

UK Trade & Business Commission
Skills Development and Inward Investment

Date: 27th April 2023

Hilary Benn MP

Good morning and welcome to today's session of the UK Trade and Business Commission and this morning we're looking at skills and inward investment into the UK, two really important components of our future economic success. We've got two panels today, the first looking at skills, the second at investment, and I'm very grateful to all of our witnesses for having given up their time to give us the benefit of their expertise and knowledge and insight, and I'm going to invite the first panel just to briefly introduce themselves before we turn to the first question. So, if I could start with first of all Becci.

Becci Newton

Hi, I'm Becci Newton, I'm Director of Public Policy and Research at the Institute for Employment Studies.

Hilary Benn MP

Welcome. Alex.

Alex Hall-Chen

Hi everyone, I'm Alex Hall-Chen, I'm Principal Policy Advisor for Sustainability, Employment and Skills at the Institute of Directors.

Hilary Benn MP

And Terence.

Terence Hogarth

Hello, I'm Terence Hogarth, I'm a Professor of the Institute for Employment Research at the University of Warwick where I run a programme of research on the links between the labour market and vocational training.

Hilary Benn MP

Well, it's good to meet you all in pixelated fashion. Right, I'm going to turn to Tamara for the first question.

Tamara Cincik

Thank you Chair. What effects are skills and labour shortages having on the UK's economy and on the UK's ability to attract international trade and investment, are these issues equally common in other countries or is the UK more affected? I'd like to start with Terence please.

Terence Hogarth

I think the first issue to address is what's the scale of skill shortages and labour shortages, I mean we've clearly gone through a very destructive period, and one would expect to see disruption to labour supply over that period, but I think what we're really interested in are skill shortages and skill shortages are very difficult to define. I think the employer skills survey suggest that round about 1% of employment level is affected by skill shortages. And clearly where companies do have skill shortages there is evidence that it does affect what they do and a small proportion, and again in the employer skills survey do report that it results in things like loss of audits. I think whether or not it affects the capacity for firms to invest here, I'm not, I think the evidence base there is rather weak, I think that's probably more to do with in the first instance the product market strategies that companies set for themselves, and how they are going to put together human resource practices and so on and so forth to meet their skill needs rather than necessarily just being a reflection of what's available in the labour market.

Tamara Cincik

Thank you, Terence, that's interesting because in my sector I'd say that's the opposite, the fashion industry we don't have trained garment workers at pace and before Brexit we were getting orders because of the largely Eastern European garment workers and now we're losing those orders because we haven't met the capacity that we could have, so that's interesting that it differs. Becci, what are your thoughts on this please?

Becci Newton

Yeah, I mean I'd obviously second the points that Terence was making about the kind of scale and effect, I mean there are sectoral variations of course. I mean some estimates sort of 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. I think generally you know and our analysis, other analysis shows the recovery of the UK coming out of the pandemic is much slower than we're seeing in other countries. I think the skills issue has long precedence right back over time where we've wanted to increase the skills in our economy, but actually we struggle to do so. And we struggle to see the investment in the existing workforce. I think we face a huge demographic change with an ageing workforce, huge disrupters 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 skills levels but not really being able to adapt to that change, sort of quickly enough. So, I think we need to think about that. I'm not an expert on sort of inward investment policy so it's interesting to hear your insight into how that is affecting the industry Tamara, but it feels to me that we need to put a lot more focus on skilling in our existing workforce as well as on the talent pipeline, and ensuring that

where we encourage migration, that we encourage those workers to be also continuing their skills development whilst they're with us in employment.

Tamara Cincik

I wouldn't disagree with you; I mean I think this is going to be a fascinating session that the Commission is hosting today because the adjuncts between skills and labour and investment are well known. I mean I personally, not with the Commission, but personally put forward a lot of cases that the T-levels for the skills for garment workers for instance had to be shored up against us leaving the EU because we were going to lose those workers and they chose not to do that, they're not rolled out until September of this year and that's meant a loss of earnings because we've had several years where we haven't been able to meet commitments and so commitments have gone down. I'd like to go to Alex to answer the existing question if that's OK?

Alex Hall-Chen

Yeah, thanks so much. I mean in terms of the IOD 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. I spoke to a business leader who's running a renewable energy company who has for obvious reasons seen soaring demand, he simply can't meet because he can't access the skills in this area and is struggling through the apprenticeship system but obviously that takes time. So, to address the question as well about are these equally common in other countries, I think as Becci mentioned 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.

Tamara Cincik

Sorry, my phone just started ringing right on time while I was unmuted, I do apologise to the Commission. One point before I defer back to the Chair, I just want to raise, is that all of these issues have an impact, the last Nottingham lace factory, Clooney Lace, that has been thriving through nine generations of business is now facing closure, it had 20 members of workforce before we had left the EU, but because the dying, we've lost the dying, we've lost the skills for dying, they send to France for most of the colour dyes and then send back and they're being hit with double-whammies on those costs and they are looking at closure and for me this is a national tragedy to lose those skills, once lost we've lost them forever, so I just wanted to raise that point before deferring back to the Chair. But thank you very much for your answers.

Hilary Benn MP

Tamara, thank you very much indeed and that last example has had some publicity, I think it's the way it's treated by HMRC and the VAT, so it's really striking. Right, I'm now going to turn to Mike Cohen, Mike over to you.

Mike Cohen

Thank you. I'm interested in the role of Government in tackling these problems with skills and labour shortages, is Government doing enough at the moment and what sort of initiatives should it be pursuing? Could we start with Becci this time please?

Becci Newton

Yeah, I think successive governments have been aiming to address this agenda, but I think what we often see is redevelopment of the skills system, of qualifications but not actually sort of, that takes time to do, so we've seen some useful developments from the revised apprenticeship standards to the development of the T-level standards but actually and Tamara has a point there about the roll out, that has quite a slow effect, sort of in terms of how it comes into the economy and starts impacting on the skills available in the workforce. So, it feels to me that there's been a lot on that kind of design side but that is quite a time-consuming thing to tackle and so you see quite slow effects into the labour market. I think we've seen some interesting skills models, so the Build Camps [ph 0:10:57.0] do give us a shorter prompter kind of more rapid skilling opportunity, but we're not clear yet how that articulates with some of the developments around the kind of trading in occupational standards that we see for apprenticeships and for the T-levels. I think the higher technical we're sort of looking to those again, really useful qualifications, we know business use these qualifications, they're often qualifications that employers themselves were involved in developing, they're not new but people don't know enough about them. And 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. So, the more highly skilled you are, the higher your occupational level, the more likely it is you are to get training. If you've entered into an entry level relatively low skilled work area you are quite unlikely to see training to help you progress and the number of training days and employer investment in training has dropped over successive years if you do look at the employer skills survey. So I think we need to be doing more to tackle this, I know some people will argue about the effects of the apprenticeship levy, you know I think we probably need to think beyond the levy policy and to think how else can we get training and skills development happening more consistently once people are in the workforce as well as developing those options for the talent pipeline, which I think that kind of talent pipeline work is going OK, we probably need to sort of get that pace working so it does meet industry needs. I hope that goes a good starting point.

Mike Cohen

Yes, thank you Becci, that's really interesting. Alex, could I get your views next please?

