



**UK TRADE & BUSINESS
COMMISSION**

UKTBC POST-SESSION REPORT: SKILLS DEVELOPMENT AND INWARD INVESTMENT

APRIL 2023



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1. INTRODUCTION

The UK Trade and Business Commission brings together ten MPs from all nine Westminster parties and all four nations of the UK, along with business leaders and expert economists to provide independent scrutiny of the UK's trade deals and provide recommendations to the UK Government.

The Commission met on the 27th of April to discuss the issues with skill shortages and take a broad look at foreign direct investment (FDI).

The UK is currently experiencing shortages of labour across many sectors, including hospitality, agriculture, and healthcare. The availability of skills plays a pivotal role in the prosperity of the UK economy and its attractiveness to foreign investors. In order to encourage inward investment and develop

skills across the UK, the UK needs certainty and strategy. It is also important that SMEs are given the support they need in order to access international labour markets, upskill their current workforce, and implement flexible working policies.

This session explored these issues in more detail to establish exactly what is needed from the UK Government in order to strengthen the UK's skills potential and its ability to attract investment.

2. SESSION WITNESSES

PANEL 1: SKILLS DEVELOPMENT

- **TERENCE HOGARTH, PROFESSOR**, Institute for Employment Research
- **BECCI NEWTON**, Director, Public Policy Research, Institute for Employment Research
- **ALEXANDRA HALL-CHEN**, Principal Policy Advisor for Sustainability, Skills and Employment, Institute of Directors

PANEL 2: INWARD INVESTMENT

- **NIGEL DRIFFIELD**, Professor of International Business, Warwick University Business School
- **JENNY TOOTH**, Chief Executive, UK Business Angels Association
- **RUPERT GATHER**, Group Executive Chairman, InvestUK

3. KEY FINDINGS

1. **Disruption to the UK workforce and a reduction in labour mobility in the UK has limited growth and reduced investor confidence. The UK Government has not adapted fast enough, leaving businesses unable to adequately cope with disruptions and skills demand.**
2. **The UK Government's approach to skills and inward investment has not been comprehensive or coordinated. A lack of consistency and forward planning has increased uncertainty for businesses and investors.**
3. **There is not enough support for SMEs to deal with skills shortages. Providing support to SMEs to routinely upskill their employees, access international labour markets, and undertake strategic workforce planning will help to effectively deal with skills challenges across the UK.**

3.1 LIMITING UK GROWTH

Our witnesses agreed that the UK workforce has gone through a disruptive period which is damaging the UK economy and limiting growth. The UK Government has not taken these challenges seriously and there has been a lack of support for businesses to adapt and remain resilient through these disruptions.

"We struggle to see the investment in the existing workforce. I think we face a huge demographic change with an ageing workforce, huge disruptors in the economy from greening issues, climate change, demography, but also kind of automation and AI and these are sort of challenges that we really need to face up to. We've been predicting the need for increasing skill levels but not really being able to adapt to that change, sort of quickly enough." - **BECCI NEWTON, DIRECTOR, PUBLIC POLICY RESEARCH, INSTITUTE FOR EMPLOYMENT RESEARCH**

"Some estimates suggest the country could lose up to £120 billion of income due to skills shortages by 2030 across the economy, you know with shortages of 2.5 million highly skilled workers and an over supply of lower skilled people. So, it is a huge scale of problem, I think it does affect differently across different industries." - **BECCI NEWTON, DIRECTOR, PUBLIC POLICY RESEARCH, INSTITUTE FOR EMPLOYMENT RESEARCH**

"In terms of the IOD [Institute of Directors] membership perspective, labour and skills shortage are having a significant negative impact on our members. We actually regularly poll our members on the negative factors that are affecting their organisation and last month this involved a poll of 859 business leaders and 49% of those selected skills shortages as having a negative impact on their organisation. Now to give that some context, that was second only to UK economic conditions at 51% and was actually ahead of the cost of energy which of course has received a huge amount of media attention. So, we know it's having a really significant impact on our members as well as sort of making the UK a less attractive place to invest. What we hear from members anecdotally it's stifling growth in potentially high growth sectors." - **ALEXANDRA HALL-CHEN, PRINCIPAL POLICY ADVISOR FOR SUSTAINABILITY, SKILLS AND EMPLOYMENT, INSTITUTE OF DIRECTORS**

