

Building back better

EY Attractiveness Survey

UK

May 2020



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Foreword

Welcome to *EY's 2020 UK Attractiveness Survey*, which – as in previous years – examines the performance and perceptions of the UK as a destination for foreign direct investment (FDI).

This report maintains EY's long track record of sponsoring research into FDI, reflecting our desire to encourage an open exchange of information and insight between business leaders, investors and policymakers on how to enhance the UK's economic performance.

We launched our Attractiveness Program in 1997, believing the long-term horizons of cross-border investors mean that FDI provides a unique window on economic trends at the international, national, local and sector levels. Never has this long-term perspective been more important. The short-term challenges facing economies and societies around the world as they respond to the COVID-19 pandemic are all too apparent but, if we are to build a better future, then we need to begin to look toward the longer term and to start to develop recovery strategies. To play our part in this process, we have adapted our regular investor survey to provide more insight into the impact of COVID-19 on the perceptions and aspirations of investors.

The UK performed well in attracting FDI in 2019. Project numbers were up 5% in a relatively flat European market and the UK surged ahead in digital tech, attracting 432 projects, 30% of the European market. A 38% increase in research and development (R&D) projects and a rise to first place in Europe for new projects secured were further signs of a transforming economy.

Additional evidence of change comes from the shift in the geographic balance as the US and new origins of FDI help to compensate for a slowing of European investment. However, while London's stellar year is to be celebrated, the 2019 results demonstrate very clearly that more needs to be done to rebalance the UK economy geographically. A nationwide approach to ensuring everyone can benefit from the potential of digital tech is the number one priority.

Our survey findings provide a bright spot at a difficult time. Investors were planning significant investment in the UK in 2020 before the pandemic struck and they remain relatively optimistic about the UK's resilience and future potential. Digital tech, climate change and health were cited as high potential opportunity sectors over the long term. Investors also provided a clear steer on what future policy should focus on – the availability of finance and government support, and the quality of infrastructure and skills, were factors identified as key to driving future investment.

Notwithstanding the current challenges, we believe these findings provide the UK with the opportunity to build on its proven strengths by implementing responses aimed at securing its long-term attractiveness to investors. In this report, we suggest a set of policy steps to help achieve this, as the UK develops its new post-EU economic identity. We at EY look forward to supporting and participating in that renewal.



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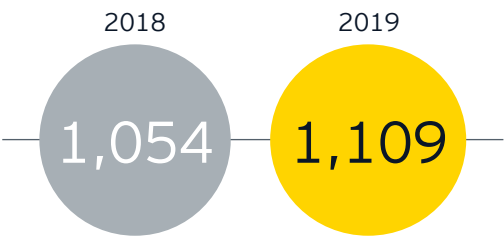


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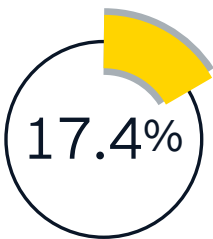
Executive summary

1

The UK had a strong year attracting 1,109 FDI projects in 2019, a 5% increase on 2018.



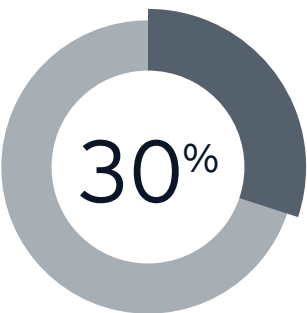
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With the European market growing by just 0.9%, the UK's share of projects increased to 17.4% from 16.6% in 2018 ...

... ending three years of declining market share for the UK since the 2016 EU referendum.

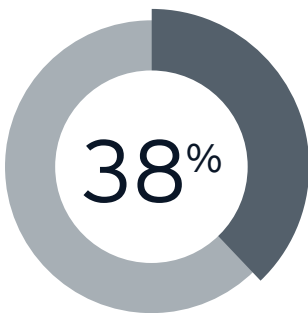
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The UK surged ahead in digital tech attracting **432** projects and taking a 30% share of all European digital projects ...