Alex Hall-Chen

Yes thank you and I'd echo a lot of what Becci said, I think to start with the positives, I think we have seen as Becci said some genuinely quite exciting skills reforms in the past few years which have genuinely sought to build in employer input from the start and have a potential to at least make a dent in skills shortages, T-levels and skills boot camps I think are probably the best examples of that where they've been designed in partnership with employers and target areas of skills shortage, level three guarantee I think is another example of a policy which does recognise the importance of upskilling people who are already in the workforce, although we think there are many changes that could be made to make that more effective. I think our position is that ultimately we are missing a piece in the policy armoury when it comes to skill shortages, so we've recommended that the Government creates a fully independent technocratic shortage occupations agency that has a statutory remit to systematically advise on current and future skill shortage areas for the UK economy and insights of that organisation would then be able to feed into various other areas of Government policy, whether that's immigration or tax incentives for employers to invest in training in shortage skills areas and we feel that until we have something like that which will resemble in part the Future Skills Unit which was recently set up in the DfE but again we think it needs to be beefed up essentially and have more independence. I think until we see something like that, a sort of centralised production of insights on which policy can be based, we're going to continue to have a fairly piecemeal approach to skills shortages and it won't systemically deal with the issues that we're seeing.

Mike Cohen

Thank you that's great and I'm slightly conscious of time and our agenda moving on but Terence can I just ask if you've got anything to add to that?

Terence Hogarth

Just to say there is clearly something curious going on if you look over the past 40 years, we've created an education and training system that's meant to be responsive to employers' needs, so we've created a strong external market for training that employers are meant to use, they have a high degree of influence over that, we've had massive expansion in higher education in the past 40 years and I suppose the question is, is that failing in some way and I think it's quite difficult to pinpoint actually what's actually going wrong, but it may have something to do with the fact that companies have externalised the problem of solving their skill needs, it needs to be a programme of some sort that needs to deliver that and you have to ask yourself the question then why aren't employers actually making those investments themselves and I think it has something to do with the fact that again over the past 40 years we've created a flexible labour market where we want people to move between jobs, between sectors, but a consequence of that of course is that the single employer can't necessarily procreate the return on the investment they make in an employee. And I think it's how do you sort that issue out I think is the critical issue and clearly you know we're struggling now a little bit.

Mike Cohen

Thanks to everybody some really interesting points I think for me there on ongoing training and upskilling of existing workforces so thank you, I'll pass back to the Chair.

Hilary Benn MP

Thank you very much indeed Mike. I'm now going to turn to Geoff Mackey, Geoff the floor is yours.

Geoff Mackey

Thank you very much Chair. Just moving on from Mike's question and I'd like to continue to have the conversation about how the Government could approach things, I'm interested in the effects of long-term illness and economic inactivity on the conversation around labour shortages and the economy, I know Becci you mentioned the pandemic already but what effects are these having on what we're doing, could we start with you please?

Becci Newton

Yes, our analysis, 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 to employers to do things differently. We know most employers are not very good at offering for example flexible working that they have ongoing concerns about part-time and flexible work models, and part-time and flexible work models tend to be lower paid, which isn't hugely supportive of re-entry, but we also I think we see this discomfort about job design and doing things differently and I think we need to see more collective support to employers to build their capability to re-design work to be more supportive of people with health conditions and impairments to move back into the labour market and to be productive there. So, it feels to me we kind of need to tackle two sides, our latest findings from a large trial focused on people with long-term health conditions and who had spent lengthy time out of employment showed that individualised tailored support, sort of thinking about goals and capability and providing that support into employment and to employers can make a difference to people's progression back into the workplace. But I think we do need to build that confidence and capability amongst the employers and work that kind of model at a larger scale. So, I think there does need to be partnership to make this happen and we do have a pool of talent that we can access if we do make it happen.

Geoff Mackey

Thank you very much, Terence, long-term illness, and economic inactivity.

Terence Hogarth

I'll defer to what Becci said given her Institute has done a lot of the interesting research in the area. I would say, I mean first of all we need to look at what happens over time, we're obviously going through a disruptive period following Covid so we need to see what happens with the participation rates over the slightly longer term, but I do think there's a huge wealth of evidence out there which demonstrates how you engage people, how you re-engage people in the labour market and we've collated that evidence over the past 30 or 40 years and it may be just the case of returning to that,

looking at what works well and getting employers to work with that, but I don't think there's any shortage of evidence to suggest how you can re-engage people in the labour market.

Geoff Mackey

Thank you, good morning, Alex, and what are your members telling you?

Alex Hall-Chen

Yeah, I mean from the business perspective I think the two elements which could be of most use here are as has been discussed flexible working, occupational health as well and I think in both those cases as Becci said the focus here should really be on how Government can work in partnership with business to improve businesses' ability to offer those two things. So, you know the Government is currently legislating to make the right to request flexible working a day one employment right which we absolutely support. We have evidence from within IOD membership that there's increased awareness and intent to offer at least some forms of flexible working, I would completely agree with points that have been made elsewhere that obviously flexible working is so much more than remote working and if we really want to utilise that to tackle economic inactivity as a result of long-term sickness then we need to be looking at improving the offer for part-time working, shared jobs, things like that. So that kind of partnership model between Government and business I think is really important. On occupational health we're starting to see some Government pilots to subsidising occupational health provision for SMEs which we think is really promising and we'd like to see Government expand that pilot if it proves to be successful.

Geoff Mackey

Thanks very much, Alex could I roll onto my next question please because you'd actually talked about the need for an agency and the question of where that agency sat when we talk about skills and shortages within this education and training space and I think your phrase was we need to beef it up, what does that look like as we move forward, how does the Government actually deal with this from a policy perspective?

Alex Hall-Chen

Yeah, thank you, so the beef it up comment was in reference to 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, I mentioned immigration earlier, skills, for example we think that Government could then 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. So really, we want it to be beefed up in the sense that it will be independent and have a statutory remit to do that work and then Government can systematically use that insight to inform its policies across the board, across departments in terms of how it deals with skill shortages.

Geoff Mackey

That's really helpful, thanks very much. Terence when we were talking about your remarks earlier on when we got into education and training, you actually mentioned the question of flexibility and I've heard the work flexibility mentioned several times already, when regarding education and training and employer needs, how do we bring those together to allow policies to be developed?

Terence Hogarth

It's a tricky question. I think we've developed an innovative system in the UK for getting an education and training system to respond to employers' skill needs. And really it's a question, you know we have a lot of training providers who are primed to respond to the requirements of employers and we've developed that over a very long period of time and it's really about getting that work better in some way and getting employers to recognise what their skill needs are and getting them to invest in the skills that they think they require. But I do think the problem, we keep on saying 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. And I think that's the bigger problem than the skills supply one. I don't think that answers your question, but I just think building that demand I think is perhaps more important.

Geoff Mackey

No, no I think it's a really good point, I mean so what you're talking about is workforce planning for prediction in the medium and long term.

Terence Hogarth

Yeah, 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. Many years ago we had Trade to Gain, Trade to Gain didn't work terribly well but actually there was a germ of a nice idea in there and it was probably more its execution than the idea itself about how you support companies to actually engage in workforce planning and then identify how those skill needs can be met from a range of training providers and it may be we need to go back to look at those types of things. I'm not advocating Train for Gain because there were some problems with it, but nonetheless there was a germ of a really interesting idea with that.

Geoff Mackey

Really, really interesting, thank you. And Becci, we're talking about policies for skills shortages, but we're now talking about demand side as well, would you like to come in to finish this question off please?

