and improve local capacity in LEPs and local agencies, and

to link up the various parts of a now badly fragmented and under-resourced system, including to overseas and specialist capacity. However, the research highlighted particular concerns relating to the flow of information about new projects and existing growth opportunities, and the extent to which subsectoral opportunities identified locally can be introduced into the specialist and overseas parts of the UKTI system.

In the meantime, the Department for Business, Innovation and Skills (BIS) and UKTI have begun to work directly with national trade and sector bodies that are perceived as good partners. These tend to be aspatial programmes, although some are inevitably strongly northern because of the geographical location of the sector. For example, the 'intelligent textiles' programme, which is based in the North West and Yorkshire, and the Automotive Council, which offers a full supply chain and involves both private sector and LEP partners across the North East, Merseyside and Lancashire.

4. A system in transition: future development scenarios

There was general agreement that it was too soon to come to a clear view about how the system would perform in the long term given that it had experienced a significant change at speed. Most interviewees recognised that they were largely rebuilding a system with markedly fewer resources, having lost information and relationships, in a difficult economic environment. There was a consensus that the system should be best understood as being in transition.

A key concern is that interviewees were unsure whether it would be possible to return the system to a 'steady state', with national interviewees especially holding significant concerns and frustrations about ongoing fragmentation, lack of information, and capacity and capability gaps in areas which have seen particular problems, such as aftercare. Making the system work better is seen as a significant challenge given the number of partners – 39 LEPS and a large number of local authority agencies – for a national system reduced by over half in terms of its fieldwork capacity.

In the course of our discussions with stakeholders, a number of potential scenarios for development of the system were suggested, depending on local decisions about resourcing and national decisions about future shape and structure. Some of these could emerge in combination.

- **A patchy local system**, consisting of the current UKTI structures working with local bodies, with the main local focus being on core cities and urban LEPs, which have more resources and more local assets to use to attract investment.
- **A reversal of the centralisation decision**, handing more resources either to the current LEPs to enable them to build a more significant infrastructure and to link with national specialist and overseas functions and/or through mergers of capacity and increasing local collaborations between LEPs and local agencies to create scaled-up bodies.
- **A more sectoral national system** delivered through a combination of UKTI and private sector-led structures, like the Automotive Council. Local spatial partners would retain an important local role, focused mainly on addressing local infrastructure issues to embed national and sectorally led initiatives.
- **The reintroduction of some structure at a 'mezzanine scale'** between LEPs/local authorities and the centre in order to enable a more strategic approach, including working at larger, supply-chain-level scales, and to provide a stronger partner for UKTI in promoting regional brands and assets. This could be a deliberate variation on the collaboration scenario, and was mentioned as desirable by a number of national figures.

Recommendations

With the benefit of this work, and at a time of limited public sector resources, we make three key recommendations. Together they have the aim of:

- **Strengthening the capacity of the local system to identify, support and communicate key investment opportunities**, including by enabling collaboration between local agencies to support subnational opportunities which span LEP borders and to generate intelligence.
- **Providing a framework for addressing fragmentation** by developing a stronger partnership between the local inward investment system and national specialist and international resources, addressing fragmentation through enhanced intelligence and more-proactive coordination.
- **Improving outcomes**, by incentivising a focus on investments that secure employment and growth.

These proposals are consistent with national priorities to promote localism and enable economic rebalancing, and are strongly aligned with the other proposals of the Northern Economic Futures Commission which aim to contribute to these goals by delivering stronger economic performance in the North (see IPPR North and NEFC 2012). The recommendations of this report are as follows:

- **Shift capacity into the local system:** Overall, there is a lack of capacity at the subnational level, in particular in LEPs and local authority-led inward investment agencies, to deliver enhanced levels of inward investment activity and to play their envisaged role as key partners within the national system. The reductions in capacity have been concentrated in this key part of the system, creating particular risk for those areas outside of London and the South East which do not enjoy the same level of global brand profile. It is recommended that, if there is to be no additional investment in FDI, then a greater share of the BIS and UKTI resource invested nationally should be shifted to key local scales to strengthen the capacity of local teams to understand and project the local and spatial offer to national and international partners and investors, and to support investors by coordinating local support.
- **Change behaviours through the target and monitoring system:** The current system of measuring the number of projects secured annually is not adequate or suitable for driving the long-term behaviours that can maintain the momentum the UK has had in the past in international markets. The ideas suggested to the research team are to create a stronger focus on the expansion of existing projects, combined with targeting strategic long-term new projects. Adopting targets that measure short and long-term employment growth and impacts related to targets such as sustainable economic growth potential would be more likely to support this objective for the UK as a whole, and more likely to support the government's objective of securing more investment into the North.

  The priority should be to secure longer-term sustainable outcomes in industrial developments that can drive sustainable growth and employment. This will be driven most effectively by introducing longer-term targets, rather than the current annual framework of projects. It is recommended that a tasking framework is created which can radically shift behaviour in the system towards long-term economic outcomes. This needs to include greater focus on long-term strategic relationship-building in key emerging markets. In making this recommendation, it is noted that contributors to this project have recommended that employment should be the main indicator. However,

we note that Scotland Development International came to a similar conclusion some time ago and chose to adopt a still more challenging target relating to the number of jobs secured with salaries greater than 20 per cent of the national average. In Manchester, MIDAS similarly measures the number of jobs secured over a set salary, as an indicator of the quality of jobs, as well as R&D investments. Targets such as these would recognise the need to aim for a growth in the quality of employment in the North and in the country as a whole.

- **Build collaboration at a wider scale:** While the key recommendation is to strengthen the local and city-regional scale, the research has also highlighted a gap at a strategic scale between national and local levels in the North. To secure higher levels of inward investment to the north of England, and to boost its export capacity, we recommend the formation of a Northern Investment and Trade Board (NITB) tasked with developing a small number of key trade and investment priorities for the North and improving coordination between local authorities, LEPs and UKTI sector specialists. The role of the NITB should be:
  - To focus on a small number of strategic projects within which the North as a whole has capacity at scale – such as nuclear and renewable energy, and water supply and management technologies – with the aim of providing a coordination point to build links between local assets and project them effectively to UKTI, BIS and its ministers, and through them to investors.
  - To ensure properly coordinated and streamlined account management role for these key projects, working with local authorities and LEPs to provide ongoing communications with key investors and existing trade partners to secure expansions and to build on existing trade links in order to secure leads.
  - More generally, to provide mechanisms to engage actively with UKTI specialists and overseas capacity to draw them more effectively into the North to work with LEPs and local investment agencies, to coordinate information about northern opportunities within the UKTI system, and to improve the national understanding of northern sectors and subsectors.
  - To support capacity-building among local northern partners, through information exchange and development of the skills required.

  It explicitly should not be the role of this body to project a separate brand, such as ‘the North’. Its rationale should be to address failures of coordination and information in an efficient and accountable way.

INTRODUCTION

This research was commissioned under the auspices of the Northern Economic Futures Commission (the commission) in July 2012. The commission was established in July 2011 to develop a 10-year strategy for economic growth in the north of England.[1]

Over the course of 18 months, its 16 commissioners took evidence from a wide range of sources and carried out their own research into drivers of future prosperity. In its final report (IPPR North and NEFC 2012a), the commission set out a vision for the north of England to take its place in the ranks of the most successful northern European economies, with competitive companies trading in global markets, a fully employed and well-skilled workforce, and strong civic leadership that supports growth and shared prosperity. It set out its belief that for the UK is to rebalance its economy towards higher business investment and stronger export performance, it is essential that the North is at the forefront of economic change.

Alongside this vision for growth, the commission set out a 12-point plan to secure these goals focusing on skills, innovation, infrastructure, investment and the institutions that it believes to be needed in the North to drive forward change.

In the first phase of its work programme, in response to its call for evidence, the Northern Economic Futures Commission received comments expressing significant concern about the North's continuing capacity to secure inward foreign direct investment (FDI) following the closure of its three regional development agencies (RDAs) and the creation of a new unitary infrastructure led nationally by UK Trade and Investment (UKTI). These were reported in its interim report (IPPR North and NEFC 2012b).

Commentators expressed concern that the goal of the current government to secure long-term economic rebalancing by mobilising the potential for growth in the North would require a stronger investment performance, and that maintaining momentum in inward investment was crucial.

The changes to the system took place between 2010 and 2011, with the new system becoming operational in April 2011. The goal was to promote a single national offer to inward investors, replacing the previous network of nine RDAs. As part of these changes, a significant restructuring and reduction in capacity took place in England. (The three devolved nations of the UK have made their own arrangements.)

This project therefore has aimed to understand the past and current performance of systems for securing foreign direct investment into the UK as a whole, and to the north of England in particular, and to provide insight into the North's future potential to maximise these incoming resources. It has explored a number of lines of enquiry through review of existing written evidence and targeted interviews with participants in, and users of, the inward investment system. It aimed:

- To draw together, and compare and contrast, performance information about the previous and the current arrangements, taking into account the current economic conditions and the level of resources available. Within this, it aimed to look in particular at the recent position in the north of England.
- To examine the 'spatial awareness' of the system following the closure of the RDAs, and to examine the performance of the new arrangements created by UKTI and run through a consortium consisting of PA Consulting, OCO Consulting and the British Chambers of Commerce, which were designed to attract inward investment to regionally based projects.

1 See http://www.ippr.org/research-project/44/7405/northern-economic-futures-commission

- To examine the contribution of the previous and current support apparatus for inward investment and aftercare support in England and the development of relationships between UKTI, PA Consulting, emerging local enterprise partnerships (LEPs), local authorities and inward investment agencies (IIA), in order to assess the extent to which these are developing into a coherent and collective model. This has been done through interviews with national participants and a sample of people working in established and emerging structures.
- To understand the experience of businesses working with the UK systems, before and after recent changes.
- To understand the future strategy thinking of UKTI and the Department of Business, Innovation and Skills (BIS) in the context of LEP developments, BIS Local arrangements, and established local authority structures. To examine the relative potential of the different decentralised structures and relationships to ensure an efficient and effective inward investment service to economic partners in the North.

Without doubt, the economic environment creates a challenging context for inward investment practitioners. This, combined with the rapid organisational changes that the system has experienced, makes it very difficult to come to clear conclusions about the performance of the new system from a scan of the data alone. Indeed, there are complexities within the data itself, with different studies reporting on different bases, challenges in comparing performance between different parts of the UK because of levels of resources and institutional stability, and still-unravelling chains of cause and effect. For example, interviewees to this study have suggested that employment is a 'lagging' indicator for FDI investment, and therefore that the main projects responsible for employment growth now are those built on relationships created through the old system.

This report, therefore, sets out and explains the data as it currently stands. Drawing from three different sources, it seeks to highlight trends and directions of travel and to draw some conclusions. In keeping with its sources, it uses absolute data and does not attempt an analysis per head of population or in relation to business stock. But in order to add further texture it also seeks to get beneath the data to understand the perspectives of key stakeholders within the system about its current performance and the prospects for the future. In-depth interviews were conducted with interviewees from UKTI, the network of agencies assembled within the new national system, local inward investment teams in the North, and key businesses and sector organisations.

The immediate aim of this research is to provide evidence to underpin the recommendations of the Commission in its final report (NEFC 2012a), by offering an assessment of the current system and recommendations about steps which could be taken in response.

However, the report has also been published as a discrete document to offer findings and thinking to a broader audience, with the goal of further informing the debate about how the evolving institutions can improve their performance in this task.

1. REVIEWING THE EVIDENCE: UNDERSTANDING RECENT PERFORMANCE AND CHANGES IN THE INWARD INVESTMENT SYSTEM

The Coalition government came into power promising that Britain would pay its way in the world and that it would turn Britain into a magnet for foreign investors.

The economic context has been challenging for a number of years. Recent results have suggested that FDI into the UK has been declining since 2010, particularly in the North. Clearly, this is in part due to the global recession, but commentators have also focused on the decision to disband the RDAs in the North,[2] given that they played an active role in securing inward investment.

Establishing a new FDI system

Full responsibility for securing FDI was handed to UKTI in 2010, as the RDAs were in the process of being wound down. UKTI established an organisational strategy to deliver this enhanced role, in which PA Consulting (PA), working in partnership with OCO Consulting in a strategy and intelligence role, and the British Chambers of Commerce and their local network, was commissioned on a three-year contract to provide a new geographically dispersed 'investment hub' for UKTI in the English regions, through its UKTI Investment Services Team (IST). The IST was tasked to provide FDI services directly in England outside London, and to work closely with London institutions, with the devolved administrations in Scotland, Wales and Northern Ireland, and with LEPs and other local partners to deliver a streamlined UK-wide FDI service to inward investors (BIS 2011).

By providing linking capacity between businesses and business organisations and local economic development organisations, in particular those controlled by local enterprise partnerships and local authorities, it was envisaged that a comprehensive UKTI network would link the national resources deployed through UKTI, including specialist and commissioning structures, UK Foreign Office outposts in those countries representing key investor and trading opportunities, and national sector specialists deployed though PA.

The partnership became operational in April 2011[3] and has set about working with local and regional chambers of commerce, a diverse range of emerging local infrastructure bodies and sector partnerships to identify, promote and help deliver regional investment opportunities, as well as providing 'direct relationship management and investor development' with existing investors in the regions (in addition to its role supporting London and the devolved nations).

The overarching goal of these changes was to present a consistent and coherent national offer to international partners. This was spurred by both cuts in public spending and a concern that previous arrangements had created confusion about the national offer, on account of the varied approaches of the nine English regions and the national agencies of Scotland and Wales in particular.

The funding package available to the new system is significantly lower than that previously available to the national system, including the nine English RDAs, and the bulk of the spending reductions have fallen on the fieldwork aspects of the structure. According to BIS (2011), the contract with PA is for £41.5 million over three years, with the possibility of extension at a similar level. This amount replaces the UKTI's previous annual contribution

2 On June 2010, the UK government announced plans to abolish the RDAs in all areas except London. They were effectively disbanded in 2011 although their formal closure was 31 March 2012.