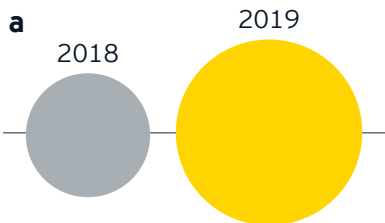


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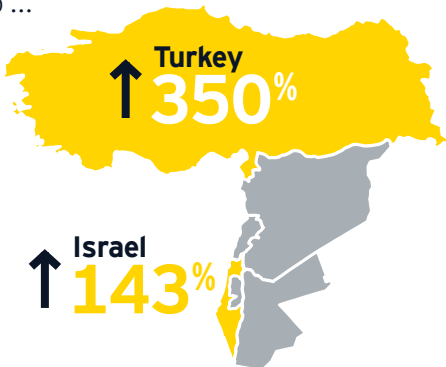
UK R&D projects leaped by 38% to decade high of **102** ...

... representing a 50% increase in the country's share of the European market.



5

The EU's share of total FDI projects in the UK fell, but other countries have filled the gap ...



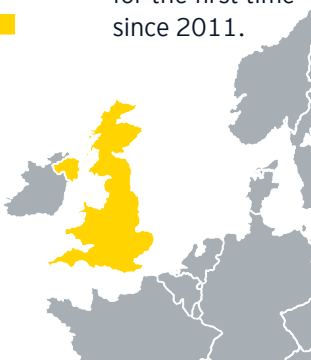
... with new investor countries coming to the fore.

6

↑ New projects in the UK rose 7.7% to **782** in 2019

... putting the UK in top spot for new FDI projects in Europe for the first time since 2011.

– the highest level since 2016, and the second-highest number of new projects secured by the UK in any year in the past decade ...



7

The UK's strong performance in 2019, especially in the digital tech sector,

was driven by London.



The capital secured 538 projects, a rise of 17.5% on 2018,

representing 48.5% of all UK projects.

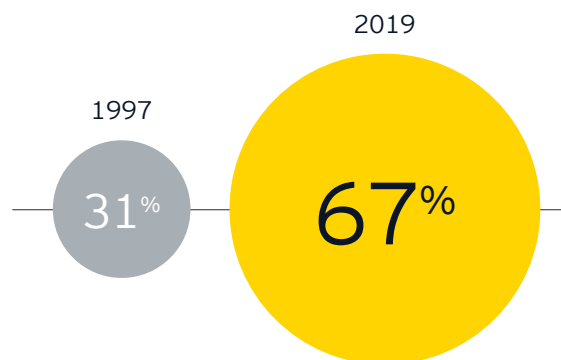
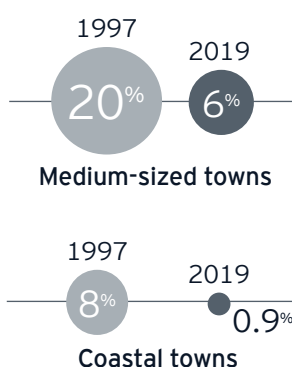
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The share of FDI going to the capital cities in England, Scotland and Wales and the members of the Core Cities group, excluding Belfast,

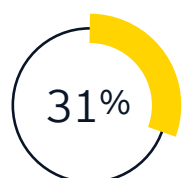
increased from 31% of the total in 1997 to 67% in 2019.

9

The most severe share losses were in medium-sized towns, with a fall from 20% in 1997 to 6% in 2019, and coastal towns, where the decline was from 8% to 0.9% over the same period.

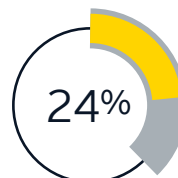


10



Prior to COVID-19, 31% of investors said they were planning to invest in the UK in 2020 ...

... a significant increase from 23% in last year's survey.



Brexit-related uncertainty was also weighing less on investors' minds with just 24% of survey respondents citing it as a risk factor this year, compared to 38% in 2018.

Surveyed during lockdown, respondents told us that 65% of planned **projects were still going ahead in the UK ...**

... by contrast, figures from Europe revealed a more cautious approach

with 66% planning to decrease investment and 23% pausing it, against 17% and 15% respectively for the UK.