Becci Newton

Yeah, I mean I think there is something about trying to, you know I really take onboard Terence's points there, I think some brokerage model, some support to employers to start predicting their skills need and to think about how they meet them, 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. I think often employers don't realise the effect of carrying on in the way they are, so there's been some work around Pisa [ph 0:28:13.0], the P-AC [ph 0:28:15.6] surveys which showed actually you spend more manager time putting in the workarounds to support people who can't be very productive in their role and actually then if you did do the training you could release that manager time and do something more with that time. And I think it's trying to get that sense of cost and benefit, the incentive right for employers to take action. I also think it's quite a complicated world for employers to access some of this stuff and I think we need to simplify things, so there can be an awful lot of demands on employers and it's not terribly well coordinated and I think that can be off-putting, we've got lots of initiatives so the Local Skills Improvement Plans, we've got Local Enterprise Partnerships, we've got initiatives which you know look for employers to engage with schools, we've got the work around colleges and independent training providers and so forth engaging around apprenticeships and T-levels, there's a lot of demands not very well coordinated and so I wonder whether there is something and particularly with the kind of models around devolved responsibility for say adult education training, we've got lifelong learning entitlement coming at the individual level, should we do a bit more local level coordination that enables employers to feel they can engage with something and think about their skills needs and how they meet them, for them and from some of our research the notion of there being a skills system is really, you know it doesn't exist from their point of view. There are lots of initiatives that are very well connected, so I feel like we need to put that connectivity in place, deliver some brokerage, I possibly think that maybe that was where Terence was alluding, I wouldn't like to presume, but I do think there was something in Train to Gain that was trying to go into employers and help them think about their skills and you know this could help us achieve better progression in work which will also help individuals as well as the wider economy.

Geoff Mackey

That's great, thank you very much, the conversation around local implementation of national policies I feel will continue. Chair, back to you please.

Hilary Benn MP

Geoff, thank you very much indeed. I'm now going to turn to Charles Rose. Charles.

Charles Rose

Good morning and thank you. My questions link immigration and skills shortages and the first is, with regard to immigration reform what sort of policies should be put in place in both the short and the

long term. How should we think about the balance between developing and importing skills and how can immigration policy reform be used to complement a broader skills strategy? Nothing complicated in that! Can we start off with Alex please?

Alex Hall-Chen

Yeah, thank you, I think I just want to start by saying 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. So the shortage skills agency that we mentioned earlier, we'd like that to include the current remit of the Migration Advisory Committee to really link up the work that's being done on skills shortages across local skills policies and immigration, but at the very least in the short term we'd like to see the Migration Advisory Committee being commissioned on a periodic basis rather than say at the whim of Government, because we will see the MAC not being commissioned for quite some time which really limits the ability of the immigration system to respond quickly. I think there's another point as well that I just want to quickly make around the accessibility of the immigration system to SMEs who 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.

Charles Rose

Thank you. Can I move this onto you Terence please?

Terence Hogarth

I mean there are two issues I think which I tried to address through migration policy, 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 high skilled talent and that will always be the case. And then as Alex was saying you know 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. So, we do have real problems in identifying what is a genuine skill shortage. But I think the Migration Advisory Committee actually does a pretty good job of taking a variety of indicators to actually identify what is, as best as you can possible gauge, a genuine skill shortage. So, I think probably things are in place to deal with that, and we seem to have dealt with it reasonably well. Clearly there are some transaction costs to do with visas and so on and so forth which is outside my area of knowledge, but you know in terms of identifying what we need, what we can meet from migration, we've got a pretty good system for doing that, I think.

Charles Rose

No immigration policy reform that you can identify that you would promote?

Terence Hogarth

None that immediately come to mind, I mean you know there is the point that we don't necessarily want to use migration policy which would have the impact of not pushing employers to look for alternative solutions to increase their productivity rather than just relying on labour, relatively cheap labour. But I think to a large extent the Migration Advisory Committee deals with that.

Charles Rose

OK, thanks. Becci, what do you have to say on this?

Becci Newton

Well, I defer to Alex and Terence's expertise on these issues. My sense is that migration needs to form part of the solution and so we do need that 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 MAC 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. So, I kind of feel that it still takes us back to trying to encourage more skilling activity in employment, however it is that people, whatever their origin we need to keep that skill level progressing.

Charles Rose

Thank you, my next question moves on, and it talks about changes in the labour market and could changes in the way the labour market operates help reduce skills shortages, for example could greater provisions for flexible working or for carers' leave help fill gaps, and what could the UK Government do to help make the UK's labour market more attractive? Alex, back to you.

Alex Hall-Chen

Thanks, I think the short answer is yes, you know there was some interesting research from 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. I mentioned earlier that we had strong indications from our own members that there's an increasing willingness to engage with various forms of flexible working, on remote working specifically we have some data from early 2022 that eight out of ten business leaders planned to offer employees some degree of remote working in the long-term, with actually 27% saying that they were going to offer staff complete choice in that, so I think actually it's a really good time to be having these kinds of conversations with business leaders, partly because of the learnings that we had from the pandemic and partly because of skills shortages and certainly in the work that we're doing with our members are really encouraging them to think of other forms of flexible working as a means to plug those skills gaps. In terms of what Government is doing, as we mentioned earlier they're already legislating to make right to request flexible working a day one employment right, also legislating for I believe carers' leave so I think it's a case of seeing what impact those policies have first before deciding whether we need additional policies, but in the meantime obviously continue working in partnership with business to promote best practice in these areas.

Charles Rose

Thank you. Terence?

Terence Hogarth

We have a flexible labour market and we've been having these conversations for a very, very long time but there's been lots of legislation over the recent decades which make the UK labour market a relatively flexible one. I think it's probably a case of identifying where that flexibility isn't used and whether it can be used. I mean there may be operational reasons why in some cases that has flexibility that are available to large swathes of the workforce that work, but there may be cases where for one reason or another employers don't want to engage with it. So really, it's a case of there's an advocacy role to persuade employers of the merits of using these flexible practices, but there's also a research role in identifying why it is the case that where that employers who could avail themselves of these various working practices chose not to do so.

Charles Rose

Thanks, that's interesting, as somebody who's run small companies, I've tended to shy away from this level of flexibility just because of the need for certainty and wanting people to be there for the whole shift and not have to change things in and out during the course of the day, but anyway let's move this one back onto you Becci.

Becci Newton

Yes, so I mean 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. I think your point about a flexible working model, there may be others out there Charles that would work for SMEs but they kind of need the confidence and support and the case examples, so we'd like to see some movement there from kind of trade and industry bodies, so a good Government level kind of do believe that flexible working should be a default available from day one of entering work and some public funding to support companies to commit to flexible working from the very outset would be helpful. Things like affordable childcare are going to be really important, thinking about adult care opportunities as well, what can support people to enable them to enter work as well as what can support employers and how these models can work together. So again, I think I'm going back to quite a partnership approach, there needs to be dialogue, there needs to be support, there needs to be incentives, but it is a really important aspect of what we can do to address some of the shortages we see.

Charles Rose

But do some jobs lend themselves to this flexibility in a way that others don't, I'm thinking that if you have a situation where a person comes in and works at their desk and that there's a throughput of tasks that they can slot in, do that for a number of hours and then go without relatively smooth handover that that's an easier situation than something where somebody has to begin an operation at a hospital or something like that where you have to see it right through to the end, and I think the points that you make about the background support, the caring and the flexibility provided to people to leave their homes are important. I wonder if we could just have a comment on that?

Becci Newton

Yeah, I mean I do think there are different forms of flexibility and we need far more kind of case examples to show how flexible working can operate, so we've looked, we have done some research in NHS organisations looking at how there are case examples out there and what makes it happen is around making sure it's designed and implemented in such a way that enables that flexibility, we won't go over examples that you gave there Charles but there may be ways of offering a more part-time model to some people where despite those kind of needing to be on the job, the flexibility may show in a different way from that. I think on childcare and adult care we need good policy to support people while the policy around more free childcare clearly is an important step forward there are consequences that we are yet to fully understand and deal with including shortages in the childcare workforce. We need to be thinking about the quality of work that is available in those kind of support workforces to enable other people to carers to be active in the labour market. I haven't got a solution, but I do agree it's a challenge that we need to tackle.

Charles Rose

Thanks very much indeed and with that I want to hand us back to you Hilary.