"I obviously do have concerns in terms of our environment to support growth and innovation here in the UK. We have been for many years a much lower spender on innovation than many other countries in the world and we have been down at number 27, we kind of creep around but if you look at the OECD figures that shows you, we have those issues. We also have in terms of skills, we have very considerable skills gaps in new technologies, this is something obviously everyone is trying to address but as you know we do not have the skilled labour force in many of the new and emerging technologies that we have here in the UK [...] so for anyone looking at the skills and the workforce or for growing businesses here, we still have many challenges." - **JENNY TOOTH, CHIEF EXECUTIVE, UK BUSINESS ANGELS ASSOCIATION**

“There’s evidence that we’re having a particularly slow recovery from the pandemic compared with competitor nations, we suspect that part of that, obviously we’ve got things like early retirement, so a perfect storm of things like early retirement, ageing population, long-term sickness, but also changed migration patterns post-Brexit which are obviously having an impact so I suspect that might be part of the reason why it’s particularly acute in the UK.” - **ALEXANDRA HALL-CHEN, PRINCIPAL POLICY ADVISOR FOR SUSTAINABILITY, SKILLS AND EMPLOYMENT, INSTITUTE OF DIRECTORS**

There has been a significant amount of uncertainty that has impacted the levels of UK investment. The compounding factors of Brexit, the Covid-19 pandemic, and international economic shocks have made investors more risk averse and impacted the generation of UK jobs, affecting the perception of the UK as a fruitful place in which to invest.

“Our value proposition to the world changed with Brexit. Our value proposition on inward investment was essentially a country with relatively flexible labour markets that could be a bridge between the EU and the rest of the world and with Brexit that changed. So, we’ve seen a decline, we saw a big decline sort of 2016-2017 in inward investment in the aggregate terms has kind of picked up a little bit, but we’ve seen big declines, particularly big declines in the sorts of things that generate jobs, in other words people wanting to create new activity, what we call greenfield investment in the trade, in other words not buying existing companies but starting something from scratch.” - **NIGEL DRIFFIELD, PROFESSOR OF INTERNATIONAL BUSINESS, WARWICK UNIVERSITY BUSINESS SCHOOL**

“There are other issues around Brexit which are affecting the attractiveness of the environment, but I think the biggest change we saw was really the global economic shocks of 21-22 when all equity investment was down and therefore commensurately international investment, [...] because it affected everyone, so international equity investors were pulling back just as UK investors were pulling back.” - **JENNY TOOTH, CHIEF EXECUTIVE, UK BUSINESS ANGELS ASSOCIATION**

“In a time of certainty then the cheapness wins as it were, and investment comes in. In a time of uncertainty, risk wins, you move up the risk-return profile and money doesn’t come in quite the same way. And at the moment where we are, we’ve moved if you like up the risk-return trade off, so companies are wanting higher returns when they are considering re-investing here.” - **NIGEL DRIFFIELD, PROFESSOR OF INTERNATIONAL BUSINESS, WARWICK UNIVERSITY BUSINESS SCHOOL**

“There’s also a whole load of macro-economic uncertainty going on at the moment, which is not helping, but some of that is related to our decision over Brexit, some of that is related to the number of Chancellors we have had in the last three years for example and whatever. But there’s a whole load of stuff going on but a high proportion of it either directly or indirectly can be related back to Brexit but it’s never just one thing.” - **NIGEL DRIFFIELD, PROFESSOR OF INTERNATIONAL BUSINESS, WARWICK UNIVERSITY BUSINESS SCHOOL**

“We’ve got a project going on through the Productivity Institute where the people that we’re talking to specifically are Chief Execs of UK subsidiaries of foreign businesses, so they’re already here but of course when they want investment in their entity, they basically need to persuade their global board of the UK being a good bet [...] They are all saying Britain is a tough gig at the moment, [...] particularly over certainty, over policy and certainty over, not so much demanding regulatory alignment, but wanting to know what that alignment is going to be or not be, so that you can make decisions.” - **NIGEL DRIFFIELD, PROFESSOR OF INTERNATIONAL BUSINESS, WARWICK UNIVERSITY BUSINESS SCHOOL**

Without frictionless trade between the UK and the EU, businesses are reforming their approach to investment in the UK. While this has brought opportunities for increased investment in projects such as HS2, it represents a more reactive approach to inward investment that could be unsustainable in the long term.