Decrease

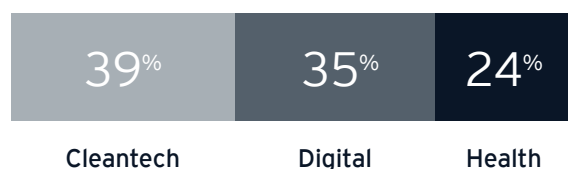


Pause

11

39% of respondents identified cleantech, 35% digital and 24% health as

offering the highest growth potential ...



... which is consistent with their views on the emerging trends that will shape future economic activity.

The challenge for the UK is to **design the appropriate policies and incentives to**

build back better,

with a clear strategy and detailed implementation plan.



Executive summary

1,109

FDI projects were announced in the UK in 2019, a 5% increase on the previous year.

A strong year ...

The UK attracted 1,109 FDI projects in 2019, a 5% increase on the previous year. With the European market growing by just 0.9%, the UK's share of projects increased to 17.4% from 16.6% in 2018, ending three years of declining market share since the Brexit referendum. The UK was not the only strong performer. France achieved a 17% increase in projects attracted, enabling it to leapfrog the UK to become the leading destination for FDI in Europe for the first time since we launched our Attractiveness Program in 1997.

... as the UK economy modernizes ...

The UK made real progress in attracting FDI to help modernize its economy. It surged ahead in the digital tech space attracting 432 projects, an increase of 114 on the previous year, thereby capturing a 30% share of all European projects. The UK grew four times faster than the European average in this sector, securing more projects than France and Germany combined. R&D projects grew by 38% to 102, representing a 50% increase in the country's share of the European market with the UK securing the highest number of new, as opposed to extension, projects, providing further evidence of the ongoing transformation.

... and repositions itself in the world ...

Project numbers from the US continued their upward progress in 2019, growing by 9% to 375 – 34% of the UK total. This increase continues the US's track record of increasing its

31% of global investors suggested they were planning to invest in the UK in the coming 12 months, the UK's highest rating for a decade.

projects into the UK in each year since the Brexit referendum of June 2016, highlighting another shift in UK FDI. Projects from Israel increased by 143% in 2019 and those from Turkey by 350%, providing further evidence of the changing geographic mix of UK FDI.

UK investors continued to use outbound investment to reposition their businesses in Europe. There was a surge in this flow in 2016 following the referendum and it was 42% higher in 2019 than in 2016. The pace of change slowed to 2% in 2019, suggesting that much of the adjustment may be over, but nevertheless, France, Germany, the Netherlands and Spain all saw UK project numbers increase in 2019.

... with London surging and other cities stable ...

The UK's strong performance in 2019, especially in the digital tech sector, was driven by London. The capital secured 538 projects, a rise of 17.5% on 2018, representing 48.5% of all UK projects, its highest share since we started tracking FDI over two decades ago. London's success was built on digital tech with its 289 projects accounting for two-thirds of all UK activity in the sector. Other cities performed broadly in line with their recent history, with slight moves up or down but no major shifts in activity levels.

... there was little sign of 'leveling up'