Hilary Benn MP

Charles thank you very much indeed. Just before I come to Mike for the final question because we've got just a couple of minutes, we hear a lot about the UK's poor productivity performance, does

anyone want to just briefly comment on the extent to which the question of skills we've been discussing this morning is part of the cause of that? Terence?

Terence Hogarth

I'll give it a go, it's a tricky issue. We tend to think skills are the solution to everything, in many respects because it's part of the system that you can easily tamper with, you can make changes and so on. But if you want to try productivity ultimately, it's down to the product market strategies that companies chose to pursue and if our productivity is low then the mix of companies that we have, the mix of product market strategies is probably not where we want it to be. Now, if you don't have the skills, you're not gonna be able to realise that product market strategy, it means that much is clear. But I think in the first case, there has to be that ambition those product market strategies, those practices in place that are gonna drive up the demand for skills within the workplace. But skills are a second order issue I think in this debate.

Hilary Benn MP

OK that's really helpful. Becci or Alex, would either of you like to comment on that?

Alex Hall-Chen

I mean just to in many ways agree with what Terence has said in the sense that it's clearly not the entire answer, I do think it's hard to argue that it plays no part in it and I think especially as we see increasingly rapid economic change for example the green transition has been mentioned, the impact that AI is going to have and that rapidity of change is only going to increase over time, it's really clear that the current skill system that we have is unlikely to facilitate a productive response to those economic changes, so I would say yes and no, it's obviously not the whole picture but it's a really important part of it and probably one of the reasons why we have lower productivity than comparator countries.

Hilary Benn MP

OK thanks, Becci was there anything you wanted to add?

Becci Newton

I mean I do see them as interacting and sort of inter-related and inextricably so. I think there's something, we can't predict the entire future, if we sort of build the 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.

Hilary Benn MP

OK thank you very much indeed. Right, I'm going to turn to Mike for the final question for this first session, over to you.

Mike Cohen

Thank you, it's been a really interesting session for me to listen to as somebody who worked in education and a training environment in my past and is currently in an industry with a skill shortage, so really grateful for the thoughts of all of the panel, thank you. And as always, we're going to end with a very broad question, if you were advising Government on this as how they should be tackling skills issues and labour shortages, what three policy recommendations would you come up with and I'm just going to go across my screen left to right and start with Becci if I can please?

Becci Newton

So, closing employment gaps, so let's work around how we get more people able to be active in the labour market. Two, supporting that skilling to take place, so most of the workers we need in the future are already in work now, so I'm all about that local brand, making the connections so that employers can engage, so using the devolution model, putting the skills support, the advocacy, the brokerage on job design where employers can access it and access their local workforces. I'm a bit stuck for a number three at the moment so can I come back to you?

Mike Cohen

Yeah, certainly thank you Becci. Alex, you're next on my screen, can I turn to you please?

Alex Hall-Chen

Yeah, thank you, so the first would be as I mentioned before to create that independent shortage occupations agency, with a remit to systematically advise on current and future shortage areas for the UK economy, I'm conscious that the Labour Party has announced a commitment to establish a Skills England body, so I think we'd encourage Government to match that ambition. Number two would be around immigrations systems around making that more responsive to employer need and less expensive and bureaucratic for businesses to source skills that are in genuine short-term shortage. And I think the third one, and I want to pick up on a point that Becci made in response to the last question is around childcare, so obviously we were pleased to see the developments on childcare policy at the most recent budget, I think there's a lot more to do in this area so we'd like to see Government appoint a childcare tsar to drive the agenda forward across Government departments and to undertake a broad ranging review of the cost and availability of childcare in the UK which should also encompass questions around the childcare labour force.

Mike Cohen

Thanks Alex, really interesting, I like the ideas you have there around kind of development of bodies or people with that kind of cross-cutting remit across areas of Government responsibility I think is quite a crucial point. Can I turn to Terence then for the last bit in this session, thank you?

Terence Hogarth

I think we need to have a much better understanding of the scale of skill shortages in this country and those skill shortages which are persistent. Where are they? What sectors, which parts of the country, what types of employer? We need a much better understanding of what is the skill shortage and why it proves to be persistent. I think we can also look to the past in looking at the types, I mean again over the past 40 years there's been a huge amount of experimentation in how we can better get skills supply to meet demand and we need to look back at some of those experiments to see what we can take from them, so that we can genuinely learn from the past, because I think that sort of information, that sort of knowledge, is too easily lost. And I also think the third element is that if we want to drive up skills demand we need to have a better understanding of why a lot of employers are so risk averse when it comes to making investments in their workforce, it's not necessarily that they don't see the need to do so, but there is I think a degree of risk aversion to do with whether or not you're actually going to get the return from that investment over the long-run and we need a better understanding of that. So, they're the three broad areas I think we could look further into in the future.

Mike Cohen

Thank you, Terence, and recommendations, for business there as well as for Government which is very, very helpful. Becci, did you want to chip in a third point while we've still got a few minutes?

Becci Newton

I think the sort of flexibilities point would just add to it to make sure we find models that can work in different industries to enable that employment gap to close and to enable people who find it difficult to participate, to come into the labour market.

Mike Cohen

Thank you all very much, a lot of food for thought there for me so thank you, I'll pass back to the Chair.

Hilary Benn MP

Mike, thank you very much indeed. Alex can I just ask you a brief follow up question on your suggestion of the skills shortage body that you say should be created? Would you envisage that part of what it would do is to make recommendations to the Government about particular jobs that would be added to the shortage occupation list? Because at the moment we have, if we think of the example that we've dealt with as the Commission when we visited a fruit farm in Kent, the farmer there who'd had to plant less crop because he couldn't find the workers to pick it the previous year, along with other farmers was making representations to DEFRA and eventually the Government issued more visas, but how do you envisage the interaction would work on the question of shortage occupation jobs?

Alex Hall-Chen

Yes, so we think that that agency should encompass the remit of the Migration Advisory Committee to really integrate the work that's being done across Government and the great work being done by the Migration Advisory Committee to really integrate that work across Government, so yeah, we'd see it encompassed in its remit.

Hilary Benn MP

OK, that is really helpful. Well, on behalf of the Commission can I thank you Becci, Alex, and Terence for a really terrific session, you've given us a lot to think about and we are once again extremely grateful to you for giving up your time this morning to talk to us. And we're now going to move on, I hope to our second session. Can I just, yes, I think we've got all three of our witnesses, I can see you before me, so let's crack on. Now just to remind everyone this second session is looking at inward investment into the UK, which is a really, really important issue and we're looking forward to hearing what our witnesses, thank you very much for contributing to the work of the Commission today. I'm just going to ask each of you briefly just to introduce yourselves before I put the first question and I'll start with you Rupert.

Rupert Gather

Good morning, everybody, my name is Rupert Gather, I'm the Executive Chairman of Invest UK which is a private consultancy business helping international entrepreneurs and investors establish or invest in UK SMEs, so we're very much focused on SMEs. We've been going around about eight years and have a wide experience and I've actually submitted a paper to Maheen [ph 0:57:06.0] that I hope maybe she can screen share in the course, when we come back to the evidence.

Hilary Benn MP

Thank you very much indeed. Nigel?

Nigel Driffield

Hi, so I'm Nigel Driffield, I'm a Professor of International Business at the University of Warwick. I'm the lead on all things inward investment for the SRC funded Productivity Institute, and I've been researching inward investment in the UK and indeed the UK labour market since I did my PhD on the same in 1992, so I've been at it a while.

Hilary Benn MP

We expect a lot of you when we put our questions, thank you very much. And lastly, Jenny?

Jenny Tooth

Yes, good morning, I'm Jenny Tooth, I'm Executive Chair, I think it says CEO, but I moved aside to being Executive Chair this year, of UK Business Angels Association and we are the trade body for angel and early-stage investment in the UK, obviously focusing very much on entrepreneurs and investors here in the UK but I work very widely internationally with the investment community. I'm not an expert on FDI but I hope I can make a useful contribution today.