“I think what we’re seeing in some cases, there are just like as soon as you put frictions between two markets, some firms will think well let’s jump the frictions in either direction and just like we’re seeing UK firms investing in the EU where they want to be in that market, we’re also seeing European firms invest in the UK because of some of the opportunities particularly that we offer in terms of infrastructure projects and that sort of thing. So, we are still seeing investment in that area, but [...] they’re typically linked to particular market opportunities like for example HS2 contracts.” - **NIGEL DRIFFIELD, PROFESSOR OF INTERNATIONAL BUSINESS, WARWICK UNIVERSITY BUSINESS SCHOOL**

Witnesses held different views on the impact of Brexit and the current attitude of investors towards the UK. Some asserted that Brexit might present new opportunities for investors that could increase the UK’s attractiveness as a destination for FDI.

“I think the UK remains a very attractive destination for entrepreneurs, largely to do with, we’ll come on to this more, access to capital being a very important factor for international entrepreneurs, European entrepreneurs. I think where we’ve always pre-Brexit and now been at a disadvantage is on capital FDI, by that I mean building car plants or building factories or battery Gigafactories, anything like that, where we’ve always been a relatively poor relation in European terms and I don’t detect many capital flows of capital infrastructure type investing from Europe into the UK, never did and don’t now. If you look at the FDI flows, the biggest recipient of FDI certainly when I last looked at it was about a year ago, is actually Poland in Europe and Poland is receiving huge quantities of FDI mainly from Germany and the reason is because Germany wants to outsource its manufacturing capacity out of the Euro zone into the non-Euro zone. Now this represents an opportunity because we’re also out of the EuroZone” - **RUPERT GATHER, GROUP EXECUTIVE CHAIRMAN, INVESTUK**

3.2 SKILLS AND INVESTMENT STRATEGY

After a period of uncertainty and disruption, witnesses highlighted the compounding challenge of a lack of industrial strategy. A comprehensive framework could provide clarity and certainty for businesses and investors.

Skills development across the UK is an important aspect of maintaining inward investment. In turn, investment increases the demand for high-skilled jobs. These both have a key role to play in the levelling-up project, ensuring all areas of the UK can become more economically productive. Strategically bringing together these policy areas will help ensure investors have confidence in the health of the UK economy and its workforce.

“There’s a problem with skill supply, I think there’s a bigger problem with skills demand and we’re constantly looking to say how can we improve the supply side, and we’ve had initiative after initiative after initiative to try and deal with that but in many respects I think we need to understand why the current systems might not deliver what employers want, but I think we need to focus a lot more actually on building that demand for skills in the first place and getting employers to raise their product market strategies so that we create the demand for much more high skilled work, high value work.” - **TERENCE HOGARTH, PROFESSOR, INSTITUTE FOR EMPLOYMENT RESEARCH**

“Now, what we need to do, at the same time the other risk is that if you like the lagging locations or the locations that are economically disadvantaged, they get dragged into almost like a low skill, low cost equilibrium where they attract a Sports Direct warehouse or an Amazon warehouse or whatever and that creates jobs and I have nothing against creating jobs, but does it mean that those people can then go on and upskill and get better jobs, probably not. So that’s the challenge that we recognised a long time ago over trying to use foreign investment to improve regional inequality is because firms are not stupid, they will locate stuff where it’s economically advantageous to do.” - **NIGEL DRIFFIELD, PROFESSOR OF INTERNATIONAL BUSINESS, WARWICK UNIVERSITY BUSINESS SCHOOL**

“We definitely need to be developing the skills rather than thinking we can just bring them in, you know from a talent pipeline, whether that’s migration, whether that’s the education system, we actually need that continuing building of the skills base and to sort of think ahead.” - **BECCI NEWTON, DIRECTOR, PUBLIC POLICY RESEARCH, INSTITUTE FOR EMPLOYMENT RESEARCH**

To address workforce shortages and maintain an adequate labour market, the UK Government must consider a strategy that increases international labour mobility and builds domestic skills levels. Our witnesses highlighted the importance of migration for the labour market alongside the need to develop a culture of upskilling in all sectors.