3 This was announced by Martin Cook, director of regions at UKTI, on 4 April 2011. The new arrangement took place with immediate effect and the intention was for PA Consulting to take full responsibility for delivery of FDI support to UKTI in the English regions 'as early as possible in the 2011/12 Financial Year'. See http://www.publications.parliament.uk/pa/cm201012/cmselect/cmbis/735/735we04.htm

of £14 million to the 'single pot' available to RDAs for FDI delivery in the English regions, and the additional annual spend of around £15 million by the RDAs themselves on FDI activity – that is, a total of around £29 million per annum. The central cost of UKTI itself was expected to remain the same following the changes.

In terms of personnel, BIS highlighted a significant reduction in headcount brought about by these changes. The eight English RDAs outside London employed or funded through subcontractors more than 190 people to deliver FDI and aftercare investment services. The IST arrangement estimated a headcount of 114 people, with just over 70 deployed outside of London. BIS reported that, overall, the new arrangements would offer significant efficiency savings, equivalent to up to 50 per cent of the cost of providing local FDI delivery through the RDA network.

In order to understand whether these changes are enabling or affecting the North's capacity to reach its potential in this area, the impact of this institutional overhaul on the ability of the regions to attract inward investment needs to be assessed. This chapter therefore:

1. Analyses national and regional data from the Office for National Statistics (ONS), UKTI and RDA evaluations and performance reports to come to conclusions about the flow of FDI into the north of England.
2. Compares performance information about the previous and the current arrangements in the north of England, taking into account the impact of the economic crisis and the level of resources afforded to each institutional arrangement.
3. Reviews other established local initiatives and examines their performance before and during the economic downturn.
4. Reviews the performance of arrangements in Scotland and Wales as a control.
5. Examines how existing decentralised structures manage to balance spatial awareness with service efficiency, including examining the potential for collaboration at different scales.

It provides a starting point for the interviews and discussions reported later.

UK performance in securing inward investment

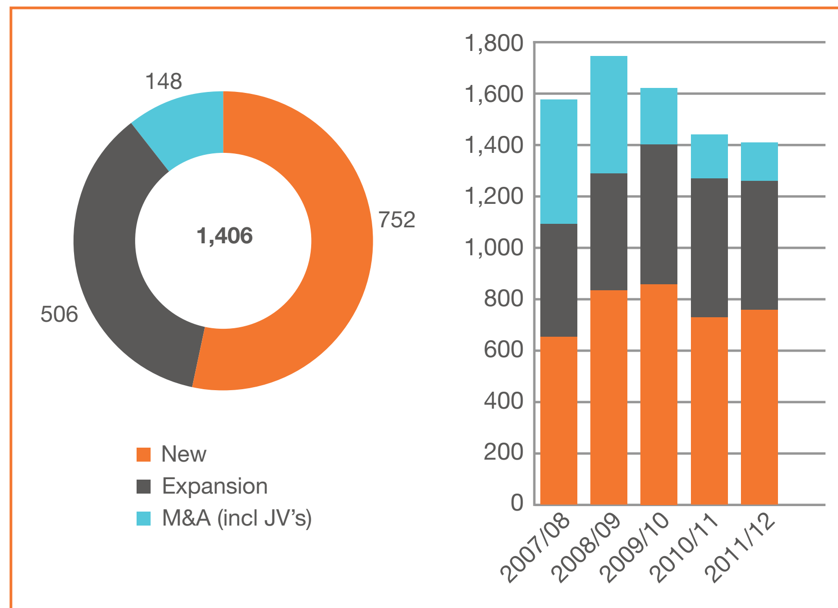
The UK has a strong record in attracting inward investment. According to the World Bank, the UK is ranked number one in the EU and G8 for ease of doing business. This has translated positively into strong inward investment flows. There is not, however, unanimity about how the more recent performance should be understood, either nationally or subnationally. Different reports have taken different perspectives on current performance. This section reviews the main contributions to the debate.

UKTI reports

According to UKTI (2011), inward investment supports over 30 per cent of the UK's economic output. The UK has retained its position as securing the largest share of inward investment into the EU, although Germany is closing the gap.

The latest UKTI annual report for 2011/12 reports that 1,406 FDI projects were delivered in England over this period, contributing 112,659 jobs either created or protected (UKTI 2012). The UKTI reports projects across three categories: new projects, expansions, and mergers and acquisitions. Of those registered by UKTI in 2011/12, 752 were categorised as new investments, 148 as mergers and acquisitions, and 506 as expansions (see figure 1.1).

Figure 1.1
UK inward investment, projects by type, 2011/12 (left), 2007/08–2011/12 (right)



Source: UKTI 2012

The majority of the jobs recorded were protected jobs (59,918) and this represented a 14 per cent increase in protected jobs on the previous year. The number of new jobs created by inward investment activity also rose by 26 per cent to 52,741.

It is worth going into these figures in more detail to assess how performance is changing. The number of expansions had been increasing steadily since 2006/07. This has been widely welcomed as evidence that companies from overseas investing in the UK are staying and growing from their UK base beyond their initial investment. This is seen as key in securing employment growth. In 2010/11, however, the number was largely unchanged from the previous year; in 2011/12 it declined. In 2010/11, expansions accounted for 38 per cent of total inward investment projects.[4] In 2011/12, the proportion of expansions declined slightly to 36 per cent.

The data for new investments shows a different trend. After five years of steady growth, the number of new investments fell for the first time in 2011, by 17 per cent on the previous year. There were 850 new inward investment projects in 2009/10, the highest number since 2005/06. New investments still accounted for the majority of inward investment projects, at around 50 per cent in 2010/11, and they grew again in both absolute terms and as a proportion in 2011/12, representing 53 per cent of total project numbers.

The number of inward investment projects accounted for by mergers and acquisitions (M&A) activity (including joint ventures) fell for the fourth consecutive year in 2011/12, after a period of relative stability prior to the financial crisis. In 2010/11, the number of M&A FDI projects fell by 26 per cent compared to the previous year (225 projects), and by a substantial 175 per cent compared to 2008/09 (457 projects (UKTI 2009)). In 2011/12, M&A accounted for 10.5 per cent of all inward investment projects in the UK.

4 In 2010/11, expansions created 27,900 new jobs (up from 17,500 in the previous year (UKTI 2010)) and safeguarded 30,100 jobs.

Overall, the UK's inward investment performance over the last three years can be said to be disappointing, with a continuing downward trend in the total number of projects. The number peaked in 2008/09[5] at 1,744 projects. This fell to 1,619 in 2009/10 (that is, by 7.2 per cent), by a further 13 per cent from 2009/10 to 2010/11, and further still in 2011/12, to 1,406 projects.

A key part of this recent decline can be attributed to the challenging economic environment. Ernst & Young (see following subsection) has found that economic conditions – specifically, the level of domestic demand – is the 'single most important factor driving decisions to locate in the UK' (Ernst & Young 2012b). It is important also to consider the importance of the UK as a gateway for foreign investors to enter the European market: it is likely that ongoing uncertainty in the eurozone is having a detrimental effect on foreign investment flows into the UK. While this factor continued to exert a downward pressure in 2011/12, one encouraging statistic for this year was the growth by 22 per cent in investment into the manufacturing sector. This is particularly relevant given the increasing focus on building export potential, with UKTI reporting investments from Nissan, Honda and Tata, among others.

Other reports

In a recent review, Ernst & Young (2012b) offers a different analysis, but like UKTI also warns of a deteriorating situation, including challenging comparators with other countries. Ernst & Young examined the subset of the overall figures including only those projects generating new jobs or facilities.[6] On this basis, they found that a total of 679 inward investment projects were secured in the UK in 2011, representing a 7 per cent decline on the previous year (down from 728 projects). This contrasts with developments in Europe as a whole, which saw a 4 per cent increase in total projects, rising to 3,906 in 2011. In fact, their report suggests that there has been 'no significant growth in UK project numbers since 2006' and that FDI into the UK has now fallen back to levels last seen at the height of the recession (678 in 2009).

The report also notes that Germany's share of inward investment in Europe rose by 15 per cent over the same period and now trails the UK by just 2 per cent in terms of European countries' share of FDI. Germany also secured backing for more manufacturing projects from overseas investors than the UK for the first time in 15 years and won twice as many projects from Chinese businesses (Hurley 2012). Ernst & Young suggests that Germany's growth illustrates the importance of 'two way trade and strong domestic demand in driving investor choice' and that success in attracting inward investment is intrinsically linked to wider economic performance. It is to be hoped that the recent boost in manufacturing investments into the UK reported in the latest UKTI annual report might lead to some turnaround in these figures for 2012.

5 Since records began in 2004/05.

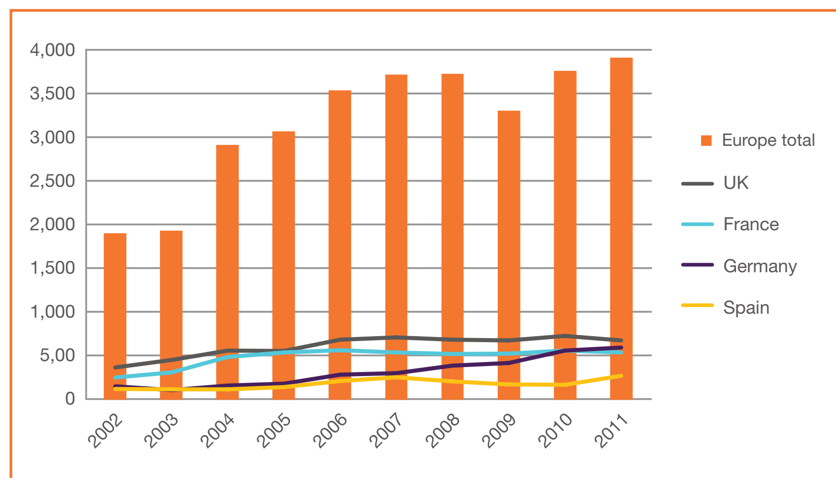
6 It is important to note that the Ernst & Young methodology excludes M&A investments and portfolio investments (by pensions, insurance and financial funds). Given that M&A FDI investments have fallen significantly over the past three years (see UKTI figures), it is reasonable to suppose that their conclusions nonetheless represent a fairly accurate overall picture.

Table 1.1
Total inward investment projects in Europe's four largest recipient countries

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
UK	369	453	563	559	685	713	686	678	728	679
France	254	313	490	538	565	541	522	529	562	540
Germany	153	110	163	182	286	305	390	418	560	597
Spain	122	119	121	147	212	256	211	173	169	273
TOTAL Europe	1,901	1,933	2,910	3,065	3,531	3,712	3,720	3,303	3,757	3,906

Source: Ernst & Young 2012b

Figure 1.2
Total inward investment projects in Europe's four largest recipient countries



Source: Ernst & Young 2012b

Looking at new and emerging sources, Ernst & Young reports that inward investment from the BRIC countries (Brazil, Russia, India and China) has remained relatively flat in recent years. Yet, in terms of the UK's share of FDI projects from two of the most important BRIC countries – India and China – the trend is downward. Thus while the UK continues to be Europe's largest recipient of inward investment from India, its share of Indian projects in Europe fell from 47 per cent in 2010 to 38 per cent in 2011. Similarly, the UK's share of Chinese inward investment projects has fallen to approximately 22 per cent in 2011, from 28 per cent in 2010.

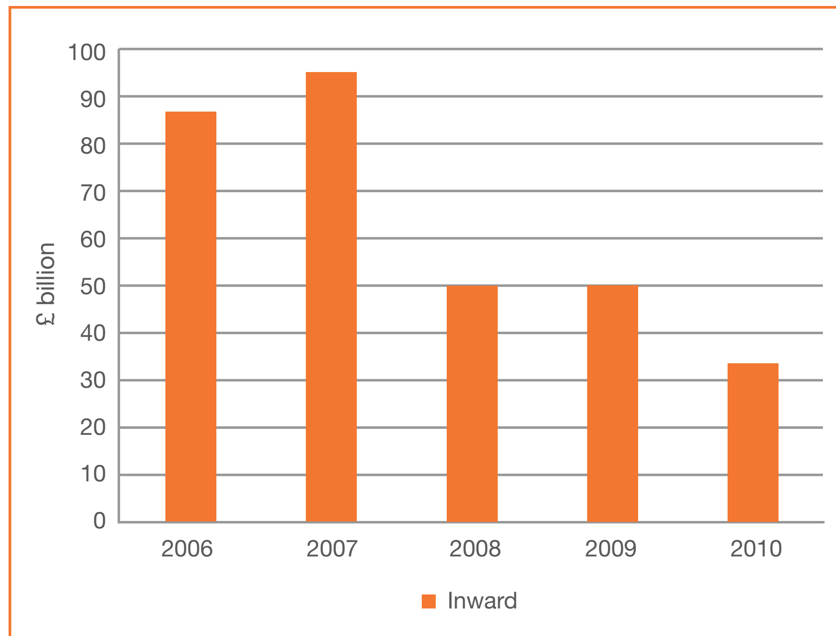
However, in line with the UKTI figures, Ernst & Young finds more positive results in the data[7] on recorded employment from inward investment (noting that their data tracks new jobs only, not protected jobs). The UK continues to command the largest share of jobs created from FDI projects in Europe, and this rose to 19 per cent in 2011, its highest level in more than a decade. In the UK, the annual rate of growth in recorded FDI jobs was 41 per cent – only Germany, Turkey and Serbia registered higher rates.

Office for National Statistics

Looking at overall figures, ONS figures for 2010 offer a further muted perspective, highlighting that overall net investment flows have been slowing over time (ONS 2011). They show that in 2010 net inward investment flows (a calculation which nets off divestment) into the UK fell by £16.2 billion from the previous year to £32.8 billion – its lowest level since 2004. It is also little more than one-third of the £90 billion flow of net investment into the UK in 2007.

7 However, the report notes that employment data for 2011 is available for only 46 per cent of the projects recorded.

Figure 1.3
Net investment flows into the UK, 2006–2010 (£bn)



Source: ONS 2011: 2

In terms of total stock, the ONS reports continuing strength, reflecting strong past performance and good maintenance of stock. In the first quarter of 2011, the ONS recorded the capital stock of FDI in the UK at £720 billion, an increase of £41 billion compared to a year earlier. It is, however, slightly lower than the record[8] £731.6 billion worth of inward investment stock registered in the final quarter of 2010 (ONS 2011). This suggests £11.6 billion of divestment took place in early 2011.