Hilary Benn MP

I'm absolutely certain you will. Right, well let's get going. My first question is how has foreign direct investment in the UK fared in recent years, what's the trend, and I'm going to come on secondly to look at particular sectors, and what do you think is likely to happen in the years to come? So, I'll start with you Nigel.

Nigel Driffield

OK so essentially 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. We've seen a big decline there. In some sectors between 2015 and 2020 it kind of fell by 90%, that's recovered a little bit. The big changes and I'll come onto sectors in a minute, but the big changes, we are still a sizeable economy and we are still, you know there's a trillion pounds' worth of activity going on in this country but what we're seeing is now firms who are wanting to come here because they want to sell stuff here rather than the wider remit of coming here because they want to sell stuff into the European Union. And I'm conscious that you don't have very long, so I shall stop there.

Hilary Benn MP

But that is quite a profound change Nigel that you've just described, and you said it fell precipitously and has recovered a bit, but the type of investment, I invest in Britain to sell in Britain and to sell to other countries, that has not recovered, is that your assessment?

Nigel Driffield

That's it. There's a higher proportion of ... we write kind of a quarterly briefing paper on this for the Productivity Institute which you can read the ones that we've produced so far afterwards if you like, but we highlight the declines and we highlight also the change in the make-up, so historically a high proportion of the new investment coming into the UK would've been for firms who are looking to basically sell into Europe and now what we're seeing is it's firms who are going to be focused on the UK market, that is not in itself a bad thing but that is a reduced proposition if you like for inward investors. Now, 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.

Hilary Benn MP

OK that's very clear, thank you. Rupert?

Rupert Gather

Thank you very much indeed. I think the first question to be asked is what was one seeking to achieve with FDI because when you answer that question it then will, which statistic matters to you, so I take issue with Nigel's assertion that Brexit is the cause of reduced FDI, where actually FDI is one measure for example new job creation, is actually higher now in 2021 than it was in 2017 which he said was the high water mark, but that is the job factor. If you look at the number of projects, I accept the number of projects is lower. And if you look at the amount of capital that again is variable. So, I think one has to ask the question what is FDI for, what measure do you consider important because all the three measures of capital, job creation and quantitative projects and indeed the type of projects whether it's greenfield or that are going to vary over time. Personally, I don't share, but we can come onto that in later evidence, the feeling that Brexit has been a factor from our point of view anyway.

Hilary Benn MP

Right, OK. Now that's ... you're taking a very different view from Nigel, and I suppose the question is, are you disputing the figures because presumably they speak for themselves, but what you're saying is you don't think that it is the cause, principal cause in the way that Nigel just indicated.

Rupert Gather

What I'm saying I'm not as with all statistics Nigel will be able to provide statistics that prove his point, as can I provide statistics to prove my point. I'm reading directly because I haven't got them in front of me of the Department of International Trade's inward investment results which is a matter of public record and in 2017 75,000 jobs were created and 2021 84,000 jobs were created as an example, but I accept the fact that jobs may not be the be all and end all, it may be for example you'd rather lower job creation but in different places, you know you could argue his high job creation in London a good thing, that's an entirely different debate. So, I'm just suggesting that a decision needs to be made about what is FDI for because then that will immediately affect the policy of what you're going to do to encourage it.

Hilary Benn MP

Yes, very fair point. Jenny, is there anything you want to add at this stage?

Jenny Tooth

I'm kind of, I guess I'm looking at this from in terms of our investment not in infrastructure, but I'm obviously looking at the role that international investors are playing in backing our innovative growth focused businesses here in the UK. You know and we know that we've had about 26 billion of equity investment into businesses over the last ten years and that for me is a very, very important figure. And it was still going strong right to 2021 when we had a record year and between 8-10% of that equity particularly in larger businesses, not so much the angel end was still 8-10% of that equity the

22 billion that was raised in say 2021 was from international investors, therefore really not wavering in their contribution to businesses, and indeed recognising an inviting environment overall. I totally agree with the point that, and obviously my concern as well as a trade body is that probably at least 70% of that international investment is still very much stuck in the golden triangle, London, Oxford, Cambridge, and there are huge issues there in the businesses outside, but I'd seen a strong interest. 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. The biggest switch has been and has always been an issue in that is that a very, very large proportion of that is US, but we did have very strong European equity investors continuing to be involved in those business.

The second part of obviously what we see are the opportunities that international talent and founders bring to this country, so we've seen a huge proportion of businesses still being set up by international founders, including Europe, you know we still see very strong businesses, and we have obviously continued to see I think thanks to the visa system we are still seeing global talent. We had a wobble immediately after Brexit but we have improved our talent visas and so we are still seeing that. So, I'm talking now about innovation, high growth potential businesses and the strong contribution that I think is continuing and the interest that's continuing in that environment.

Hilary Benn MP

OK that's very helpful. Can I turn to the types of inward investment, I suppose my first question for those watching as well as for myself is what do we mean by foreign direct investment, because for example if investors from China buy residential property or shopping centres in Britain, does that count as, presumably on some measures as foreign direct investment, and to pick up your point Rupert, if a shopping centre is operating at the moment and a foreign investor then buys it from a British owner, does that count as jobs created on those statistics that you were mentioning? And I suppose what I'm trying to get at is, well residential property is one thing, commercial is another, but when it comes to FDI in manufacturing, what do the figures show and what has been the impact of the change? Rupert, perhaps I could start with you.

Rupert Gather

Sure, I think you're touching on the right point, they do try and address this by, and Nigel will be a better expert at this, the difference between greenfield and supported investment, I think, so that is a clear distinction. I think there is a very important subset of statistics on job preservation, so to use your shopping centre example, simply acquisition of a shopping centre doesn't really move the needle, I would agree with you, but obviously acquiring a shopping centre or more importantly for example a car manufacturing plant that is then saved, think Tata, or a steel mill, I think the man on the bus would consider that that is foreign direct investment of value even though no new car plant has been created. So, Nigel can perhaps just unpack how statistically that is represented but I think that feeling is there.

I think that on the sectors is that we detect, and I have sent Maheen our statistics that you might want to reference or read later, a very different priority of foreign direct investors, particularly in the SME space, than domestic investors and this is really to do with the warping effect I think of EIS and SEIS which Jenny might be an expert on.

Jenny Tooth

I will pick up on that.

Rupert Gather

But because foreign investors don't benefit from EIS and SEIS, they have different priorities in sector selection than a domestic investor that is benefiting from EIS. And so, we see for example of our 500 transactions that we've done, only 11% tech. Now every business is tech enabled, so I'm saying pure tech, which is very underweight, I'm sure Jenny would confirm, for the general investment market. But you see much more investment for example into manufacturing or education or healthcare or things that are sectors that are relevant in the country of origin of the investment. So, I'm not saying either is more important than the other, that's a sort of different conversation. But I'm saying there is a difference in profile.

Hilary Benn MP

Now Jenny you are nodding vigorously, and it might be able to those who are watching us if you explain to them what EIS and SEIS are.