“My sense is that migration needs to form part of the solution and so we do need to be well focused. And you know it plays a very important role in enabling some industries to be able to be productive and particularly, you think about agriculture where having migration really supports that industry to function. I think the Migration Advisory Committee does good work. I think my concern would be we do need people working in the economy and some of that will come from migration, but we don’t want migrant workers to stagnate any more than we want people, resident population to stagnate in their employment, so you know we’ve got an ageing demographic and smaller generations coming through, migration is a really important feature then in our society. You know to get that integration and to get that high quality work for people we need them to have opportunities to develop and to progress in work alongside the resident population.” - **BECCI NEWTON, DIRECTOR, PUBLIC POLICY RESEARCH, INSTITUTE FOR EMPLOYMENT RESEARCH**

“Businesses generally are extremely passionate about developing their local workforce, but the fact of the matter is that for a variety of reasons the current skill system often doesn’t adapt quickly enough to changing skills needs. So, I think ultimately, we need a skill system that responds more quickly and flexibly to changing skills needs alongside an immigration system that helps employers to plug the gaps while the skill system catches up.” - **ALEXANDRA HALL-CHEN, PRINCIPAL POLICY ADVISOR FOR SUSTAINABILITY, SKILLS AND EMPLOYMENT, INSTITUTE OF DIRECTORS**

“I think there’s a fairly widespread misconception that business pushes for immigration as the easy route out of skills shortages, over investing in the local workforce. Businesses generally are extremely passionate about developing their local workforce, but the fact of the matter is that for a variety of reasons the current skill system often doesn’t adapt quickly enough to changing skills needs. So, I think ultimately, we need a skill system that responds more quickly and flexibly to changing skills needs alongside an immigration system that helps employers to plug the gaps while the skill system catches up.” - **TERENCE HOGARTH, PROFESSOR, INSTITUTE FOR EMPLOYMENT RESEARCH**

“First of all, some jobs exist within an international labour market, we’re in competition with other countries in the world who attract that very highly skilled talent and that will always be the case. [...] There are times where you’d have skill shortages, skill gaps that need to be plugged and migration can sometimes be a way of filling that gap. I think the problem is we do have real problems in identifying what is a skill shortage, it’s tricky. I mean often a lot of what gets reported as a skill shortage, it can simply reflect the fact that an employer isn’t really paying the going terms and conditions to get someone to that job, or the location may be such that there’s limited supply.” - **TERENCE HOGARTH, PROFESSOR, INSTITUTE FOR EMPLOYMENT RESEARCH**

An industrial strategy could prioritise the collaboration between education institutions and the local economy in order to make sure the skills pipeline can adequately support local industries. This would create fertile areas across the UK for inward investment.

“The reason that we have skills shortages, the reason that we have the labour market challenges that we’ve got is because FE is so under-funded. And the people running FE colleges do an amazing job just keeping the lights on frankly, but they understand, they are part of their local infrastructure that Jenny was talking about. They understand their market, they understand what the demand is going to be in two years’ time, but at the moment they more or less have to wait until there’s a skills shortage before they can persuade somebody to give them some money. Whereas actually they already work with the local employers to say right well we know that in three years’ time we’ll need a whole bunch of people who know how to put heat pumps in electric vehicles, right so let’s start training them now, let’s not wait until there’s a skills shortage of people who know how to put heat pumps in electric vehicles.”
- NIGEL DRIFFIELD, PROFESSOR OF INTERNATIONAL BUSINESS, WARWICK UNIVERSITY BUSINESS SCHOOL

“The Future Skills Agency which was recently set up as an arm of the Department for Education which we think is a good start in terms of having a body that is producing evidence on future skills needs. We’d like to see that as independent of any particular Government department, to be much more technocratic in the way that it operates so that it would routinely produce analysis of current and future projected skills needs, but the key for us is that the Government would then use the insights from that to develop policies in various areas”
- ALEXANDRA HALL-CHEN, PRINCIPAL POLICY ADVISOR FOR SUSTAINABILITY, SKILLS AND EMPLOYMENT, INSTITUTE OF DIRECTORS

3.3 SUPPORTING SMES

Due to their size, SMEs are less resilient to workforce shocks and may not have the resources to develop their employees’ skills in the same way as a larger business can. Investment in SMEs’ capacity to engage in skills development can support them to undertake workforce forecasting and give them the opportunity to create a more resilient workforce.

“I mean a lot of employers, smaller employers, it’s sort of day-to-day firefighting and they don’t necessarily have that long-term view about what skill needs they’ll require in two years, three years, five years’ time and how they actually might acquire those skills and how do they put the planning in place to do that. And maybe that’s one of the areas where we need to invest further in the future.”
- TERENCE HOGARTH, PROFESSOR, INSTITUTE FOR EMPLOYMENT RESEARCH

Upskilling and flexible working will help people re-enter the workforce, stop skills stagnation, and build a more resilient workforce. Our witnesses agreed that the UK would benefit from a commitment to upskilling and flexible working in all sectors and organisations, but this will require support for SME employers who might be hesitant to change working patterns or invest in an increasingly transient workforce.