A particularly stark point in the ONS data is the decline of FDI into the UK from Europe. Net direct investment flows fell by 94 per cent, or £30.3 billion, from £32.1 billion in 2009 to a mere £1.8 billion in 2010. This is the lowest value since comparable records began in 1988. A number of countries registered a net disinvestment in UK companies in 2010, including the Netherlands (by £4.8 billion) and France (£4.7 billion).[9] The detail here is significant. According to the ONS, these figures reflect a small number of acquisitions, several big equity disposals (including the £2.8 billion disposal of Axa Sun Life Holdings by Axa SA), and a substantial fall in the number of intercompany loans, due in part to multinational firms looking to repair their balance sheets following the financial crisis.

Similarly, inward investment from Australasia fell from a net investment of £2.5 billion in 2009 to a net disinvestment of £2.4 billion in 2010 – a fall of £4.9 billion. These figures were somewhat compensated for by the growth in net investment from the Americas over the same period.

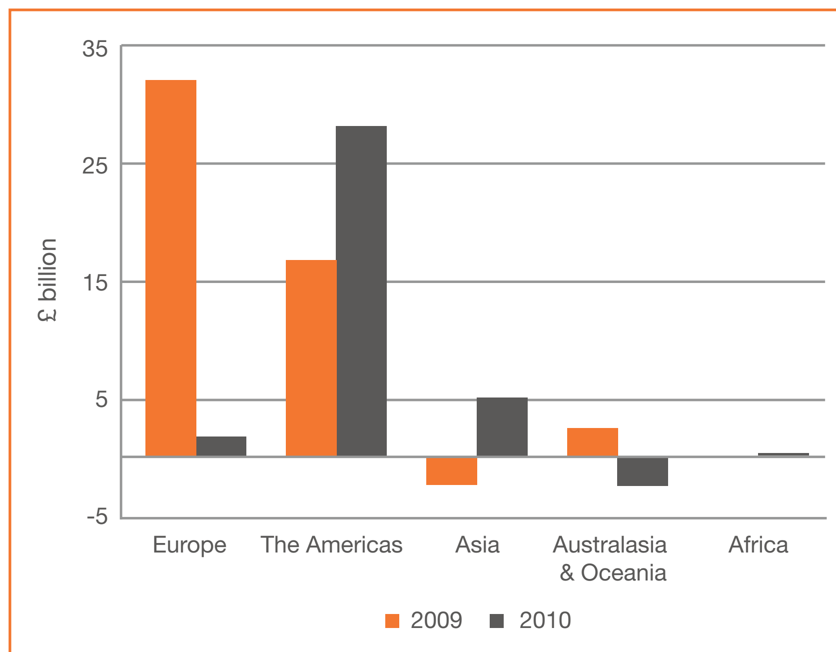
This combination of figures suggests that despite attracting inward investment from a record 58 countries in 2012, the UK appears to be reliant on a small number of countries for the bulk of inward investment projects, with a particular dependency on the US.

8 Since the ONS began reporting this data in 1987.

9 Nevertheless, these countries still hold the largest inward investment positions in the UK from within Europe, with the Netherlands (£114.7 billion) and France (£67.8 billion) accounting for 16 per cent and 9 per cent of total inward investment respectively.

In 2010, net investment flows into the UK from the US stood at £23.3 billion. According to the ONS, the largest proportion of this came from flows of equity capital, including several significant transactions such as the acquisition of Cadbury Plc by Kraft Foods Inc for approximately £11.5 billion (ONS 2012: 56). At the beginning of 2011, companies from the US were holding £200.2 billion of investment in the UK, an increase of £30 billion on the previous year (ONS 2012: 68). In 2010/11, the US accounted for 27 per cent of all inward investment projects in the UK and almost 40 per cent of created or safeguarded jobs from FDI inflows (UKTI 2011).

Figure 1.4
Net direct investment in UK companies by foreign companies, by origin, 2009–2010 (£bn)



Source: ONS 2011: 10

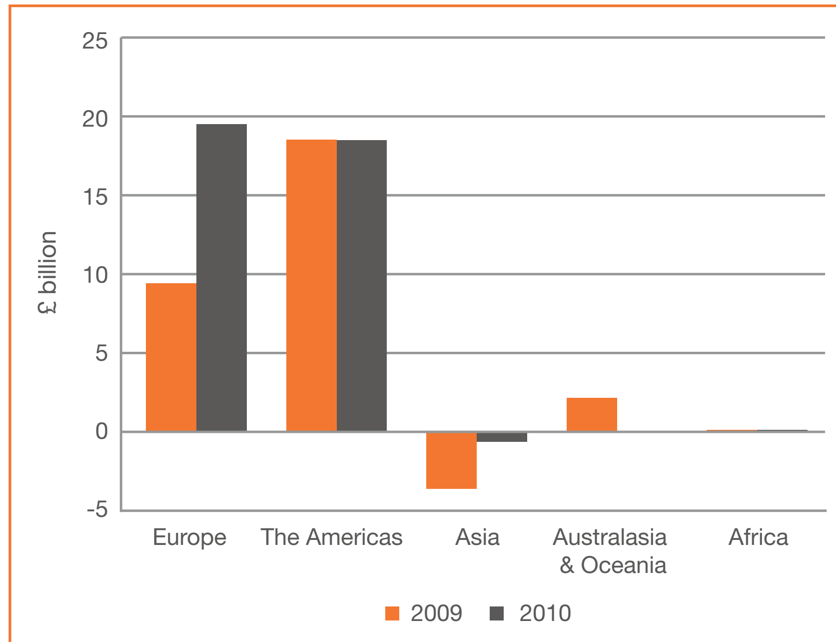
The level of profitability that overseas investors can expect from investing in the UK continues to grow. According to the ONS, net earnings from direct investment in the UK rose to £37.5 billion in 2010, up from £26.4 billion the previous year (see figure 1.5, over). Direct investment earnings have increased each year since 2008, although there are no figures available for 2011. While the overall increase in earnings in 2010 was principally due to the £10.1 billion growth in earnings of UK companies with parents in Europe (from £9.4 billion in 2009 to £19.6 billion in 2010[10]), UK companies owned by US parents reported the highest overall net earnings in 2010 of £16.3 billion.

Sectoral performance

UKTI is particularly focused on eight key sectors, and an associated set of subsectors, based on analysis of existing strengths. These key sectors are software, advanced engineering, life sciences, finance, environmental technology, ICT, creative and media, and business services. The UKTI 2011/2012 report highlights how performance in terms of numbers of projects and overall financial value is reasonably fairly balanced across these sectors with software and advanced engineering slightly higher than the other sectors (UKTI 2012).

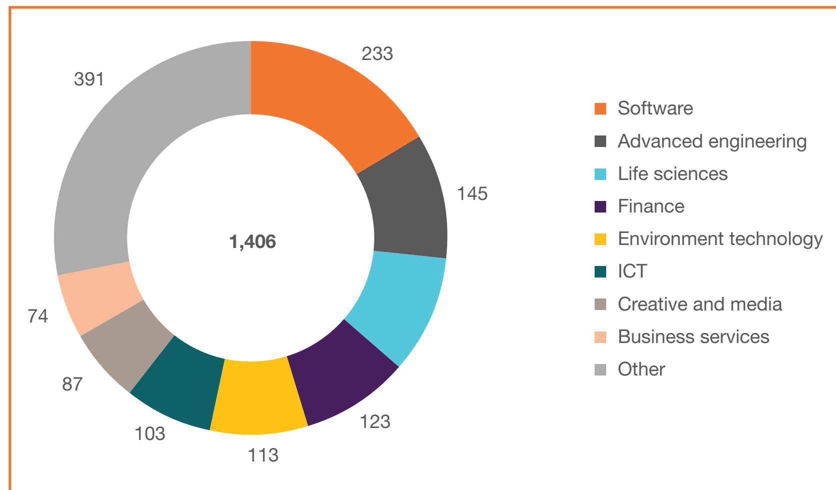
10 Figures are rounded to the nearest £0.1 million.

Figure 1.5
Net earnings from direct investment in the UK by foreign companies, by origin, 2009–2010 (£bn)



Source: ONS 2011: 12

Figure 1.6
UK inward investment, projects by sectors, 2011/12



Source: UKTI 2012

While these sectors generate the most projects, the fastest-growing sector is automotive components – reflecting Britain's booming car assembly and manufacturing industry – followed by electrical and scientific instruments. The automotive sector is also relatively labour-intensive, meaning that the job benefits of inward investment in this sector tend to be a strong – particularly in automotive assembly, in which inward investment enabled the creation of 3,308 jobs in 2011. FDI in automotive components generated an additional 1,802 jobs, despite the fewer number of projects in this sector.

Another successful employment contributor is financial services, with UKTI reporting that the number of new jobs created through inward investment this sector increased

by 212 per cent in 2010/11 compared to the previous year. Ernst & Young (2012b) concurs, suggesting that while the UK is facing stiff competition from emerging markets for investment in retail finance, it is holding strong in areas such as asset management, wholesale banking and capital market investments.

However, while the UK's investment in financial services has traditionally been strong and the employment outcomes are strong, Ernst & Young reports that the number of FDI projects in financial services declined by 15 per cent in 2011 compared to the previous year (ibid).

ONS data presents another angle, showing a threefold decline in FDI inflows from financial services over the previous two years, from £20.8 billion in 2009 to £7.5 billion in 2010 (ONS 2012: 59). This is in part due to deleveraging in the banking services sector; this, coupled with new regulatory requirements on solvency and capital reserves, is reducing the credit capacity of the sector and having a knock-on effect on investment opportunities. That said, the UK registered a slower rate of decline in inward investment projects in financial services than recorded across Europe as a whole, meaning the UK's market share in Europe is holding firm.

Ernst & Young has assessed the data and provided an independent view on the ranking of sectors in terms of performance in 2011.

Table 1.2
Ten most important sectors for inward investment into the UK, 2011

	Number of projects	Share of projects (%)	Change from 2010 (%)
Business services	160	23.6	-1.2
Software	147	21.6	19.5
Machinery and equipment	39	5.6	-17
Financial intermediation	34	5.0	-15
Food	29	4.3	20.8
Scientific instruments	19	2.8	11.8
Electronics	18	2.7	-48.6
Publishing	18	2.7	0
Electrical	17	2.5	21.4
Automotive components	16	2.4	23.1

Source: Ernst & Young's European Investment Monitor 2012 cited in Ernst and Young 2012b

The performance of the North of England

Ernst & Young's analysis of regional performance over recent years has shown a steady decline in the total number of projects outside of London and the South East.

London and the South East have historically been the primary focus of inward investment in the UK, and in recent years this trend has continued. Despite the overall fall in UK projects, London increased its share of FDI in 2011 by 13 per cent, securing 50 per cent of all UK investment (compared to 37 per cent in 2010) while the South East more than doubled its share from 6 per cent to 12.2 per cent. Consequently, over 60 per cent of all inward investment in 2011 went to London and the South East (Ernst & Young 2012c).[11]

Aside from London and the South East, all other English regions suffered double-digit declines in the number of new FDI projects in 2011 (Ernst & Young 2012b). The sheer scale of this regional disparity is evident in the following statistic: since 2004, London and the South East have secured more FDI projects than the rest of England put together.

11 According to Ernst & Young, London also attracted more projects than any other city and more than all but four countries in Europe in 2011.

Taken together, Ernst & Young reports that the total number of FDI projects (minus mergers and acquisitions) in the North[12] was 83 in 2011, accounting for 12.1 per cent of the UK share of FDI projects. FDI in each of these regions contracted sharply in 2011 compared to 2010, on average by 34.5 per cent across the three northern regions.

However, the picture is not all negative. The North West is the best-performing English region outside London and the South East for inward investment, registering 39 FDI projects in 2011, or 5.7 per cent of the national share. That said, the number of FDI projects in the North West was still less than half the number in the South East and over eight times less than the number in London. The North West also experienced a slightly sharper fall than the two other northern regions, Yorkshire and the North East, compared to 2010 (-39.1 per cent, compared to -31.4 per cent and -33.3 per cent respectively).

Table 1.3
FDI projects in the UK, by region, 2011

	Number of projects	Share of projects (%)	Change from 2010 (%)
London	327	48.2	13.1
South East	83	12.2	102.4
Scotland	51	7.5	-26.1
North West	39	5.7	-39.1
West Midlands	38	5.6	-24
East England	26	3.8	-3.7
South West	25	3.7	-37.5
North East	24	3.5	-31.4
East Midlands	20	2.9	-51.2
Yorkshire	20	2.9	-33.3
Northern Ireland	17	2.5	-26.1
Wales	9	1.3	-52.6

Source: Ernst & Young's European Investment Monitor 2012 cited in Ernst and Young 2012b

In terms of the number of jobs created from inward investment, the North appears to be doing relatively better. The North West in particular stands out, generating 3,715 jobs in 2011 to rank third in the UK – ahead even of London. Interestingly, the majority of these were in financial services (1,009), followed by logistics (850) and business services (615). The North East also performed fairly well on this measure, creating 3,019 jobs, of which 1,000 jobs were in the metal industry, 500 in auto components and 456 in financial services.

Unfortunately, Yorkshire has not experienced the same fortunes. It was the worst-performing region in 2011, generating the fewest jobs of all the UK regions. The leading sector for Yorkshire was food, creating 321 jobs.

Because business and financial services – in which London excels – are less job-intensive than other sectors, it appears that the concentration of inward investment projects in London also limits the job-creation benefits of inward FDI nationally. Hence, despite the superior number of FDI projects in the capital in 2011, London ranked fourth in terms of the number of jobs created (behind Scotland, the North West and the East Midlands). London's top job creators were the business services and software sectors, while the top UK job creators were retail and automotive assembly. Interestingly, in 2011 more London jobs were created from inward investment in the construction sector than in financial services.