Jenny Tooth

Yes, thank you. It's about 27 or 28 years ago now when the government and it's been supported by governments all changes, the recognise the risk that investors were taking in backing very early-stage businesses and brought in tax reliefs. It began at a lower level but currently the enterprise investment scheme offers a 30% tax relief if you have an income here in the UK ... it also offers capital gains tax relief and inheritance tax relief, and you can keep rolling over your capital gain as long as you keep investing. There are regulations around ... one of the interesting things for foreign investors is that the company has to be substantially based in the UK and although can have other parts of its activity in other parts of the world, it has to be having an economic activity in the UK. There's a further one that was brought in in 2012 called Seed Enterprise Investment Scheme which gives you 50% tax relief for backing very early-stage businesses. So the point being you have to be someone who is having an income here in the UK and making an economic contribution, so if you're non-dom or living somewhere else you can't use ... the distortion is of course that there are categories of businesses that you can invest in in the SEIS and EIS, have to be high risk, generally have strong IP creation etc, so lots of areas like consultancy, property, mining, utilities, none of those are backed either by SEIS/EIS so that again changes the mix of those who are using EIS/SEIS. I mean it's tremendously successful, over two billion a year is invested in the UK into about 4,000 businesses. That differential and where the appetite is and where they can invest.

Hilary Benn MP

That is extremely helpful. Now Nigel, on this question about different types of investment and how it's measured.

Nigel Driffield

Right OK, so I'll be as brief as I can. So, the simplest distinction is the one we've already mentioned which is creating something new, usually called greenfield investment, as opposed to buying something, acquisition. Now, within that ... and this is when one can, as Rupert says, one can prove whatever one wants with statistics, within that then particularly the FDI statistics that one sees particularly at an aggregate level are then subject to all sorts of biases. So, for example, in one of the peak years around 2015-2016 one of the large buildings in London, it wasn't the Shard, but one of those changed hands, in fact two changed hands to give you the example. One was a foreign acquisition of what was essentially previously a UK business, so money will have come into the UK, that will show up in the foreign investment statistics. The other one was basically one foreign entity of sovereign wealth fund buying a business from another foreign entity. Now probably that money never came into the UK, I can't say, but it's probable that money was transferred between one parent company and another. So, although there was £2 billion worth of assets changed hands, it possibly never showed up in any foreign investment statistics because the money never came to the UK. Whereas the first one did.

Now in terms of net contribution to the UK those two things are probably very similar, although in one case £2 billion is coming in. So, you get these anomalies particularly when you look at short-term things. Now in terms more generally of the sorts of ... back to Rupert's point ... then when one focuses on just the greenfield bit for a minute, essentially then typically one gets one of two things. One is either interested in generating jobs or one is interested in the sorts of knowledge and technology that comes in that might then generate productivity, growth, and knowledge spill overs and all of those things. Now, typically it's very rare to find both of those in the same place. You either get sort of a DHL hub or something like that, or an Amazon warehouse which is creating lots of jobs, or you get sort of investment in a biotech lab somewhere and advanced manufacturing is the sweet spot of those two things. That this is, so I could keep going but that's ...

Hilary Benn MP

I know, well we're gonna move on, we're gonna explore a number of these things as the questioning progresses but that is really, really helpful. I'm going to now turn to Alan Winters, Alan.

Alan Winters

Thanks very much Hilary and thanks to the panel members, hello Nigel, we've known each other a long time. So, I want to switch attention to the EU or relations with the EU, and I wonder if you can give us an account of how you think the UK's position in so far as attracting investment from the EU has changed since Brexit implicitly, I guess, and to what extent you think that regulatory stability or regulatory alignment perhaps also are important for that. I suppose to be positive, are the things, well I suppose do you think the Government ought to do something and if so, what? So, Jenny why don't we start with you?

Jenny Tooth

Thank you. I mean clearly, we've always had extremely strong relationships between small businesses and Europe, that's been a huge focus for them. When we look at innovation and research opportunities clearly I know you'll hear me say this, that we've always had for many years the incredibly strong relationship with the Horizon programme which in the UK as a contributor we actually were a net gainer and we have had fantastic collaborative relationships built through that, and whilst we've had a holding pattern since Brexit, we are possibly now finally getting near to a resolution to this as we solve the Northern Ireland Protocol issues which was the big blocker. Clearly,

we've established huge opportunities there and indeed the vaccine during Covid was a prime example of how we leveraged all of those kinds of relationships and the opportunities to continue to do so in Europe, it's very important. The amount of grants that was coming in to support science and research was extremely strong at that time. And clearly it's always been a very attractive location to EU investors, there had never been as strong an opportunity as they are for US equity investors, they have the deeper, bigger pockets and have continued, as have Asian investors, but we have had always very, very strong amount, probably around 6% of external equity has come from EU sources, which has had distinct wobbles since Brexit, although it's not disappeared entirely and you can still see those investors, but if you look at the proportion it's much, much smaller than US. And in terms of actually kind of market opportunities and growth, clearly the European markets have been extremely strong, extremely accessible and all of the supply chain issues, and all of the challenges of international trade have therefore impacted incredibly on small businesses.

I think in terms of talent that has been one of the biggest issues because so much of the talent that small businesses accessed in terms of skills was easily flowing from Europe and that has definitely had an impact, and if you look at the switch, we've been switching massively to outside Europe to find that talent. Although we can't deny that we've had many, many small businesses, with founders from Europe still creating very, very value driven businesses here in the UK. But we do have a more difficult and much less attractive environment without some of those opportunities that we could have when we were part of the EU, and that of course affects wider international investors' perceptions of our environment for attracting science, innovation, and opportunities.

Alan Winters

OK, thank you very much. Rupert?

Rupert Gather

I'd say I disagree on the Brexit point because that's not my experience that this is at the root of all evil in this area. But I think there is a distinction between shall we say knowledge based FDI and capital based FDI and the knowledge based FDI, by that I mean for example third country deals operated from the City of London, whether the capital markets or the legal profession or anything else like that is largely unaffected and that the UK has maintained its position, which is largely to do with the density of skills and capital within the UK economy. 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 giga factories, 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 Euro zone. So, I think you could through deliberate policy change the needle, but I think we are a poor relation for the big numbers, and it goes back to Jenny's point and one we made earlier about what is it you're after, if you're after big battery giga factories you need to change the policy. If you're after knowledge based FDI and innovation and third country professional services, then we're on broadly the right track.

Alan Winters

OK thank you very much. Nigel?

Nigel Driffield

So, if we go back to the original question which was, I think FDI from Europe, I confess we've done slightly better than I imagined we might on that. I think one of the reasons is, I mean as I said before you know let's not pretend that the UK suddenly its GDP went to nought, we're still a sizeable economy with sizeable investment propositions and 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 are as Rupert just said, they're typically linked to particular market opportunities like for example HS2 contracts. You know, and I'm not dissing HS2 contracts, but you know when you're spending however many billions on a set of capital infrastructure projects you can see why inward investors think well, we'll go and set up a business in that country to have access to that market sort of thing. So, we are seeing that.

The other thing to remember that I thought Rupert was going to touch on but didn't, but you might have touched on this in your previous session is largely still our labour market and our labour market flexibility is preferable for business to an awful lot of particularly the, if you like the old EU. I am fully in favour of what President Macron is trying to do with the labour market in France, but it is still much easier if you like to employ and to reallocate labour resources in the UK than it is say in France, Belgium, Holland.

Alan Winters

OK thank you very much indeed, I think I'm taking the next question as well which in a sense is the rest of the world, what do you think the general perception of the UK among foreign investors is, do we appear open for business or have we blown that, and part of that you might want to touch on whether we actually need to add a more generous subsidy regime so far as industry in general or foreign investors. So, Rupert why don't we start with you?

Rupert Gather

Well, I had the opportunity to have lunch with the Secretary of State of DIT and I said that she should go to bed and engraved on her heart on her pillow is ease of doing business as the main benchmark on this. If we get that right, I think all the other good things will follow. And we are currently eighth and sort of heading south on that, and that captures all the kind of technical things that you would expect a tax, all that stuff is within the ease of doing business, so that would be one certainly that I think government and officials should be taking very close attention on. They are largely small countries who are ahead of us, apart from the States, that are more agile, but I mean without getting into the pros and cons of Brexit, one of the theoretical benefits of Brexit was that we become a smaller agile country and therefore can-do things that Singapore and New Zealand are also capable of doing.