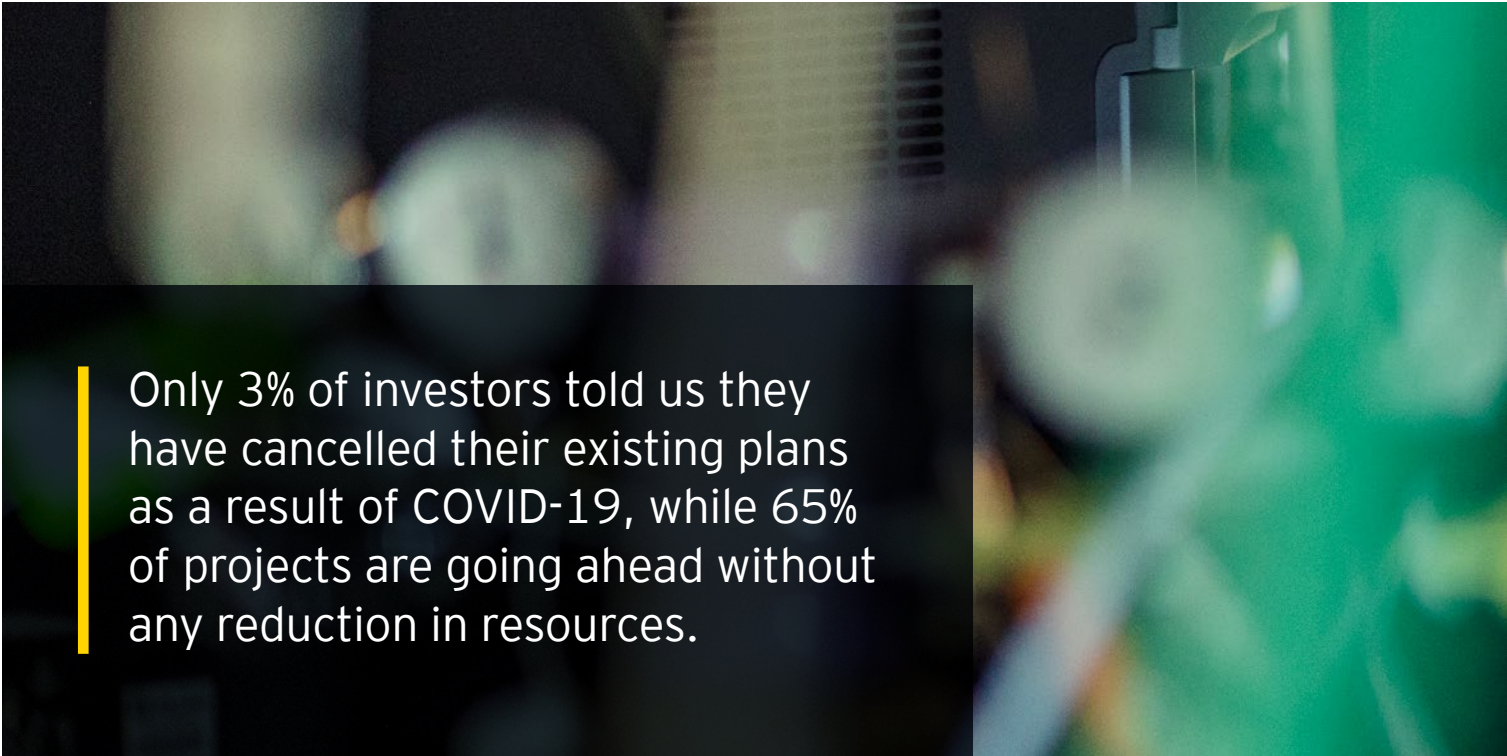
London surged and Scotland grew by over 7%, but most places found the going tough in 2019. As our research with the Centre For Towns identifies, this represents a long-term

trend that has seen the share of FDI going to the capital cities in England, Scotland and Wales and the members of the Core Cities group, excluding Belfast, increase from 31% of the total in 1997 to 67% in 2019. During this period, every place type identified by the Centre For Towns except for the above mentioned cities has seen its share of FDI fall. The most severe share losses were in medium-sized towns, with a fall from 20% in 1997 to 6% in 2019, and coastal towns, where the decline was from 8% to 0.9% over the same period.

While the UK's success in slightly increasing its share of manufacturing projects in a declining European market provided some support to towns, the failure to spread the benefits of FDI beyond the larger urban centers is the primary reason for the unbalanced geographic outturn. 83% of digital tech investments were in the major cities identified above and a further 10% were in large towns. Digital rebalancing is a prerequisite for successful leveling up in the UK.

COVID-19 has caused progress to stall ...

Prior to the outbreak of COVID-19, the UK appeared to be on the verge of a strong year for FDI in 2020. Surveyed during lockdown, 31% of global investors suggested they were planning to invest in the UK in the coming 12 months, the UK's highest rating for a decade. The UK had momentum from its performance in 2019 and the signs were that Brexit-related uncertainty was weighing less on investors' minds – our European survey found it was cited as one of the top risks by 24% of investors, down from 38% last year.