12 North West, North East and Yorkshire and the Humber

Table 1.4
Total FDI-generated new jobs and new jobs by top three sectors, by region, 2011

Regions		No 1 sector		No 2 sector		No 3 sector	
	Total jobs created		Jobs created		Jobs created		Jobs created
Scotland	5,926	Logistics	2,050	Business services	670	Food	640
East Midlands	3,819	Auto assembly	1,700	Retail	850	Transport equipment	800
North West	3,715	Financial services	1,009	Logistics	850	Business services	618
London	3,711	Business services	1,294	Software	811	Construction	486
North East	3,019	Metals	1,000	Auto components	500	Financial services	456
West Midlands	2,919	Auto assembly	1,000	Auto components	830	Food	750
South East	1,706	Electronics	650	Logistics	300	Oil and gas	180
Northern Ireland	1,339	Other transport	800	Business services	242	Auto components	130
East England	1,090	Food	700	Pharma.	130	Logistics	150
Wales	1,090	Air transport	770	Business services	100	Financial services	100
South West	1,009	Auto assembly	500	Other transport	200	Plastic and rubber	125
Yorkshire	545	Food	321	Plastic and rubber	71	Auto components	70

Source: Ernst & Young's European Investment Monitor 2012 cited in Ernst and Young 2012b

UKTI regional performance data

The most recent data published by UKTI for both UK regions (see tables 1.5 and 1.6, over) and arranged at LEP level seems to further confirm these trends, although 2011/12 seems to have been a particularly good year for the North East, from a low base. As with previous years the main focus for new projects continues to be London and the South East, with the North West third in terms of total projects but experiencing a large proportional decline.

On the other hand, figures for employment growth remain more positive, with the North East doing particularly well, alongside the West Midlands and the North West. Yorkshire does much better proportionately, albeit from a low base. An interesting point is the strong performance of Scotland on both measures.

Overall, it would appear that aggregate inward investment performance in the North has worsened since the demise of the RDAs and the start of the transition to the new institutional arrangements.

However, it is difficult to disentangle the impacts of different factors to establish any direct causal link between the new arrangements and these outcomes. This is not least because the deteriorating economic circumstances over this period provide such a dominant context, and also because the dissolution of the RDAs and introduction of new structures is relatively recent. Indeed, a number of commentators have suggested that there is likely to be a lag, with the projects delivered in the most recent years being ones which were already in play at the time the arrangements changed. It has also been highlighted that the

overall pattern may also be obscured as a result of particular sectoral growth, such as from large-scale investments in preparations for the Olympic and Paralympic Games and growing performance in the automotive sector. Given these complexities, it is perhaps too early to read too much into this data.

Table 1.5
Inward investment – total projects, 2005/06–2011/12

	2005/06 total projects	2006/07 total projects	2007/08 total projects	2008/09 total projects	2009/10 total projects	2010/11 total projects	2011/12 total projects	% difference between 2011/12 and 2012/11
East Midlands	74	84	88	82	83	84	49	-42%
East of England	92	119	108	116	92	76	94	+24%
Greater London	323	388	424	540	527	483	573	+19%
North East	63	64	66	68	68	54	66	+22%
North West	112	138	151	176	179	175	115	-34%
South East	223	235	220	219	145	151	164	+9%
South West	61	57	65	97	79	78	50	-36%
West Midlands	82	104	112	115	84	78	76	-3%
Yorkshire and the Humber	54	54	124	125	147	88	49	-44%
England total	**1,084**	**1,243**	**1,358**	**1,538**	**1,404**	**1,267**	**1,236**	**-2%**
Northern Ireland	23	31	56	65	49	44	27	-39%
Scotland	60	89	91	78	96	83	96	+16%
Wales	51	67	68	60	65	38	23	-39%
Devolved nation total	**134**	**187**	**215**	**203**	**210**	**165**	**146**	**-12%**
Non-region/nation specific	2	1	0	3	5	2	24	+1,100%
UK total	**1,220**	**1,431**	**1,573**	**1,744**	**1,619**	**1,434**	**1,406**	**-2%**

Source: UKTI 2012
Note: Projects figures include both UKTI-involved and non-UKTI-involved.

Table 1.6
Inward investment – total jobs, 2005/06–2011/12

	2005/06 total jobs	2006/07 total jobs	2007/08 total jobs	2008/09 total jobs	2009/10 total jobs	2010/11 total jobs	2011/12 total jobs	% difference between 2011/12 and 2012/11
East Midlands	4,525	4,657	5,960	5,595	4,123	6,055	4,375	-28%
East of England	4,546	5,733	6,383	3,164	14,566	4,125	5,663	+37%
Greater London	6,752	8,019	9,525	11,619	10,253	28,291	15,150	-46%
North East	5,775	5,659	3,634	5,466	6,673	4,239	10,679	+152%
North West	6,803	7,520	12,636	11,436	13,486	13,139	15,430	+17%
South East	6,343	6,295	7,533	6,344	9,869	9,672	5,561	-43%
South West	3,925	5,841	5,031	4,813	2,443	8,839	2,948	-67%
West Midlands	10,300	14,611	30,120	6,143	5,866	4,661	14,254	+206%
Yorkshire and the Humber	4,499	2,846	6,311	6,588	5,911	1,538	3,700	+141%
England total	**53,468**	**61,181**	**87,133**	**62,706**	**74,594**	**80,559**	**77,760**	**-3%**
Northern Ireland	4,079	4,717	4,765	5,790	2,129	2,136	1,480	-30%
Scotland	2,915	6,242	6,012	2,851	5,471	7,809	12,610	+61%
Wales	5,204	6,167	5,629	2,714	7,362	3,544	2,854	-19%
Devolved nation total	**12,198**	**17,126**	**16,406**	**11,355**	**14,962**	**13,489**	**16,944**	**+26%**
Non region/nation specific	24,200	50	0	4,479	4,790	550	17,955	+3,165%
UK total	**89,866**	**78,357**	**103,539**	**78,540**	**94,346**	**94,598**	**112,659**	**+19%**

Source: UKTI 2012
Notes:
Jobs are defined as new and safeguarded jobs.
Job numbers include both UKTI-involved and non-UKTI-involved.

Performance under the RDAs

Nevertheless, it is worth appraising the contribution of the RDAs in terms of investments secured and value for money. A comprehensive overview of the RDAs by PwC (2009) found that in the decade before the crisis (1999–2008), the RDAs generated approximately £1 for the local economy for every £1 of public spending, rising to £4.50 when infrastructure investment had been completed (Tyler 2009). In terms of specific data for inward FDI, it is possible to analyse a breakdown of the performance results for each of the northern RDAs.

North East

Fisher reported on the performance data relating to One North East (Fisher 2011). This shows the RDA adding to the stock of inward investment activity in the region over recent years, securing a further seven new or existing inward investment projects in the North East in 2009/10 compared to 2008/09. According to One North East's annual report (2010), of the 60 projects, 55 were overseas businesses and five were UK firms from outside the region (see box below). These additional projects levered an additional £550 million in capital investment from the investing companies compared to the previous year, an extra £180.93 billion in gross value added (GVA) and an extra 2,453 new and safeguarded jobs.

Figure 1.7
One North East inward investment performance data

Financial year	Projects (new investment and aftercare)*	Capital investment (£m)	GVA (£m)	Total jobs (new and safeguarded)
2007/08	60	190.62	138.04	2,726
2008/09	53	204.42	203.93	4,242
2009/10	60	754.41	384.86	6,695
Total	**173**	**1,149.45**	**726.83**	**13,663**

Source: One North East 2010
*These figures include 21 projects secured via UKTI.

Additional data from PwC confirms the strong role played by One North East in inward investment and aftercare. In their evaluation of general RDA performance in this area, PwC evaluated a sample of seven inward investment projects across the region and assessed them as having created or safeguarded 43,441 jobs (18,517 net) at a cost of £56 million in total, estimating additionality at 43 per cent (PwC 2009).

Although like-for-like comparison is difficult, given the different time periods used, it is interesting for indicative purposes that the 60 projects secured in the North East in 2009/10 (according to One North East data above) diminished significantly in 2011, to 24 projects secured (according to Ernst & Young data).[13]

North West

As mentioned above, the North West has consistently been the best-performing English region outside London and the South East in terms of inward investment. Between 1999 and 2010, the North West secured over 900 inward investment projects, creating or safeguarding over 85,000 jobs, thanks in part to the work of the North West RDA (NWDA). According to the NWDA, foreign-owned companies were responsible for generating almost one-fifth of the region's entire economic output during this period (NWDA 2010a).

13 Note that Ernst & Young's data is calculated on a calendar year, rather than a financial year, basis. Also, the Ernst & Young methodology does not capture M&A and portfolio investments. Hence these comparisons should be treated with some caution.

The NWDA's appraisal report claims the region's success in attracting foreign investors to the region was in part due to partnership work led by the RDA (ibid). At its height, the RDA was working with UKTI and local partners including MIDAS, the Mersey Partnership, Cheshire and Warrington Economic Alliance, Lancashire Economic Partnership and Invest in Cumbria to publicise investment opportunities in the region, actively attract investors and provide aftercare. The region attracted a number of big multinationals during this time, including the Bank of New York, Quinn Glass, Prinovis and Maersk.

In its last full financial year in operation (2009/10), NWDA helped to secure 180 inward investment projects for the North West, creating or retaining 13,486 jobs (NWDA 2010b). In contrast, Ernst & Young found that the North West secured a mere 39 projects in 2011 (although the same caveats apply to comparisons between Ernst & Young's and other data).

Yorkshire and the Humber

An internal evaluation of Yorkshire Forward's investment activities also suggested tangible economic benefits were accrued by the RDA's involvement in inward investment promotion (Sharp 2011).

According to this review, between 2007 and 2010 Yorkshire Forward invested approximately £4.5 million in FDI, which generated an increase of approximately £443 million in GVA and represented an average return on investment of up to £97 per £1 invested. The report estimates that inward investment activity over this period created or safeguarded 20,803 jobs, supported over 1,500 businesses, created 151 new businesses, and helped to secure £883 million of new investment. It argues that prior to the establishment of the RDAs, the Yorkshire region had lagged behind much of the rest of the UK in attracting inward investment, even when aggregate inward investment was increasing nationally.

In a separate report, Yorkshire Forward estimated that 125 inward investments and £66 million of private sector investments were secured in 2009/10 (Yorkshire Forward 2010). The report also claims that 'the quality of investment … for the third consecutive year, increased in terms of capital expenditure and job creation'. However, this contrasts with the findings in the Ernst & Young report, which finds that the number of projects in the region has fallen substantially over the last three years, and that just 20 projects were secured in 2011. (Once again, it is important to note the caveats around data comparison.)

Performance of the devolved administrations

The above data suggests that inward investment performance in the northern regions was operating with at least some level of additional success under the old RDA structure, although this statement needs clearly to reflect the relatively benign economic environment in which the RDAs operated, compared with current conditions.

Looking at the performance of the systems in Scotland and Wales provides a useful comparison of the structures and levels of investment in the institutional arrangements between the English regions and the devolved administrations. In Scotland, an active agency responsible for inward investment has been retained, with significantly more resources at its disposal than is currently the case in England. Contributors to this research have reported that Scottish Development International spends £10 million per annum on its inward investment activities, deploying a significant team in both UK and overseas offices. In Wales, as in the English regions, the regional-level capacity has been scrapped.

Scotland

Outside of London and the South East, Scotland is the leading UK destination for inward investment. In 2011, while its share of total UK investment dropped only slightly compared to the previous year, Scotland secured or retained 51 inward investment projects (Ernst & Young 2012), representing a decline of 26.1 per cent on the previous period. By way of comparison, the largest of the northern regions, the North West, secured or retained 39 projects in 2011, 12 fewer projects than in the previous period and a decline of 39.1 per cent. For the North East and Yorkshire these figures were 24 projects (31.4 per cent fall) and 20 (33.3 per cent) respectively. The most recent UKTI data confirms this relative position, with Scotland performing well in both project and employment terms and achieving consistent results over an extended period, compared with a more variable position in the northern regions.[14]

This would suggest that by straight comparison (with all the caveats this requires) the institutional impact could be said to be responsible for some 5–10 percentage points of the additional decline in the northern regions (see table 1.3).

As mentioned above, Scotland was also the UK's leading location for FDI job creation for the second year running in 2011, with 5,926 newly created jobs as a result of inward investment. A separate report by Scottish Development International (2012) focusing on the 2011/12 financial year reported the number of newly created *and* safeguarded jobs[15] generated in Scotland as a result of inward investment *and* external trade activities to be 'over 7,000'. Of these, more than 1,800 jobs were in 'high-value' jobs, which are defined by SDI as 'those in research design and development and/or earning in excess of £31k a year'.

According to Ernst & Young (2012a), this strong performance in Scotland 'may reflect the committed approach of Scottish Development International over many years'. There is little secondary literature available appraising Scottish Development International, but it is clear from its own website and from interviewees that it has an active role in attracting and securing inward investment and – as was highlighted earlier – it devotes significant resources to this work. This activity includes a strong advertising presence in overseas markets, lead generation and conversion, and a quality aftercare service that offers business development support, marketing and market research assistance, PR services, investment advice and specialised training.

Scotland Development International also helps to promote and broker research and commercial partnerships and support inward investors to obtain funding and access grants. In 2011/12, it helped 30 inward investors who were choosing to locate or grow their operations in Scotland to secure £22 million of regional selective assistance support for projects with a planned expenditure of almost £163 million. This included £1.5 million of support for global wind energy company Gamesa to create 130 jobs at its offshore wind R&D centre in Lanarkshire (ibid).

According to Scotland Development International, the majority of inward investor companies that they have assisted are 'employing more people than planned, doing more R&D and have broadened their product range'. They also claim that these companies

14 While UKTI figures for the increase in new and safeguarded jobs are higher in the North East and Yorkshire from 2010/11 to 2011/12 this is based on particularly poor performance in these regions in 2010/11. Over a two- or seven-year period, Scotland consistently outperforms the three northern regions on employment indicators.

15 Note that safeguarded jobs are not included in Ernst & Young data.

have been '19 per cent more productive than "matched" cases with no assistance' and that 73 per cent of inward investors working with Scotland Development International 'consider us to have been very or fairly important in ensuring the continuing presence of the business in Scotland' (SDI 2010).