“I think our risks as I’ve indicated in my last point, were really around once people enter the workplace there’s not enough skilling activity, there’s not enough learning and training going on. People are allowed to stagnate, which is problematic. So, there are, you know we see quite big employment gaps, but we also see gaps in who gets access to training and the types of training they are able to take part in.”
- BECCI NEWTON, DIRECTOR, PUBLIC POLICY RESEARCH, INSTITUTE FOR EMPLOYMENT RESEARCH

“If we sort of build resilience through encouraging people to be learning in their work it helps you to have that learning capability to cope with change which I think is important and maybe that does help to build the confidence of employers to aim higher. I suspect again we probably need advocacy and work with employers to help them develop that high goal to then feedback down into how they sort of do support skilling amongst their workforce.”
- BECCI NEWTON, DIRECTOR, PUBLIC POLICY RESEARCH, INSTITUTE FOR EMPLOYMENT RESEARCH

“We are quite vocal on the need to support people to re-engage with the labour market that we do have a participation crisis at the moment, but it will need us to do things differently to support people to re-enter. There is a pool of talent and skills that could be drawn in, but it will take different forms of employment support to enable that to really happen, as well as support for employers to do things differently.”
- BECCI NEWTON, DIRECTOR, PUBLIC POLICY RESEARCH, INSTITUTE FOR EMPLOYMENT RESEARCH

Upskilling could be made more accessible and attractive to small employers or sole traders through tax incentives.

“We think that the Government could use the tax system to incentivise businesses to invest in training for areas identified by the Skills Shortage Agency. We also think that sole traders should be allowed to deduct for tax purposes the costs of re-skilling in areas that are entirely new for their business which they’re not currently able to do if those areas are identified as priorities by that shortage occupations agency.”
- ALEXANDRA HALL-CHEN, PRINCIPAL POLICY ADVISOR FOR SUSTAINABILITY, SKILLS AND EMPLOYMENT, INSTITUTE OF DIRECTORS

In order to fill labour shortages domestically, flexible working arrangements can encourage people to re-engage with employment by providing accessible routes back into work. The Commission heard support for current Government pilots that provide occupational health support for SMEs.

“The ONS with individuals who’d decided to retire early after the pandemic that found that flexible working was the top factor that was likely to entice them back into the workforce, so it’s clearly a really key part of any strategy to try and get groups like that back into the workforce in larger numbers. You know we can also look at the effect that it would have on carers, parents, disabled people, so you know there’s a really quite a large pool of people that initiatives like flexible working and carers’ leave can try to bring back.”
- ALEXANDRA HALL-CHEN, PRINCIPAL POLICY ADVISOR FOR SUSTAINABILITY, SKILLS AND EMPLOYMENT, INSTITUTE OF DIRECTORS

“Our latest analysis shows that if we could close some of the employment gaps for disadvantaged groups, particularly older people, and disabled people we’d see a million more people in work, so that shows the potential power of providing more flexible options. We do agree that employers need support to be able to use flexibility in ways that works for them, we see a role for the combined authorities, local authorities and the enterprise partnerships to help on that, making sure they’re delivering the inclusive growth strategies and we kind of need the employment support organisations and people to advocate, so those people who have contact with employers to advocate for flexible working practices as well as signposts towards guidance and resources about how practices can be adapted to be more permissive and supportive of people with differing needs.”
- BECCI NEWTON, DIRECTOR, PUBLIC POLICY RESEARCH, INSTITUTE FOR EMPLOYMENT RESEARCH

“On occupational health we’re starting to see some Government pilots subsidising occupational health provision for SMEs which we think is really promising and we’d like to see the Government expand that pilot if it proves to be successful.”
- ALEXANDRA HALL-CHEN, PRINCIPAL POLICY ADVISOR FOR SUSTAINABILITY, SKILLS AND EMPLOYMENT, INSTITUTE OF DIRECTORS

The current immigration system also is a significant barrier for SMEs, who might not have the resources or money to bring in international workers.

“SMEs are far less likely to have the HR resources and often the money to engage with and navigate the complex and expensive immigration system, so if we want to level that playing field more in terms of SMEs’ ability to access the skills they need compared with larger companies, we think work needs to be done to make it more accessible to them.”
- ALEXANDRA HALL-CHEN, PRINCIPAL POLICY ADVISOR FOR SUSTAINABILITY, SKILLS AND EMPLOYMENT, INSTITUTE OF DIRECTORS