When I talk to foreign audiences on FDI which I do a lot, I have three trite, well not trite they're important to me, but three easy to understand shall we say soundbites of reasons to invest in the UK,

which I call language, law and learning and we are blessed with the global lingua franca and that really matters to an awful lot of people and that's there. The education is particularly important to people because it introduces hundreds of thousands of international people to the UK through their education experience, largely enjoyable and certainly the reputation for example of us having four of the top ten global universities is noticed by an awful lot of people in terms of how they perceive that. That's the learning bit, and then the law is really the legal infrastructure that means people if they invest or do business here, they can be certain of reaping the benefits of what they have, and it's no coincidence for example that the Dubai Free Trade Zones operate under English law and so I would say my soundbite language, law, and learning.

Alan Winters

OK so you're fairly sanguine, I mean you've said your view is that FDI is not suffering particularly, and those three factors still continue.

Rupert Gather

Those three factors are very robust and enduring, I'm sure government would love to claim the credit for them, I don't think it can claim the credit for any of them, but they are enduring. I think where government can make a direct policy difference is in ease of doing business and I would be concerned on that, I think nothing to do with Brexit, sorry to be banging on about it, but just for tax, etc reasons we are heading south on that list and that's not a good thing.

Alan Winters

Nigel?

Nigel Driffield

I don't disagree with very much of what Rupert has just said. I'd add a fourth one which the UK has always been good in, which is certainty over policy and certainty over markets and that's the one that I think we are putting most in danger at the moment. 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. Now that's a slightly different market from Rupert's market, they're people who are already here but the global board is making a choice in to use Rupert's example between a car plant in Poland and a car plant in Oxfordshire for example. And they are all saying Britain is a tough gig at the moment, not because of any of those three things that Rupert said have changed, but the other things 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. And seeing on the one hand if your currency depreciates which ours has, on the one hand you can say well then it means that investing in the UK is cheaper, at the same time you also earn your money in pounds which if you want to change those back into Yen or Dollars or whatever you obviously get fewer for them. Now, in a time of ... we wrote a paper on this a few years ago, but 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 is 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.

Alan Winters

OK thank you very much, Jenny.

Jenny Tooth

Yes, thank you. 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, and as you know our educational system is still extremely bad as our Prime Minister is always saying about STEM and mathematics and so on, so for anyone looking at the skills and the workforce or for growing businesses here, we still have many challenges. We do have a very strong entrepreneurial environment and that has been, and we've had as we've said tremendously strong support for entrepreneurship. We have a very low level of spinouts in this country, we are one of the lowest in spinouts and we're trying to address that, and we have wonderful Universities who do not exploit all of their talent and all of their opportunities yet in terms of entrepreneurship. We are pulling together a much better environment for long-term capital, as you know the US is the place where we have lost so many of our great businesses and talent because companies could not find the investment they needed here, the long-term patient capital we needed here in the UK. With the help of British Business Bank and the British Patient Capital, obviously additional sums were offered this time and with some of the more sector specific support that we're going through, things like life sciences, we are improving that situation. But in terms of our general attractiveness yet of having a very connected finance and innovation ecosystem, that will attract what we need, you know high technology, I think we've still got some way to go.

And we also have of course many big challenges in creating those pools of capital, for example we unlike others have an appalling record of having pensions funds invested in equity and we've been lacking so much the opportunity to invite international pension funds to back, so you know we need to increase our opportunity and the attractiveness for that kind of capital, if we are not going to lose out a lot to the US and Singapore and I know Japan soft bank and all of the others that have very, very strong and deep pools of capital. So, I think those are quite important issues for us to consider when we look at the attractiveness, and what we want to have is a high growth knowledge intensive economy.

Alan Winters

Thank you very much, let me hand back straight to Hilary.

Hilary Benn MP

Alan, thank you very much indeed. I'm now going to turn to Mike Cohen.

Mike Cohen

Thank you. I'd like to ask the panel to look at this from a slightly different angle. Can you talk to us about how foreign direct investment is shared across the UK regions and well as sectorally? Can we harness FDI as a way of levelling up the regions, should we be doing so and if so, what can Government do to encourage that? Could I start with Nigel please?

Nigel Driffield

OK I'm conscious I could do three hours on this so I shall try not to. Right so the first thing is you literally, if you try and draw a graph showing the distribution of FDI across the standard kind of regions, you know north-west, north-east, west midlands, you almost can't do it because it looks like everyone else is zero because you need to get London on the same scale. So that hasn't changed since I was a lad and doesn't look like changing. We've plotted some graphs for this quite recently, particularly if you look at short term you get a big jump, like there was a couple of billion invested offshore wind in Tyneside, in the north-east somewhere, so suddenly it looks like oh the north-east generate you know getting huge amounts, so but if you take out short-term things like that it's really concentrated. I sent a graph of this to the Commission Secretariat yesterday so you can look for yourselves, but one of the things that struck me when I looked at this recently was historically over the last maybe 20 years it's been London and the south-east and our last graph basically says it's London. So, it's getting more concentrated. I think to be fair to be people who are working very hard in the regions to try and attract inward investment, the West Midlands and Manchester just about punch their weight, if you compare them with similar kind of cities in the sectors that they're looking to generate. The West Midlands and Greater Manchester just about punch their weight. The rest of the UK does not do very well. Do you want me to go onto how you could use foreign investment for levelling up, I'm conscious you've only got 20 minutes left, do you want to let the others speak?

Mike Cohen

If you could give us just a flavour, we'll try and get round everybody, but I feel like we've only heard half the story there.

Nigel Driffield

OK so as I said before there are two reasons why you attract inward investment into a location, either you want the technology that comes with it, or you want the jobs that they're going to create. Now if one takes levelling up as being something along the lines of equality of opportunity to access better employment options or something, whatever definition you like, but something like that, then you can immediately see that any if you like exogenous shock on high tech stuff is going to do that, but very much as Jenny said in her last answer there's not a lot of point in creating a load of high tech jobs if there isn't anybody to do them. As I think Rupert mentioned this one before, if all you're gonna do is you're just going to overheat the labour market for people with PhDs in biotech in Cambridge even more, then that's not going to do very much for insert place of choice, Doncaster, Blackpool, wherever it is. 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. And without other policies particularly around all the stuff you were talking about in the first hour about skills, skills, skills, skills, and skills, without doing something to generate a greater flow of high skilled labour it's hard to then use foreign investment to improve levelling up, that's kind of the challenge.

Mike Cohen

Thank you very much for that Nigel and tying it beautifully back to the last session, I think that really fills in an extra layer to what we've just heard previously, so that was very helpful. I am conscious of time, but I still want to hear from any thoughts, Jenny did you have anything you wanted to add to that?

Jenny Tooth

I guess similarly, 70% of equity investment is based in London and the South-east, if we take London that takes 60% of all investment from start-up through to scale-up in terms of the availability of risk capital and that obviously has a huge impact therefore, so where you have those thin markets and lack of access to capital it doesn't breed and attract more capital and also entrepreneurs themselves of course can't find that capital so they either have to move away or go further away or those invest in them gradually pull them away, either from there or abroad. So that's an ongoing issue. And I've said the lack of exploitation of the universities is especially acute in those areas, they are not the drivers and the centres of innovation that you see in somewhere like Cambridge, Oxford, where you've got that whole attraction of capital and all of the ecosystem that builds around it. So very poor lack of connected capital in those areas really does have a massive influence. I am interested in things like the investment zones and clusters, we have to build so much more around those outside of London and the Golden Triangle, because actually as an investor you look for all the bits of the jigsaw puzzle to come together in a connected way, you can't just attract someone to put a warehouse somewhere, the whole thing has to pull together, so you need that attractive knowledge environment, you need the infrastructure that supports and attracts those businesses and you need the players working together around that to really make it work. I am impressed by the way when you mentioned about West Midlands and Manchester, I mean if you look at that there's a very strong role that's being played by the Metro Mayors there and they have actually led a very, very strong strategy on inward investment, but they've understood the need to create capital around them and the risk capital and create the infrastructures. So, I feel there's a lot of lessons we can learn there, we need to build that into any policies we had around investment zones or how we support clusters, because we have to make those the hubs of something very much more exciting and connected than they are already.