Given the above, it is reasonable to assume that the active involvement of Scotland Development International has helped to mitigate the impact of the economic downturn on inflows of inward investment and to maintain the relatively high level of FDI-induced employment in Scotland, compared to the English regions and Wales.

Wales

Wales has fared less well. According to Ernst & Young, Wales suffered the biggest slump in inward investment in 2011, with its share of overall UK projects falling to 1.3 per cent, compared with 9 per cent eight years earlier. The latest UKTI figures, published in 2012, show that this trend has continued.

Wales' downward trend has been in evidence over the past decade, following a very strong period of inward investment success in the 1990s, when it attracted up to 15 per cent of all UK FDI (Welsh Affairs Select Committee 2011). In 2011, the number of FDI projects in Wales fell by 52.6 per cent compared to the previous year, which was the sharpest fall of all the regions in the UK, including the three northern regions. A separate report by the Welsh assembly government (WAG 2010) suggests that since 2007 there have been fewer foreign-owned enterprises active in Wales than in any English region (1,000 in 2007, 1,100 in 2009 and 1,000 in 2010).

This poor performance may be partly explained by the institutional set-up. Previously, the Welsh Development Agency coordinated inward investment, but this institution was disbanded in 2006. Today, responsibility for inward investment is overseen by the Welsh assembly government's brand for inward investment, International Business Wales (IBW), working with UKTI and a plethora of separate local and national agencies which, although present under the WDA, have since accrued a substantial increase in power and influence. This arrangement has been heavily critiqued.

A report published last year by the Cardiff Business School exploring inward investment in the Cardiff city-region found a 'fluid support structure' for inward investment in Wales and a severe lack of coordination among the various competing agencies (Cardiff Business School 2012). The report also pointed to a sense of distrust among the different agencies which are competing with one another in trying to secure inward investment. According to the authors, this has severely hampered efforts to secure and execute joint inward investment projects and the sharing of resources and local intelligence. It has also resulted in a confused brand strategy and hindered Wales' ability to coherently market itself to overseas investors. The report's authors advocate far greater coordination of services and suggest one possibility would be reverting back to a WDA-type structure in which 'a single agency [would] link together activities where possible, grow synergies where they exist and then put in place plans to exploit them'.

When drawing parallels to the English regions, two issues are worth noting. (These were echoed in comments received by the Northern Economic Futures Commission about the north of England.) The first is the sense in Wales that Scotland has fared much better, and indeed the feeling that Wales has lost out to Scotland on inward investment opportunities, precisely because Scotland has retained a single active agency. Interviewees consulted in the Cardiff Business School research claimed that Scottish Development International had

‘advertised heavily in overseas markets where Wales was once strong, namely the USA and the Far East’ and felt that Wales ‘will struggle for the foreseeable future against such a strong brand’ (ibid).

Secondly, it is important to note the lag affect between the WDA’s dissolution in 2006 and the shrinking of inward investment into Wales. Although one must again bear in mind wider causal factors (not least the economic downturn), this insight holds a potentially important lesson for the English regions: namely, that the impact of new arrangements may not be fully felt for a few years yet.

Conclusion: what does the data suggest about the success of the current structure?

Drawing conclusions about the extent to which reforms to the institutional infrastructure governing inward investment in the English regions has impacted on performance is not without its challenges. As well as the overall economic context which makes comparison over time difficult, key issues include the lack of comparable data given the very recent nature of the changes concerned and the different scale of the resources in play. It is also clear from the interviews reported in the next section that the system is still going through a difficult transition, with existing capacity greatly reduced and past links and intelligence lost or degraded. However, there are a number of points which can be usefully explored.

Indeed, it is very likely that the prolonged global economic downturn and the UK’s return to recession at the end of 2011 had a more significant impact on inward investment in the regions than the changing institutional architecture. This does not, however, diminish the importance of seeking to assess the contribution of the system to this point and its potential to add value in the future.

Ernst & Young argues that it remains to be seen how the government’s decision to close the RDAs has affected the UK’s ability to attract and manage FDI at a local level, although it does caution against a ‘clear-cut cause-and-effect relationship’ (Ernst & Young 2012b). Nevertheless, this paper has presented evidence suggesting that the contrasting performances of Scotland and Wales are in part linked to their differing institutional arrangements, which provides some pointers for possible future performance in the English regions.

It is also difficult to appraise the new structure given that it is still relatively young, is evidently in transition, and is lacking information about its day-to-day functioning. There are, however, some clues as to how the new structure may operate in the future.

This paper has reported on a number of different data sources which draw their conclusions from different bases. Table 1.8 (over) seeks to draw together the key data from Ernst & Young – with its restricted focus on FDI projects that have resulted in new jobs or facilities, and which excludes M&A investments and portfolio investments – alongside the data from UKTI, which includes all UKTI-involved and non-involved projects, to summarise the position.

Table 1.8
Summary of FDI projects and jobs data

	E&Y (2011)				UKTI				
	Projects (2011)	Share of UK FDI projects (%)	Change from 2010 (%)	Jobs created	Projects (2011/12)	Change from 2010/11 to 2011/12 (%)	Total jobs created and safe-guarded (2011/12)	Total jobs created and safe-guarded (2009/10)	Change from 2009/10 to 2011/12 (%)
London	327	48.2	13	3,711	573	19	15,150	10,253	48
South East	83	12.2	102	1,706	164	9	5,561	9,869	-44
North West	39	5.7	-39	3,715	115	-34	15,430	13,486	14
North East	24	3.5	-31	3,019	66	22	10,679	6,673	60
Yorkshire	20	2.9	-33	545	49	-44	3,700	5,911	-37
East of England	26	3.8	-4	1,090	94	24	5,663	14,566	-61
South West	25	3.7	-38	1,009	50	-36	2,948	2,443	21
East Midlands	20	2.9	-51	3,819	49	-42	4,375	4,123	6
West Midlands	38	5.6	-24	2,919	76	-3	14,254	5,866	143
Scotland	51	7.5	-26	5,926	96	16	12,610	5,471	131
Wales	9	1.3	-53	1,090	23	-39	2,854	7,362	-61
Northern Ireland	17	2.5	-26	1,339	27	-39	1,480	2,129	-31
Totals	**679**			**29,888**	**1,406**	**-2**	**112,659**	**94,346**	**19**

A number of key factors emerge from these two sets of data:

- The South East corner of the country continues to be dominant in terms of overall project numbers, especially in the smaller subset presented by Ernst & Young.
- The aggregate employment performance of Scotland is relatively stronger in both sets, compared with the northern regions (noting that there are significant differences in both the investment levels into the FDI system and the overall business stock).
- The correlation between project numbers and employment numbers is limited, with a smaller number of projects outside of the South East corner responsible for significantly higher employment performance, with implications for which way the balance of priorities could lean, if employment is the priority for the inward investment system (we return to this issue in more detail the next section).

We conclude by quoting Ernst & Young's own summary, which echoes these findings (Ernst & Young 2012b).

- Against the backdrop of an overall fall in the number of UK projects, London and the South East secured increased projects — in the case of the South East, more than twice as many as in 2010 — while every other UK region experienced a decline.
- While Scotland saw its number of projects fall by 26 per cent in 2011, it was the UK's leading location for FDI job creation, as it was in 2010. Once again, this strong performance may reflect the committed approach of Scottish Development International over many years.
- Looking at employment created elsewhere in the UK, London came fourth behind the East Midlands and North West, underlining that the high numbers of projects going into London – which are dominated by business services, software and financial services investments, primarily from the US – tend to generate fewer jobs on average than the more manufacturing-focused projects located elsewhere.

2. TESTING THE EVIDENCE: A SUMMARY OF INTERVIEWS WITH NATIONAL PARTNERS

The data provides a picture of difficult economic conditions and suggests some of the performance challenges faced by a system in transition following a significant shock to its capacity and momentum.

Through 2012, the research team held extended interviews with senior officials from the core UKTI team within BIS and from the PA/OCO consortium. We also spoke in detail with leading figures from local agencies across the North and to a small group of business figures with direct experience of the system. The aim was to get a sense of how the new arrangements are developing from those working within the national system, its local partners and users.

Further insights were gathered through a number of meetings of the project steering group and in discussion with the Northern Economic Futures Commission members at its meeting in September 2012. This combination of inputs and insights has helped to shape our understanding of the evidence. We have noted the widespread agreement on many of the key issues, which are discussed in this chapter.

Role and structure and performance of the current system

The first issue was to understand the new national system, including its aims and structure. The aim was clearly articulated as being the promotion of a single, coherent national UK offer to inward investors. The system aims to be both proactive – seeking to identify and promote sustainable propositions from every part of the UK, with a focus on key priority sectors and the potential to attract would-be investors – and reactive, responding to the defined needs of investors who have chosen to locate or expand in the UK.

The new UKTI-led system addresses the wider priority of rebalancing the economy to the extent that it seeks to identify an investor's preferences and use its local knowledge to suggest different locations, taking into account, for example, proximity of land, water supply, skills, clusters and supply chains. The UKTI system would not seek to deter an investor from investing in one place in favour of another if that was their goal, regardless of the government's rebalancing priority – it is cautious about taking the risk of not recommending the best option for the sake of non-commercial objectives, should a suboptimal outcome be the result. An unsuccessful recommendation could affect the relationship with that investor and also tarnish the wider reputation of the service.

Within this still-emerging system, different partners in the UKTI-led consortium offer different things, based on their expertise. In effect, they fill the space previously occupied by the RDAs through a combination of national specialist capacity and a fieldwork function. OCO Consulting is a highly regarded global company in the FDI advisory business with extensive knowledge of international business, strategy development, proposition development and lead generation. Its role in the consortium is to provide a back office intelligence function, with six members of the OCO team being involved in research for UKTI. PA Consulting runs the investment services team (IST) across the country, liaising with business and sector partners and providing linkages and capacity-building support to LEPs and local inward investment agencies. It runs the national team of specialists. The network of overseas offices is staffed by the Foreign Office with a combination of career civil servants and locally sourced staff.

Targets and strategy

The objective agreed by the UKTI-led system with HM Treasury is to secure 750 projects each year that are UKTI-involved. There is a further informal target of 1,000 projects for the wider system in total. The target is specified by the Treasury on the basis of projects,

although UKTI also reports on jobs secured and protected. Employment targets are currently informal.

An important debate is unfolding around this set of targets. A consensus emerged among those interviewed at a national level that the employment outcomes should be formalised within the next year. Indeed, it was reported that UKTI is working to overcome tensions around shifting the key target for the system from projects to employment, a change which would alter behaviour within the system to incentivise the securing of more employment-rich projects. While this would remain a spatially blind goal, it would be likely to place greater emphasis on larger projects; this, from a narrower northern perspective, would be more likely to secure a focus on sectors which are gathered in places like the North. It was presumed by national-level interviewees that it would also be welcomed by local stakeholders, who value the jobs outcome rather than projects. Over the longer term, it was suggested that it would be helpful to include also an economic growth measure, such as contribution to GVA.

Another aspect of this discussion concerns the focus on annualised targets. In the course of our research, it was proposed that a shift is needed in the broad sectoral strategy away from a short-term focus on new projects and investments and towards a more long-term focus on expansion of investor commitment and relationship management. Interviewees highlighted how successful systems elsewhere are able to strike a different balance between working to grow the investments of existing investors – which generally secure larger outcomes – and seeking to generate new relationships, which tend to result in lesser outcomes. While there is a need to maintain the pipeline, successful countries generate 80 per cent of FDI from expansion among existing investors, with the remainder from new projects; in the UK, by comparison, the expansion figure stands at just 35 per cent. There is a further suggestion that installing three-year rolling targets would help to focus the system on long-term relationships and expanded investments.

There is no perceived market failure on mergers and acquisitions. UKTI does not look to support M&A investors, but it will build relationships with those who follow through to build local supply chains and invest in local job creation.

National priorities

UKTI priorities are structured around eight key sectors encompassing 40 subsectors. These are identified on the basis of national potential and UKTI does not differentiate on grounds of their geographical location, for the reasons set out above. LEPs and their partners have a key role to play in promoting their local offers into the system.

Priority sectors have been identified through a baselining study, further confirmed through the 'Surfacing the National Offer' process, which assembles local information in a national CRM system, enhanced with the input of specialist teams. The Surfacing the National Offer process is seen as an ongoing project, with the content of the CRM system held under review as information is added by stakeholders and evolves.

The Surfacing the National Offer process has been through a number of phases:

1. An extensive pro-forma questionnaire – which aimed to secure a significant quantity of quality information about local assets and opportunities and the systems supporting investments.
2. Iteration – the IST is active in helping to build intelligence through fieldwork and sector specialists, and through technology and so-called 'catapult' centres. This has taken

much longer than planned and at the time of writing was not complete. It was noted that many LEPs are unfamiliar with the intelligence required and that RDA information was not available.

3. Review – the process will be reviewed on an annual basis or by exception.

Capacity-building is taking place in certain sectors, especially those seen as strategically important; interviewees highlighted the Automotive Council as a key initiative.

Case study: the Automotive Council

The creation of approximately 9,900 new jobs was announced in 2011, along with the safeguarding of over 12,000 jobs, investments worth over £4 billion (either directly in automotive industry or in the automotive supply chain), nine new vehicle models, and long-term plans to manufacture four next-generation vehicle models in the UK.[16] Even at the height of the recession the UK automotive sector managed to attract significant levels of FDI, with 86 successful wins in 2008/09, generating over 2,000 new jobs.[17]

The Automotive Council was set up in 2009 and facilitates a strategic dialogue between government and the automotive industry. The council is co-chaired by the business secretary (as BIS is the sponsor department for the sector) and a leading industry representative. The council has subgroups on technology and supply chains, and active participation by senior executives of all the major vehicle manufacturers and several component suppliers operating in the UK, alongside representatives of unions and BIS/the Department for Transport, engineering consultancies, technology developers and academics. It provides a more direct route into government than the industry has enjoyed previously. At the time of its formation, the Automotive Council was unique, but Germany has since followed the UK's lead in establishing such a body.

The council's remit includes demonstrating that the UK is an attractive investment location and to enhance the perception of the UK automotive industry, nationally and internationally.