Only 3% of investors told us they have cancelled their existing plans as a result of COVID-19, while 65% of projects are going ahead without any reduction in resources.

... but the UK is resilient ...

While the current situation is very challenging, our survey responses suggest investors see the UK as more resilient than Europe overall and likely to outperform the global market in attracting FDI once the pandemic has passed. This relative confidence is reflected in current investment plans. Only 3% of investors told us they have cancelled their existing plans as a result of COVID-19, while 65% of projects are going ahead without any reduction in resources.

... and well-positioned to exploit future opportunities

We asked investors globally to identify future growth opportunities. The responses were clear – 39% of respondents selected cleantech, the first time it has taken first place in our research, 35% digital and 24% health. This is consistent with their views on the emerging trends that will shape future economic activity, with digital tech both for customer connectivity and process automation, a desire for sustainability and climate change, and a recognition of the challenges of globalization selected as their key drivers.

The challenge is to design the appropriate policies and incentives to build back better ...

The UK Government has been clear on its desire to build an innovative and fast-growing economy while, at the same time, leveling up to reduce geographic imbalances and moving the

country toward a 'net zero' economy. These objectives fit very well with investor preferences and the challenge is to design policies to create the most favorable environment possible to attract capital.

Our survey identified the factors that will influence investor decisions. 25% of respondents cited skills and 22% infrastructure, consistent with the findings over many years in our research. However, this year, 30% identified finance and capital availability, 23% mentioned government support and 18% the level of national stimulus package available. There is a new opportunity available – to provide the resources required and to use this to incentivize investor conduct to create a sustainable and more balanced economy.

... to articulate these in a clear strategy ...

The UK Government should set out its post-COVID-19 economic policy objectives, placing sustainable growth and leveling up at the center. All decisions should be assessed for their impact on these objectives to ensure that consistency and integrated policies emerge. Financial and other government support should be used to create the incentives for corporate conduct to support the objectives.



... supported by a detailed implementation plan

Once this framework has been established, a detailed implementation plan should be developed covering the following areas:

1


A new Industrial Strategy based on sector strategies for technology, cleantech, advanced manufacturing and health. This should build on the previous Industrial Strategy work, but go further to reflect the multiple objectives of the post-COVID-19 economic strategy.

2

Delivery plans for skills, infrastructure and trade policy that are shaped to support the sector strategies, to ensure the level and volume of skills, the quality and availability of infrastructure and the direction of trade policy in a potentially deglobalizing, post-Brexit world are consistent with the aspirations for growth, sustainability and leveling up.

3

A new platform for innovative finance that sets out the responsibilities of government and business, identifies the sources and levels of financial support that will be available, and the conditions attached to these to ensure conduct consistent with the overall policy objectives. This should include a framework for monitoring and decision-making at both the national and local levels.



1

Now

1,109

FDI projects were announced in the UK in 2019, up from 1,054 the previous year.

5%

increase against the background of growth of 0.9% for FDI projects into Europe as a whole represents a strong performance by the UK.