Mike Cohen

Thank you, Jenny, Rupert, any comments from you before I hand back to the Chair?

Rupert Gather

Yes, firstly I think in order to get a handle of this I really do commend the DIT statistics on where, this is on the projects and jobs as opposed to capital is going and actually it is remarkably balanced in the

UK and you can see that the north-east and indeed north-west have done particularly well in terms of attracting capital and projects and jobs, not quantum capital, and Scotland has done particularly badly if you were relating it for example per head of population as a comparative where it should be. So those statistics are on the DIT. I think the one thing I would say is, and I echo Jenny's point about how well the Metropolitan Mayors have done and particularly where there is a strategy of clustering, and I'm very struck by the stand out FDI city in the UK I think is Derby, who've accepted the fact that they've got something like 20% of their local GDP is manufacturing, whereas the national average is just under 10%. Now they have set their stall out as being a cluster for high spec manufacturing in the UK and that really matters when the person building the factory is looking round Europe, they're looking for these clusters. I appreciate there are national issues but it's quite local and that's to do with knowledge, to do with availability of capital and of course all the local infrastructure that goes around manufacturing. So I think in terms of levelling up, I think having clear differentiated regional strategies articulated by evangelists from that area that really understand their own market, I think is incredibly effective and then you can obviously tweak that a bit and encourage that a bit through free zones and tax incentives and the rest of it, but I think it's got to come from the region.

Hilary Benn MP

Right well thank you. Right, I'm now going to turn to Charles Rose.

Charles Rose

Thank you. I'm going to ask how UK infrastructure issues and labour market challenges affect FDI and what steps should be taken to address these issues and encourage FDI. I'm particularly taken by Rupert's answer about the impact of clusters, and I think these clusters should be seen as part of industrial infrastructure as well, but I'm going to throw this straight back to Rupert and see if he's got something to give us in relation to issues and encouraging FDI.

Rupert Gather

Well personally I wouldn't have built HS2, I would've spent the money on 5G broadband nationally which would've helped this levelling up process, but I'm not trying to make a cheap point, I'm trying to make a point that actually depending on what kind of cluster you want you need the appropriate infrastructure and for high knowledge businesses you need high capacity internet, it's an obvious point. I think the infrastructure itself doesn't really matter; I mean it matters but it's not a big driver. I think it's an easy policy decision and for people to make to put a shiny new something somewhere, a shiny new distribution park on the edge of the M1 is going to make a big difference but I don't think it's that fundamental a point. I think the UK infrastructure is pretty good, it's not great but it's pretty good and I don't think it's one of the big factors that makes the difference, I think it's the other stuff that makes the difference.

Charles Rose

Thank you and Jenny can I turn this one to you?

Jenny Tooth

I agree, I think it's much more about enabling opportunities that are not just about roads and rail or buildings, so obviously I'm very much in favour of infrastructure which is focused on skills and on talent and knowledge. And I also do think, and I mentioned, I think the role of our hubs of knowledge, i.e., universities and our institutions can be much better exploited locally to support the strengths. The opportunity to build around actual sector strengths and thematic strengths I think is the way to really address this and then creating what relevant additional infrastructure needs to be made. It isn't about putting up the roads and then waiting for that to kind of make the difference, we have to say we are strong as we've said advanced manufacturing, we are strong you know in clean technology, you know what we need to build to make this the hub for climate change and net zero and so on. And that is actually people, knowledge, skills and then those enablers if we do need labs and so on, but I think create that identity, create the dynamic and the connectivity between the players as well.

Charles Rose

Thanks very much Jenny, and Nigel can you comment on this please?

Nigel Driffield

Skills, skills, skills, skills, and skills really, both FE and HE level. If I was to do one thing, if I was to take, if I could have the HS2 money back that Rupert's taken back, I don't disagree at all with the broadband issue but the other thing I would do is put it all into FE. 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. So I think that would be my biggest thing because that goes back to Mike's question that if we get that right then you've got people being trained and being given high level skills, then the location has a good value proposition to attract internationally mobile capital from wherever.

Charles Rose

Thank you very much indeed, I'm going to pass back to the Chair now because I think we are virtually out of time this morning.

Hilary Benn MP

Charles, thanks very much indeed. Right we come to our traditional final question to all of our panels where we ask you to imagine you're sitting in front of a Government minister if you haven't just had lunch with them and you've got a chance to say these are the three key policy recommendations in this case in relation to foreign direct investment, how to attract more of it into the UK, what are the three things that you would list. Some of the things you've referred to already so don't worry about

repeating them but just to crystallise it, what are the three that you would like to put forward? I'll start with you Jenny.

Jenny Tooth

Thank you. I think I've already mentioned one, I absolutely think we have to double down on our efforts to make the pension funds unlocked, that will just form us a whole more attractive area, there is so much money out there from international pension funds, but also galvanising our own to make that attractive environment, so I do think we need to complete that. Actually, on another point that I haven't mentioned we have to actually finish off our listing regime that started by Lord Hill, because we have an exceedingly potential attractive IPO market which attracts fantastic international investment, but which has been failing us lately due to the challenging in having an environment those investors can invest in, we've been massively losing out to other international Stock Exchange on that basis. My final point really is coming back to the levelling up agenda because I think we have to shift the focus of equity capital and broader capital towards those areas and I think we have to concentrate that around the strengths of those areas and create much more vertical levels of capital from start-up through to scale-up, that means really doubling down on the opportunities offered through EIS, through the British Patient Capital funds, to actually cornerstone that because that really does create the environment to make those areas thrive, the lack of connectivity between capital is one of the biggest challenges in those areas.

Hilary Benn MP

That's really clear, thank you so much Jenny. Nigel, what are your three?

Nigel Driffield

OK, closer alignment with Europe, better relationship, I'm not wanting to revisit the whole Brexit thing but better relationship with the richer market particularly with whom we have lots of collaborations over technology already. A sensible strategy on immigration, let firms move people around and just not be so xenophobic about immigration, and the one I've mentioned several times already which is skills, skills, skills, and skills.

Hilary Benn MP

OK I'll allow you to put those four into the one and make a third, excellent, OK thank you. And finally, Rupert.

Rupert Gather

Thank you. Well there's three, the first is clarity on the policy of what do we mean and want from FDI which will shape the downstream policy from that, bearing in mind that we don't need to have a consistent policy for the United Kingdom, in other words it's perfectly legitimate that the south-east does focus on skills and the north focuses on manufacturing, I don't see any problem with that. Secondly once you've done that is support those clusters, these centres of excellence which again want to be as diverse as possible which will have the effect of levelling up and rebalancing the

economy and thirdly make it very easy, much easier for the person journey of the entrepreneurs and the investors to come here, by that I mean for example ease of opening bank accounts, all the boring stuff, tax regimes, all this kind of stuff which has frankly been very difficult and has meant that we've started drifting down the ease of doing business.

Hilary Benn MP

Right, well on behalf of the Commissioners I think that's been an absolutely cracking session and I've learnt a lot and we are really grateful to you Rupert, to you Nigel and you Jenny for giving us the benefit of your expertise and wisdom. All the best, enjoy the rest of your day and that concludes this morning's session.