Interviewees believed that the system was able to respond to a 'bottom-up' opportunity or change of priority if it was identified and articulated effectively. A good example was the performance of the nuclear sector after it was prioritised by the Department of Energy and Climate Change (DECC). Following this kind of decision, the UKTI approach would be proactively to identify investor partners, to a certain limit: it wouldn't seek to orchestrate a cluster or supply chain, which would be a role for DECC working with its own partners. But UKTI would offer support by seeking investment and developing UK content into FDI propositions.

Other bottom-up projects would be identified by the system through the IST and assessed by sector and general specialists to gauge commercial basis.

16 See http://www.automotivecouncil.co.uk/invest-in-uk-automotive/automotive-investment-news/
17 http://www.automotivecouncil.co.uk/invest-in-uk-automotive/reasons-to-invest/

Sector specialists

Within the UKTI-led system, 30 investment specialists offer both technology and sector knowledge, with a particular focus on commercial potential. They support UKTI itself, or any part of the UK system wanting to attract investment.

The team has been in place for about 10 years. Its focus is on globally competitive assets – it eschews simple projects, providing instead a 'global watch' programme, whereby it maintains an overview of developments in their field and then looks to create wins. Their key links are with acknowledged UK assets and with investors overseas.

These specialists are based around the country, often close to the site of key clusters, but they are managed from London and Nottingham. They are home-based and operate as a national resource. While they are not part of regional teams or assigned on a one-to-one basis, they are sector-focused and so know key assets well, including where those assets are located. There are also five people within the team who are more generalist and provide expertise on issues like tax regimes and planning.

The specialists work in each of the UKTI key sectors and attach themselves to teams and capacity within these sectors. They also work horizontally across the key sectors to support work on cross-cutting technologies – for example, there has been collaboration within the team on the interaction between healthcare and space technologies.

These specialists represent a point of continuity: they predate the current arrangements, and used to work with RDAs. The perspective from within the specialist team is that they are now able to work more collaboratively because competition has been removed from the system.

By definition the specialist focus drives the agenda of the team, and the team has been put into place to reflect UKTI priorities. The key opportunities they are focused on are those capable of securing FDI wins, and there now exists a challenge to bring together the strands and organisations in the system to focus on those places and assets which can drive growth. The team is confident that it can cover emerging northern priorities through the framework of eight priority sectors and 40 subsectors. Local initiatives, such as the focus being given to medical instruments by Sheffield and Leeds, would be supported through the existing health priority and would surface through discussion and intelligence.

More generally, local priorities are identified through the CRM system and other system contacts, with the role of the specialist team being to assess whether any particular offer represents an opportunity of international significance. The key interaction in this task is between specialists and the IST, which operates in the field to provide an account management, assessment and gatekeeping function. This team would identify opportunities and engage a specialist where that is appropriate. In this regard, it is important that a local agency can clearly articulate an opportunity through the IST to the specialists. The relationship between the IST and the specialists is developing as it settles, because the specialists are being actively engaged by IST in a way which was not necessarily the case previously.

From a specialist's point of view, the biggest challenge is the information gap. The available knowledge is incomplete, and needs to be supplemented with strong relationships and effective intelligence-gathering.

Current statistics and performance

Discussion produced greater clarity around the published data covered in chapter 1. It confirmed that:

- The total number of projects secured, including those in the devolved nations, is 1,406 for 2011/12 (1,434 for previous year).
- 'UKTI-involved' means where either UKTI or its overseas offices are directly involved.
- In prior years, UKTI was involved in about 50 per cent of all projects; that figure is now 85 per cent. The assumption is that there are now fewer projects overall.
- Recorded projects have been secured and put in place. Recorded jobs have not all been realised at the point of reporting but are assumed to be realised within two years.
- There is a small risk of double-counting, but only where fall across regional boundaries.

In terms of return on the resources used by the system, conversion rates are broadly:

- From enquiries and leads, 10:1
- From active cases, 3.5:1

The working assumption, based on these conversion rates, is that the 750-project target requires 3,500 active projects each year. This is seen as a challenging scenario over the long term, and discussion with national-level interviewees suggested that this may not be best way to deliver employment outcomes, which would be better supported by an increased focus on expansions (alongside continuing interest in new prospects to refresh the UKTI pipeline). It was highlighted that, despite project numbers falling in the most recent figures, employment numbers are positive, with Yorkshire and North East seen as important examples.

International offices

It was perceived that the working of the overseas offices needs to be improved. As with the rest of the system, interviewees suggested that these offices should be focused on sector and employment targets rather than projects. Their own approach needs to align targets with national strengths and to seek out prospective investors through intelligence and partnership-building, rather than reactively. Three-year rolling targets would help to reinforce this change in focus.

Understandably, foreign offices are staffed at different levels, depending on the importance of a country as a source of investment – the Baltic states are served by a team of two, for instance, whereas large teams are in place in Japan and China, including specialist staff. Teams tend to be host-country nationals who would not necessarily be familiar with the UK. While this helps in terms of building networks and understanding of the local environment and culture, they rely on the outputs of the information system and regular briefing from the UK. Overseas staff visit the UK once a year for orientation, but the CRM system and information from the UKTI team provide the basis for their work. There is not a systematic approach to contact with LEPs or local agencies at this stage.

The sectoral perspective is that RDAs did a good job of keeping overseas office informed about their regional offers and were effective in linking with investors, but there was concern about perverse outcomes generated by competition between RDAs and about non-collaborative working across regional boundaries. RDAs were criticised for competing at trade fairs and aiming to capture resources to their region, or for declining to collaborate on supply chains, even where it might cement relationships with investors.

It was also reported that overseas offices need to be confident that offers could be assembled at a larger scales than that provided by a local or city region. One interviewee related the case of a French robotics investor who wanted to operate in the UK across regions and subregions but saw information-gathering and coordination as too difficult.

As the new CRM system is brought on-stream, supported by the Surfacing the National Offer process, there will be an opportunity to identify investment opportunities, sector by sector, down to postcode level. There are already 25 to 30 subsectors on the system. Beyond this, there needs to be stronger information provided about local areas so that overseas offices can educate investors about local-level opportunities – otherwise, investors will default to areas of the country with which they are already familiar.

Over time, a number of initiatives are being built which will provide opportunities for more systematic contact, which will be able to facilitate this kind of dialogue. These include:

- Global teleconferences with investors on a thematic basis. UKTI would like to involve local partners so that they are able to promote themselves effectively.
- Development of sector growth plans which will help overseas offices to speak knowledgeably with contacts. These will need to be shaped with local partners.
- Annual investor conferences, with local players with a strong message being invited to speak and present their area.

Local areas

Within the context of the single national system, national-level interviewees provided a clear view on the role of local areas: to understand clearly and articulate their offer into the national system, and to work with UKTI and the wider system to promote it. UKTI recognises that some areas are better resourced than others to fulfil this role, and a crucial function of the IST is to work with LEPs in particular and local authority inward investment teams to build their capacity and to help them to understand and promote their own local offer. This is a significant investment for UKTI, representing about 50 per cent of the value of the contract with PA Consulting.

Inward investors making strategic investments want to meet local actors and have confidence that they will have support in the area. Over time, therefore, the stated intention is that local areas will be enabled to promote their areas and assets both directly and through the UKTI network. The key role for LEPs and local authorities is to be active partners with investors in the identification of investment sites, and to foster a positive investment environment, including across matters of transport and skills infrastructure.

The view from the national level is that performance is highly variable. The test of a good local agency is that it understands its assets and has a clear strategy to promote them. The best ones have a history of strong performance over a number of cycles, and have strong intelligence and established relationships with businesses and within the UKTI-led system. They are building capacity and working actively with enterprise zones. But many others are struggling to meet this standard.

In developmental terms, to deliver on the single national offer, UKTI perceives that it needs to be at a stage where the flow of information within the system is two-way and strategic, with opportunities for investments identified and leads delivered on. It aims to act as a 'critical friend' to help the local tier to focus more clearly on strengths and assets and to describe market opportunities. Its assessment is that there is much more work to be done at both ends of this relationship, but that there is an understanding of respective roles and that relationships are being built.

What is working well and what could be improved?

The system needs to be understood as being in transition following the 'implosion' of the RDAs. It was perceived that there would need to be continued attention given to it over a number of years. National interviewees underlined the case for removing the competition between RDAs, which had been unhelpful, in favour of a single coherent offer.

This being said, there was also an acceptance that many RDAs knew what they were doing. Of the three in the North, the North East and North West RDAs were both perceived to have understood their strengths and investment opportunities and to have organised themselves effectively. Projects coming into these regions were likely to have been more strategically focused because of the nature of the regional economies and because the RDAs understood and were able to deliver aftercare to embed businesses in their regions. RDAs in other parts of the country had been less committed to this role.

Whatever their strengths and weaknesses, the loss of the RDAs was a significant shock to the system. While many LEP areas are seen as an appropriate scale for working, there are concerns about the scale of operations and development. On the plus side, the approach and performance of Liverpool and Manchester were cited as good models.

One national-level interviewee summarised the position:

> **'We lost bodies of significant economic size that mattered in their regions. Many LEPs are too small to do their role, although some are performing well.'**

Looking forward, the intention over time is to build LEPs and help their working with business. Nonetheless, there is a genuine concern over their resources and capacity, and it is suggested that this shows through in their understanding of their local offers and their capacity to identify a strong global offer. If there is to be a shift in focus towards expansions, then effective aftercare for investors will become a key factor, including the need to demonstrate good relationship management. It was suggested that so long as LEPs remain at their current level of capacity then the role of the IST will be an important support. As noted previously, this support makes up about half of the contract between UKTI and PA.

The transition from the RDAs to the current arrangements has worked out better in some parts of the North than others. Significant capacity was retained in the North West, meaning that knowledge, contacts and networks were largely secured and are now located in the UKTI/PA system or in the core cities. In Yorkshire, by comparison, capacity collapsed, meaning that there is little current capacity, particularly in the large city-regions in Leeds and Sheffield. As a result, the IST is spending more time in the field here than in other regions to address the aftereffects of the transition.

The memoranda of understanding with LEPs and devolved nations were seen as important developments. These set out roles and expectations around sharing of information, agreement of opportunities for investment between the national and local levels, and management of the pipeline. At the time of the meeting, only two LEPs were still to sign up.

The proliferation of structures and bodies was seen to create pressure and issues of capacity. As UKTI needs to focus on key assets and places, there is a recognised concern that some other places will miss out in terms of promotion and profile. In this context, there is a concern about the extent of fragmentation in the system, with too many LEPs and local authority structures emerging. There exists a fragmented system with inadequate capacity in key places.

There is a perception at national level that this will evolve over time, and an expectation that there will be mergers of LEPs or LEP capacity to deliver improved strategic service. The 'functional economic area' is recognised as a key scale for working, but there is some concern that many LEPs across the country are not organised to map genuine functional areas, such as where the functional area concept was stretched to include rural and peripheral areas around a city-region.

There was a sense among national-level interviewees that UKTI's focus will remain on key cities and their city-regions, and on key assets with growth potential. There will be increasing collaboration between those places with resources, assets and genuine opportunities, being the core cities and surrounding city-regions. Local areas outside these city-regions will need an agenda-setting capacity in order to get their issues heard.

The PA Consulting and British Chambers of Commerce network is crucial in addressing these gaps in the short to medium term, and in aiming to build capacity. However, this remains difficult for a national system to work with. One interviewee suggested that while working with nine RDAs was challenging for the national system, collaborating with 39 LEPs is seen as unmanageable, especially with a smaller national infrastructure in place. There was a general sense that, over time, it would be essential to see mergers of LEPs, or more strategic collaborations to enable the development of specialist skills and knowledge bases and stronger partnership working between national and subnational levels.

More generally, national-level interviewees suggested that better outcomes for the North would be realised through improved information, presentation and aligned account management across the system. By this view, northern areas need to develop:

- simpler propositions for national politicians to promote as they advocate for UK assets; clear concepts and messages are seen as key to attracting attention
- stronger leadership, and investment in intelligence, physical assets and skills strategy.

One specific suggestion was that there was potential to have particular local areas lead on specific national priority sectors, enabling the development of a decentralised network of national skills academies in key sectors with their location aligned to that of key sectoral assets.

There were also some comments that local areas needed to develop a clearer understanding of what the national system could deliver. There was a perception that LEPs and local agencies expected UKTI to deliver leads to local areas, which they could then react to. Instead, the goals should be to build long-term relationships within the system and outwards with investors, and so the system needs a stronger local voice and understanding of subsectors. UKTI is keen to work with local partners to achieve this.

In terms of other scales of work for inward investment activity, national-level interviewees suggested that:

- LEP geography is not right for all inward investment. A wider, more integrated scale would enable offers to be made to investors at scale and expand the capacity to understand and prioritise key sites. Once a site is established then the key activity should be building and investing into supply chains. These are likely to cover a much wider territory than LEP geography, but coordination at the LEP scale is crucial to organising local support and aftercare on the ground.
- National trade and sector bodies are good partners, although these tend to be spatially agnostic. Examples of initiatives developed with them which have had a strong

> northern flavour included the ‘intelligent textiles’ programme, which offered a full supply chain, and the Automotive Council, which supported a full supply chain and involved private sector leads and LEPs across the North East, Merseyside and Lancashire.

In summary, the view from the national level is that the position in LEPs needs ongoing attention, with further clarity needed around what LEPs have to offer in their areas.

There is also more work to be done to ensure that there is effective coordination of economic development institutions at different levels to secure wider gains at scale, with a concern focusing on major projects and the ability to support supply chains across boundaries. This is a struggle due to capability and capacity issues and the number of organisations now in the system, meaning that linkages are complex or not in place.

One proposal which emerged from these discussions was that a more strategic tier, built from the bottom up, could support LEPs to build capacity and linkages with the UKTI system, provide a hub for knowledge and intelligence, ensure that there was a more strategic approach to coordination with UKTI specialists and overseas teams, and coordinate in a small number of sectors and projects that work across local boundaries. This should avoid a more ‘heavy-handed, RDA-type’ role and not seek to promote an alternative to local brands. It was clear from this discussion that city-regions are seen as the key territorial scale because of the importance of urban systems for investment and the combination of assets which are concentrated within and around them. Nonetheless, there was a concern that opportunities are being missed – interviewees were able to highlight specific cases and also refer to work being taken forward with sector bodies to address this gap. It was perceived that such a ‘mezzanine’ body had a valuable potential to address this gap, but would need to be careful to engage with and focus on that gap carefully.