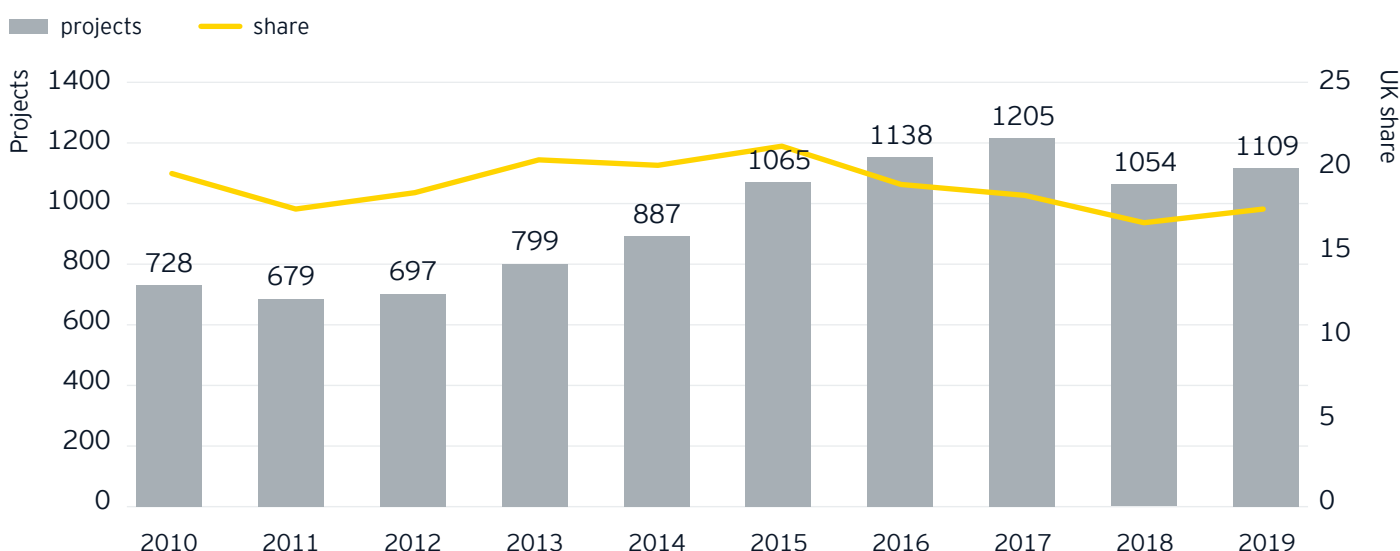
Before the storm: The UK's FDI performance in 2019

The calm on the surface ...

The UK attracted 1,109 foreign direct investment (FDI) projects in 2019, up from 1,054 the previous year. This increase of 5% achieved against the background of growth of 0.9% for FDI projects into Europe as a whole represents a strong performance by the UK. The increase in UK

investments meant the UK's market share of all European projects secured in 2019 increased to 17.4% from 16.6% in 2018, reversing three years of declining market share that our previous investor surveys have indicated were, at least in part, due to the uncertainty created by the Brexit process.