International models

As the system develops further, it was seen as useful to examine examples of good practice from other parts of the world. Suggestions included Ireland, Sweden and the Netherlands, each of which offers examples of good networking and information exchange within the system, leading to more strategic approaches and better coordination. The fact that these are smaller countries was an interesting point of discussion, and raised a question as to whether England is too large a unit to sustain capacity. The response was that this work could be delivered at UK scale but needed higher levels of activity, more strategic focus and capacity, a less complex system, and greater integration at key scales.

As noted in the previous chapter, Scotland makes a significant investment of its own into FDI activities, investing around £10 million per annum and employing significant teams of staff in the UK and overseas. It also has the benefit of collaboration with UKTI, under its own memorandum of understanding. One national-level interviewee agreed with the anecdotal evidence from the regions that the demise of the RDAs has had a negative effect, but stated that it was difficult to assess the scale of any impact, given changes in the wider economic conditions and the ongoing transition. The same interviewee confirmed that Scottish figures continue to look strong.

Future organisational strategy

The current contract with PA Consulting is a three-year arrangement, with a further two-year extension available. There is no expectation that this will be changed during the course of the contract, although as LEPs develop PA may reposition its resources. There will be an ongoing need both to avoid fragmentation of the national offer and to deliver information flow and work in the field.

It was noted that the communities and local government secretary was on the record as saying that there should not be public investment in LEPs. They should be able to secure resources from local private sector bodies that recognise the value of their work and so to remain independent of Whitehall. Reference was made to both Liverpool and Manchester, which have private sector funding.

3. PERSPECTIVES FROM LOCAL PARTNERS

The research team held extended interviews with inward investment leads from a number of LEPs and local inward investment organisations.

The discussions identified some shared views and some divergent ones. Key points relate to the speed of the transition to the new system and the loss of knowledge and capacity. However, there are also important points about the overall concept of the system and about communications and collaboration in practice.

Local infrastructure

Local inward investment teams vary considerably, most starkly in their level of resources. One interviewee spoke enviously of the resources which Greater Manchester had through MIDAS, before reflecting that their own staffing and funding was better than many others' – one neighbouring inward investment team was made up of volunteers.

A more well-endowed agency with a longstanding and successful record explained that the demise of RDAs and the introduction of the new system had meant a significant reduction in both the quantity and flexibility of the resources available. The previous funding arrangement had allowed for specific investments to be highlighted a lot more effectively on the international stage; this, given a cut in the marketing budget of around 80 per cent, has been stopped. Indirect funding from RDA to the north of England network had enabled better local penetration of investment markets through the significant staffing of international offices in key countries, including the US, China and India. The regional dimension had been seen as helpful to the local agencies, capturing more attention and more investments both through UKTI itself and through local and regional initiatives. The RDA had had the time and resources to take a more long-term, strategic approach and to use its funding more quickly and strategically. The current funding opportunities, through mechanisms such as the Regional Growth Fund (RGF), are more bureaucratic and less responsive to local needs, with a key issue being that resources are not available for use when they're required, as they need to be bid for through the various RGF competitions.

Most of the teams we interviewed had 'all the usual focus' on renewable energy, growing existing companies and developing assets. As well as working alongside UKTI and PA Consulting, the more sophisticated agencies organised their own exhibitions. These also tended to place greater emphasis on key growth sectors, having had the resources to carry out substantial research, and were keen to ensure that these key sectors were at the heart of all economic development activity in their area. All FDI teams were quite dependent on private sector involvement and had as a key part of their work support for the private sector in its attempts to attract investment to their area.

While there is no clear guidance on how LEPs should engage with each other, there were reasonable levels of collaboration between areas. The four Yorkshire LEPs have a good working relationship; Sheffield city-region works very proactively with Leeds, as they are both strong in a number of the same subsectors (for example, in the field of orthopaedic manufacturing they maintain a joint presence at trade shows and in online marketing).

With resources significantly reduced under the current system, there is no proactive marketing at the subsector level, which has affected the North in particular. In some areas, existing capacity has reduced by three-fifths overall. Many areas in the North have key strengths in niche subsectors which are quite distinct and separate from the broader sectors they fall under, but UKTI is not going to run a campaign concentrating on a specific subsector. The better-resourced inward investment teams organise their own

events and campaigns without UKTI assistance, but this is less easy for the less well-resourced LEPs. Other teams maintain very specifically targeted resources: Durham local authority, for instance, has a representative based in Japan. Local areas understandably do not have much influence on the overall approach and targets of national marketing activity, and the emphasis seems to be on marketing campaigns that showcase Britain as a whole, such as the 'GREAT Britain' campaign.[18]

Understanding the northern offer

There was concern that UKTI and its partners' staff in London and overseas do not adequately understand the northern offer, in particular the subsectoral and geographic strengths of the North and its city-regions, with some notable exceptions, such as Manchester's capability in the digital sector.

While local organisations welcome the increased directness of the working relationship with UKTI enabled by the removal of intermediary tier, UKTI itself is seen as understaffed and largely unresponsive.

One key advantage of the current system over the previous system is that it highlights the North's 'star brands', which are the city-regions rather than the regions themselves. For the North West region especially, exploiting the Manchester and Liverpool brands was considered to be crucial. The abolition of the RDAs has meant that the confusion caused by weaker regional brands has been cleared and the focus is now on real economic geographies, not regions. City brands are much stronger, but even the current system is not yet leveraging these enough. London gets a lot of air time, but the other major English cities get less of an opportunity to push their brands.

More generally, there is a concern though that the new system is too heavily focused on London and the South East, with only those investments that cannot be shoehorned into the south-eastern corner making it 'out' to other regions. As one interviewee put it: 'When UKTI talks about UK first, they mean London first' – and went on to suggest that officials have as much as admitted this, considering it an easy win and the default option. Local interviewees point to the inward investment statistics as evidence of this.

The geographical imbalance occurs at the regional level as well. Away from the largest northern cities, there was a concern that when UKTI thinks about 'the North' it thinks of Leeds, Manchester, Liverpool and Newcastle and not about other areas like Sheffield, Tees Valley or Cumbria. While there was hope that these issues would become less acute once the new system was bedded in, it was felt that they would not disappear entirely.

Bedding in the current system

Some areas claim that there have been no UKTI-led successes in their area. Many claim that UKTI's figures for the number of projects they have been involved in appears inflated, either by including very small investments or by including investments in which UKTI's role was limited. One interviewee noted that of 18 local FDI successes in the last year, three came from UKTI. Of the 1,000 new jobs created through these 18 successes, only 20 came from the three projects introduced by UKTI.

There were concerns as well about the number of leads coming through which had not been filtered as appropriate for the area. Out of 30 inquiries offered, perhaps only two or three actually land, which represents a lot of wasted working hours. Another local

18 See http://www.fco.gov.uk/en/about-us/what-we-do/public-diplomacy/great-campaign/

agency reported that while city-region was focusing on advanced manufacturing sectors and seeking investments in science-based projects, UKTI-sourced projects included a swimming pool and a scrapyard.

Interviewees highlighted a concern that there had been more FDI activity in the North when the RDAs were in place and that that activity had been more strategic, and that the decline in each year since demonstrated this. One factor cited as exacerbating this trend was the loss of the network of overseas offices which the RDAs had previously maintained, and that the current overseas offices had yet to replace this lost capacity.

While the concern remains that UKTI provides too many leads that are not appropriate to the local area, there is seen to be a need for more UKTI leads to be provided. At the same time, there is a need for the resources of LEPs and local authorities to be increased so that they can develop their in-house capacity to promote their opportunities. A lot of intelligence may have been lost in removing the RDAs so quickly – it was felt that this transition should have been managed more smoothly.

The UKTI system as a 'black box'

There is a divergence of opinion as to whether the local agencies have influence over UKTI's strategy and inner workings. Perhaps the crux of this concern is that, while the localities have plenty of opportunity to feed information into UKTI, particularly as part of the Surfacing the National Offer process, it is difficult to see whether such information has been used and in what way.

Compared to the previous system, local teams felt that they now have much more opportunity to speak directly to UKTI and thus to influence UKTI strategy. This is perhaps just as well, given they are now more directly dependent on UKTI. However, there were complaints of significant delays in processing and passing on information through the UKTI and its partners in London (from the overseas offices to the local areas and vice versa), of a heavy imbalance of information flows, with UKTI providing little feedback, and of a significant diminution in the quality of the information being provided to potential investors. One local agency explained that they had provided 20 pages of information about an opportunity, which had then been reduced to one page to be given to a potential investor. The feeling was that proposals are diluted in the name of fairness but often to the point of meaninglessness.

Despite being a database-driven system, the informational process is taking longer than it did under the previous system. Meanwhile, local investment teams are expected to respond immediately to information requests. Sometimes they are given as little as four days, sometimes longer. Some interviewees took the shorter turnaround times as an indication that the matter had been sitting in a London's inbox for a while. Other interviewees were more sympathetic and thought that the process is working fairly responsively, considering the number of steps in the chain – but they still felt the chain itself should be streamlined.

There are concerns that the incentives structures and the mix of trade and investment responsibilities in overseas offices means that regional inward investment activities lose out simply because they are more difficult, and that overseas offices have little information about places outside of London. There is little to no contact between local teams and the overseas representatives; contact is mainly with the PA Consulting partnership manager and the UKTI sector teams. Some of the other teams, particularly the country-specific teams, are much less visible.

Within the written exchanges between local teams and other parts of the system, it was felt that there was insufficient opportunity for LEPs or local authorities to explain to a potential investor why they should pick their area. Localities want to be able to provide more information to investors, to make the case for their area. A leading northern agency highlighted a number of concerns about the projection of their area through the national system. Increasing the profile of a local area is difficult given that both Scotland and Northern Ireland have national leaders and London has an active mayor. National trade delegations tend to be London-centric and UKTI supports Scottish and London trade delegations for free – whereas if other England local inward investment teams want this support they have to buy it, at a cost of around £2,500. Despite the cost, there is a perception that a less-good service is received, with the visit taken less seriously and invitations not given to key companies.

More generally, local infrastructure strengths were not properly articulated to potential investors, and local teams were not given the opportunity to promote them to this audience. With deadlines for sending information on potential sites and incentives often being very tight, local teams struggle to provide all the relevant information in time. They felt that it was counterproductive for the UKTI to act as a veil, restricting information and contact for the sake of inhibiting excessive competition. Equally, the UKTI was not regarded as being good at giving feedback to an area that has lost out on an investment.

It was perceived that UKTI's actual level of engagement fell short of its claimed level. It was claimed, as noted already, that UKTI figures suggest they were involved in more projects than they were because these totals include very small investments such as restaurants and small retail projects, which local teams do not include in their own figures, or investments in which UKTI had only a minor role. In Manchester, MIDAS already uses a more stretching target, looking at the number of jobs over a set salary (as an indicator of the quality of new jobs) and of R&D-focused investments. They are exploring a move towards a composite indicator including both number of jobs and amount invested, in order to capture the broader impact of successful investments on the economy.

In summary, local partners said that UKTI should be a lot more open in how they use local information, improve their understanding of local potential, and focus on substantial opportunities for growth and job-related investment rather than reporting on investments that are too small to make a meaningful difference in pursuit of a projects target. UKTI should provide feedback as a matter of course, with a stronger focus on communication, engagement and information exchange in order to address many of the local issues of concern, both real and perceived.

A business perspective

One significant investor in the North explained that it had been operating in the region for 20 years and how it had chosen to invest following significant negotiations at the highest levels of government and with the benefit of significant infrastructure support and development finance. Over this time, it had expanded its operations substantially. In the past, it had worked closely with the local RDA to support local infrastructure investments, and now it was actively engaged with the RGF processes.

This investor's relationship with the RDA had been difficult at the outset but, over time, the element of strategic coordination with local authorities had become an important contribution. This function had yet to emerge from the local LEP, and the business is working closely with the local authorities in an advisory capacity and for coordination. The

size of investments and the importance of the employment in both the local area and the supply chain mean that the business has direct access to government when required, but it there are concerns that there is insufficient expertise and understanding of the industry in London. The key demands now are from the local system in terms of access to transport and infrastructure and to labour and skills.

The general view is that nothing works better under the current system than it did the previous system. The company had built a successful relationship with their RDA, had fostered a strong understanding of the business among key public sector partners through processes such as staff secondments, and had been able to work with these partners on the development of the supply chain, the skills system and coordination of other local agencies. This process is now more complex, requiring links out to a number of local authorities and to BIS in London.

The investor believes that they would now get stronger local support if they were located in Scotland, and they have concerns about the expiry of the current state aid map in December 2013. They would also like to see active engagement around a skills shortage in a key area of competence, which they perceive to be worsening. They remain attached to their current location because of the network of suppliers with technical expertise, but they are clear that all their projects are geographically mobile.

These factors are the key ones which will influence a location decision: a continent with growth in demand, and a country with a strategic location. Financial support may then make a difference but only at the margin; they would only talk to government about incentives if a decision is marginal, in which case often only a relatively small amount of money is requested.

Areas for improvement

All the local areas we interviewed held up Manchester's MIDAS, with its single management structure and pooled resources, as the benchmark, but also acknowledged that there needs to be the requisite political will to achieve such a partnership. MIDAS itself explained that the pooled resources model was working well, with the strength of the city brand enabling other areas within the city-region, which on their own would struggle to secure a lot of inward investment, to get FDI over last 17 years. Collaboration at this scale has been much more comfortable over recent years, with both political and business leaders being fully on-board with its joined-up approach. UKTI was also seen to be missing a trick by not involving local political leaders in the processes of identifying and securing investors.

There were divergent views as to whether any increased resources would be better applied to dedicated staff in strategically important overseas locations, dedicated representatives in London with region-specific knowledge, or embedding a UKTI representative at LEP-level to deal with both FDI and exports.

In thinking about some of the developmental scenarios emerging from the research, local interviewees highlighted case studies from elsewhere. The Canadian model, with its three-tier approach (national, state and metropolitan areas), seems to work well. There, cities get money from national and state government and then match it at the metropolitan area level. Germany and the US also follow this tiered model.

This could be mirrored in England in different ways with a UKTI structure, a core cities structure and local structures, or a middle tier covering England outside of London. In this

multilayer approach, branding, protocol and guidance activity would happen at the middle tier, leaving cities free to focus on their strengths.

If the proposal was to be for a pan-northern resource then the issue would be to ensure quality of service and maintain a focus on key priorities, rather than lesser priorities or confusing brands. Building around local inward investment teams would be the right approach, rather than building something from the top down, and a linked agency for trade and investment was suggested as one option for ensuring a complementary role.

A final concern about the new system is that there appears to have been fewer investments by existing companies, although this is in part due to a reduced focus by LEPs, which have withdrawn aftercare services in response to reductions in funding. Aftercare was seen across the board as an area of importance that had suffered from resourcing cuts. In this area of activity, UKTI is yet to allocate account managers, which has meant that local authorities and LEPs are having to fill the gap.

4. ASSESSMENT AND RECOMMENDATIONS

Through a review of published data and evaluation evidence, alongside a series of detailed interviews with stakeholders operating nationally and locally within the current UK system and with business users of the FDI system, our research has sought to demonstrate how well the system is performing and to highlight key opportunities and issues for the system as a whole and for the North in particular.

Overall the research appears to suggest that there are a number of issues for further attention if the North is to make further progress in building its share of FDI investment, and there is a concern that if these issues are not acted on then, over time, the relative position of the North will deteriorate. Three issues have emerged, in particular, as key to the shape of future performance of the system:

Targets and measurement of performance

The research surfaced an important debate about the tasking framework for the system, which is influencing both the priorities and the strategy of the system as currently structured.

The current Treasury target for the UKTI-led system is to secure 750 'UKTI-involved' projects each year, with new and expanded projects counting equally towards this target. It has a further informal target of 1,000 projects, which includes those projects with which UKTI has had no involvement. Across the system, the current conversion rate is 3.5:1, meaning that each year UKTI and its partners at a national level need to identify around 3,500 leads to meet its target.

Interviewees from both the national and local levels highlighted issues with this target.

- The annual nature of the target is seen to focus behaviour on securing the easiest projects, rather than those of greatest strategic economic importance. It can also lead to inaccurate reporting in terms of the number of projects that are counted as 'UKTI-involved'. A strong consensus emerged in the interviews, particularly among those from the national level, that the targets needed to be changed to refocus behaviour within the system. The preference is for indicators that are focused on employment numbers and contribution to economic growth, and for these to be delivered over a longer timeframe than one year to allow for longer-term relationship-building.
- A key goal is to shift the proportion of FDI projects administered from new projects to expansions of existing projects. It was reported that, currently, 35 per cent of UK projects secured are from existing investors, compared with 70–80 per cent in other countries. Yet these are the projects which are more likely to build extended capacity and jobs on top of small initial investments and to embed an investor in the country. In considering this evidence, the perspective of the interviewees was that these were the projects most likely to deliver investment into sectors present in the North.

Interviewees noted that the key capabilities required by the inward investment system to secure these longer-term returns include:

- Strong intelligence capability to both identify and capitalise on investment opportunities by building and maintaining long-term relationships with investors, and which can communicate a detailed and up-to-date understanding of the opportunities existing throughout the UK.
- Strong specialist capacity to translate trends in industries and markets into commercial opportunities and investments and to interact with all parts of the system.

- Good ‘aftercare support’ in local environments to embed an investor in place, to secure ongoing investment into its focus area and support the development of a wider value chain locally and into wider regional and national territories.
- Strong and settled partnerships and coordination between policymakers at all levels, including local authorities and LEPs, national departments and other agencies, in order to ensure that the economic environment can build confidence and maintain support for investors, in areas such as transport, infrastructure and skills.

Capacity to support local economic development

UKTI interviewees in particular described the spatial blindness of the current approach, with the goal being to meet the demands of investors rather than to influence their decision-making.

Currently, a framework of eight high-priority sectors and 40 subsectors drives resourcing and targeting decisions for the UKTI system, shapes information acquisition through the ‘Surfacing the National Offer’ process, shapes the UKTI CRM system, and provides a focal point for staff based nationally and overseas. These priority sectors are software, advanced engineering, life sciences, finance, environmental technology, ICT, creative and media, and business services.

In the past, RDAs played a key role in keeping overseas offices informed about the offer from their regions, ensuring that local and regional opportunities were brought forward. Different views were expressed about the way they had performed this role.

- RDAs were judged to have been effective in linking with investors, organising the support systems in their regions, supporting local agencies, and promoting projects both within and outside of the national priority framework. Many also maintained international offices and promoted regional opportunities directly to potential investors. They had an understanding of how to secure second-phase investment built on investments into London and the South East.
- Less positive aspects of the RDA system included overt competition and a lack of collaboration between RDAs, which could be seen in competing desks at trade fairs, negative briefing, and attempts to capture all investor resources to their own regions. It was also reported that RDAs showed an unwillingness to collaborate across regional boundaries to build supply chains outside their regions, even where it might cement relationships with investors.

The research found that national-level interviewees believed that the closure of the RDAs had addressed these issues of perceived competition; local participants believed that it had also removed a degree of brand confusion around the core cities, which were seen as the key investment assets for the system but had been previously subsumed beneath regional brands.

However, the consensus from these interviewees was that, overall, a heavy price has been paid for closing down the RDAs in terms of the infrastructure which has been left behind. Interviewees reported a difficult and incomplete transition, with problems replacing lost capability and a much-degraded capacity less able to promote local and regional opportunities. This is supported by data about the overall reduction of resources within the new system, and reports from interviewees that key knowledge and skills were lost, not least because of the haste with which the closures took place. There is also evidence that LEPs are now competing in a similar way to the old RDAs.

The research also suggests that while the structure established under the UKTI national system has set about seeking to maintain momentum, restoring capacity, and building relationships with local partners, and while the more established local inward investment agencies have been able to provide at least some of the capacity, there is a general decline in both capacity and momentum across the North. There appears to be a particular problem in Yorkshire and the Humber, in part due to the particularly rapid closure of its RDA.

For the longer term, there are concerns that the emerging system is fragmented and under-resourced; there is doubt as to whether it can achieve a new equilibrium in its current form. One national interviewee summarised a general view:

> **'We lost bodies of significant economic size that mattered in their regions. Many LEPs are too small to do their role, although some are performing well.'**

New capacity is being developed slowly, but it remains less extensive and the system is still in transition. City-regions are now a more important scale for working in this area, and their relationships with local authorities are crucial in creating the conditions to support investments, but they are under-resourced. In some areas, new business-winning functions are being created at both levels. The local role has always been in place to some extent, because the needs of investors for infrastructure, skills and support on the ground have been addressed by local authorities. In addition, some of the more developed city-regions have maintained strong and successful local infrastructure, such as in Merseyside and Manchester. However, other areas are significantly underdeveloped; continuing investment to support development of capacity here is required.

A significant amount of work has been done and is continuing to retain knowledge and skills, to ensure that the system can access and keep up-to-date information about the opportunities, can support and improve local capacity in LEPs and local agencies, and to link up the various parts of a now badly fragmented and under-resourced system, including to overseas and specialist capacity. However, the research highlighted particular concerns relating to the flow of information about new projects and existing growth opportunities, and the extent to which subsectoral opportunities identified locally can be introduced into the specialist and overseas parts of the UKTI system.

In the meantime, BIS and UKTI have begun to work directly with national trade and sector bodies that are perceived as good partners. These tend to be aspatial programmes, although some are inevitably strongly northern because of the geographical location of the sector. For example, the 'intelligent textiles' programme, which is based in the North West and Yorkshire, and the Automotive Council, which offers a full supply chain and involves both private sector and LEP partners across the North East, Merseyside and Lancashire.

A system in transition: future development scenarios

There was general agreement that it was too soon to come to a clear view about how the system would perform in the long term given that it had experienced a significant change at speed. Most interviewees recognised that they were largely rebuilding a system with markedly fewer resources, having lost information and relationships, in a difficult economic environment. There was a consensus that the system should be best understood as being in transition.

A key concern is that interviewees were unsure whether it would be possible to return the system to a 'steady state', with national interviewees especially holding significant concerns and frustrations about ongoing fragmentation, lack of information, and capacity and capability gaps in areas which have seen particular problems, such as aftercare. Making the system work better is seen as a significant challenge given the number of partners – 39 LEPS and a large number of local authority agencies – for a national system reduced by over half in terms of its fieldwork capacity.

In the course of our discussions with stakeholders, a number of potential scenarios for development of the system were suggested, depending on local decisions about resourcing and national decisions about future shape and structure. Some of these could emerge in combination.

- A patchy local system, consisting of the current UKTI structures working with local bodies, with the main local focus being on core cities and urban LEPs, which have more resources and more local assets to use to attract investment.
- A reversal of the centralisation decision, with more resources handed either to the current LEPs to enable them to build a more significant infrastructure and to link with national specialist and overseas functions and/or through mergers of capacity and increasing local collaborations between LEPs and local agencies to create scaled-up bodies.
- A more sectoral national system delivered through a combination of UKTI and private sector-led structures, like the Automotive Council. Local spatial partners would retain an important local role, focused mainly on addressing local infrastructure issues to embed national and sectorally led initiatives.
- The reintroduction of some structure at a 'mezzanine scale' between LEPs/local authorities and the centre in order to enable a more strategic approach, including working at larger, supply-chain-level scales, and to provide a stronger partner for UKTI in promoting regional brands and assets. This could be a deliberate variation on the collaboration scenario, and was mentioned as desirable by a number of national figures.

Recommendations

With the benefit of this work, and at a time of limited public sector resources, we make three key recommendations. Together they have the aim of:

- **Strengthening the capacity of the local system to identify, support and communicate key investment opportunities**, including by enabling collaboration between local agencies to support subnational opportunities which span LEP borders and to generate intelligence.
- **Providing a framework for addressing fragmentation** by developing a stronger partnership between the local inward investment system and national specialist and international resources, addressing fragmentation through enhanced intelligence and more-proactive coordination.
- **Improving outcomes**, by incentivising a focus on investments that secure employment and growth.

These proposals are consistent with national priorities to promote localism and enable economic rebalancing, and are strongly aligned with the other proposals of the Northern Economic Futures Commission which aim to contribute to these goals by delivering

stronger economic performance in the North (see IPPR North and NEFC 2012). The recommendations of this report are as follows:

- **Shift capacity into the local system:** Overall, there is a lack of capacity at the subnational level, in particular in LEPs and local authority-led inward investment agencies, to deliver enhanced levels of inward investment activity and to play their envisaged role as key partners within the national system. The reductions in capacity have been concentrated in this key part of the system, creating particular risk for those areas outside of London and the South East which do not enjoy the same level of global brand profile. It is recommended that, if there is to be no additional investment in FDI, then a greater share of the BIS and UKTI resource invested nationally should be shifted to key local scales to strengthen the capacity of local teams to understand and project the local and spatial offer to national and international partners and investors, and to support investors by coordinating local support.
- **Change behaviours through the target and monitoring system:** The current system of measuring the number of projects secured annually is not adequate or suitable for driving the long-term behaviours that can maintain the momentum the UK has had in the past in international markets. The ideas suggested to the research team are to create a stronger focus on the expansion of existing projects, combined with targeting strategic long-term new projects. Adopting targets that measure short and long-term employment growth and impacts related to targets such as sustainable economic growth potential would be more likely to support this objective for the UK as a whole, and more likely to support the government's objective of securing more investment into the North.

  The priority should be to secure longer-term sustainable outcomes in industrial developments that can drive sustainable growth and employment. This will be driven most effectively by introducing longer-term targets, rather than the current annual framework of projects. It is recommended that a tasking framework is created which can radically shift behaviour in the system towards long-term economic outcomes. This needs to include greater focus on long-term strategic relationship-building in key emerging markets. In making this recommendation, it is noted that contributors to this project have recommended that employment should be the main indicator. However, we note that Scotland Development International came to a similar conclusion some time ago and chose to adopt a still more challenging target relating to the number of jobs secured with salaries greater than 20 per cent of the national average. In Manchester, MIDAS similarly measures the number of jobs secured over a set salary, as an indicator of the quality of jobs, as well as R&D investments. Targets such as these would recognise the need to aim for a growth in the quality of employment in the North and in the country as a whole.
- **Build collaboration at a wider scale:** While the key recommendation is to strengthen the local and city-regional scale, the research has also highlighted a gap at a strategic scale between national and local levels in the North. To secure higher levels of inward investment to the north of England, and to boost its export capacity, we recommend the formation of a Northern Investment and Trade Board (NITB) tasked with developing a small number of key trade and investment priorities for the North and improving coordination between local authorities, LEPs and UKTI sector specialists. The role of the NITB should be:
  - To focus on a small number of strategic projects within which the North as a whole has capacity at scale – such as nuclear and renewable energy, and water

supply and management technologies – with the aim of providing a coordination point to build links between local assets and project them effectively to UKTI, BIS and its ministers, and through them to investors.

- To ensure properly coordinated and streamlined account management role for these key projects, working with local authorities and LEPs to provide ongoing communications with key investors and existing trade partners to secure expansions and to build on existing trade links in order to secure leads.
- More generally, to provide mechanisms to engage actively with UKTI specialists and overseas capacity to draw them more effectively into the North to work with LEPs and local investment agencies, to coordinate information about northern opportunities within the UKTI system, and to improve the national understanding of northern sectors and subsectors.
- To support capacity-building among local northern partners, through information exchange and development of the skills required.

It explicitly should not be the role of this body to project a separate brand, such as 'the North'. Its rationale should be to address failures of coordination and information in an efficient and accountable way.[19]

19 It should be noted that the Northern Economic Futures Commission has made a wider recommendation to develop a northern trade and investment structure. This decision draws from the evidence presented in this report and a wider evidence base produced for the NEFC.

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