Total UK projects and European market share, 2010-19

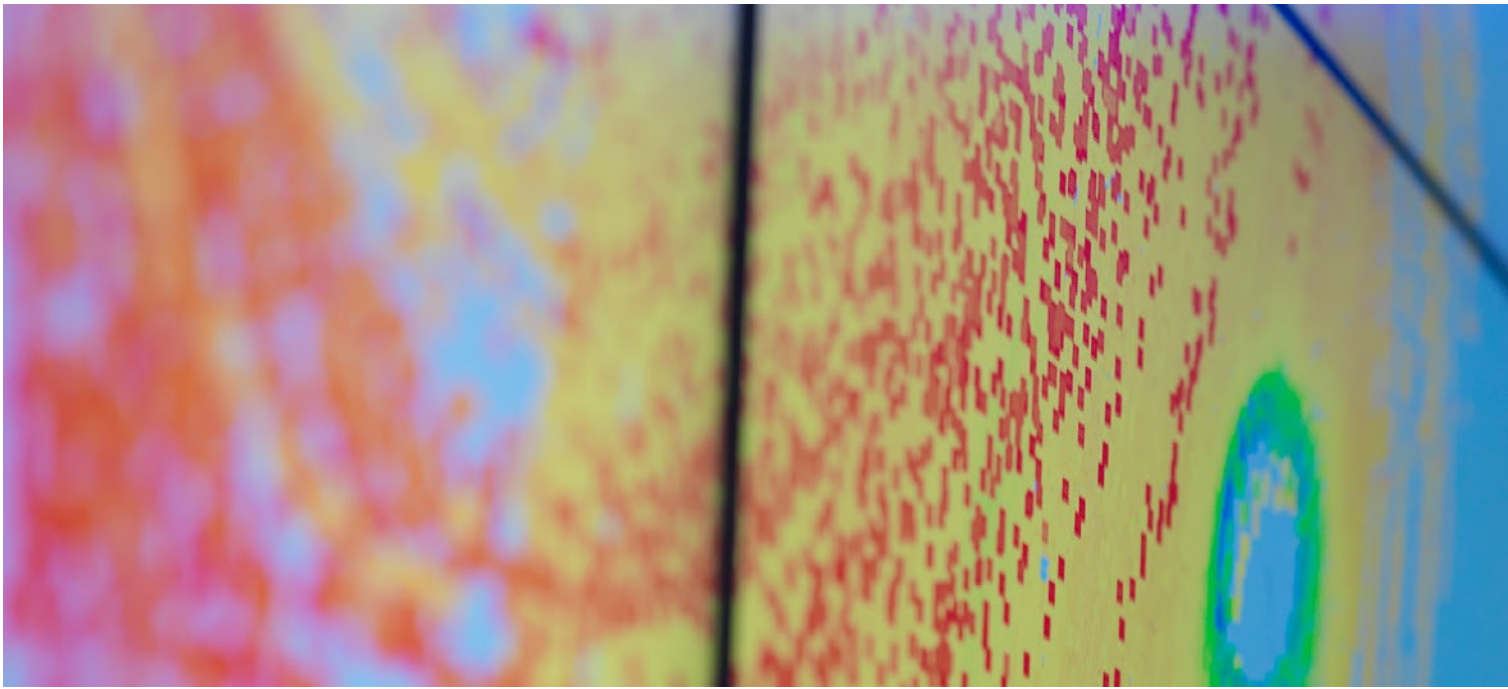


Source: EY European Investment Monitor (EIM), 2020

... masks a changing, dynamic market ...

FDI investors tend to be long-term in nature as their projects require extended lead times to deliver because of the complexities of having to develop assets and acquire capabilities in foreign markets. This characteristic is the primary reason we have invested resources in tracking FDI over time, as the data provides a unique insight into the trends in capital deployment across countries, between places in a country, and at the sector level.

While the UK's headline FDI numbers suggest that 2019 was a stable year with activity reverting to trend in a low-growth European market, the reality is very different. Beneath the surface, there were significant shifts in activity as the European and UK economies developed in different ways, offering the first signs of a transformation in the UK economy as the country begins to position for a future outside of the EU in a changing world economy.

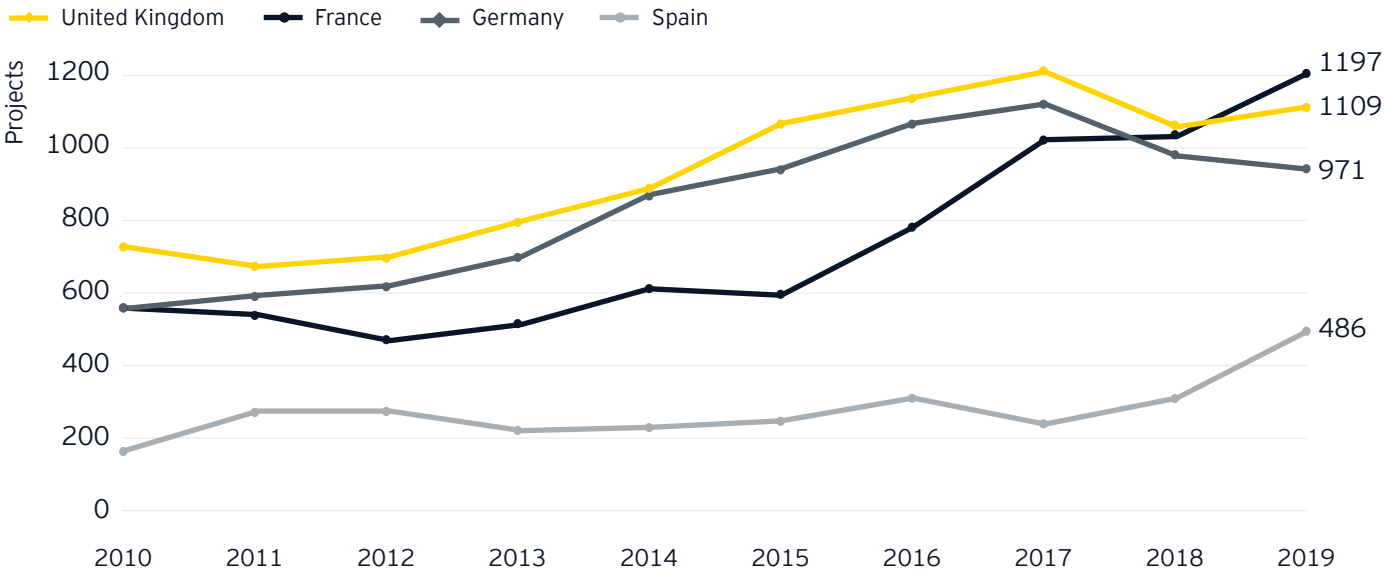


... as the UK pivots to value over volume ...

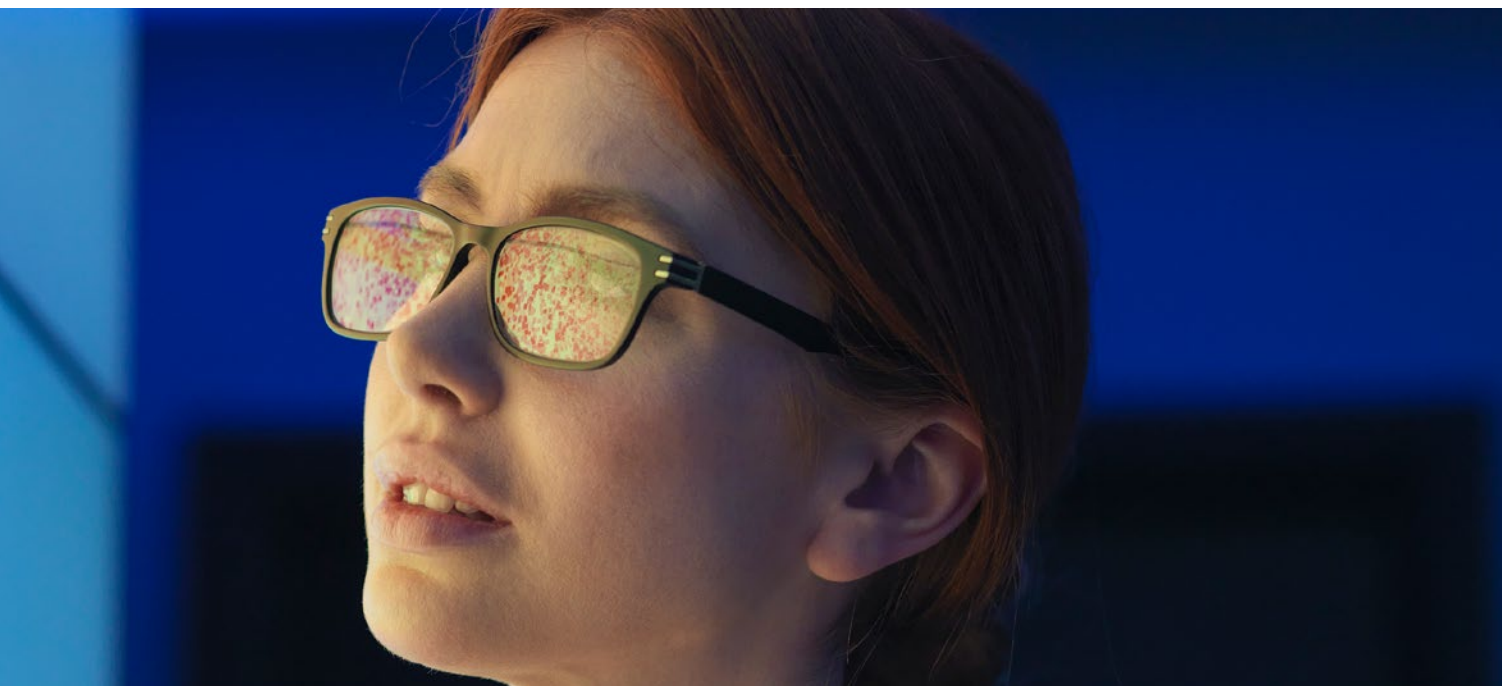
The UK has secured the largest number of projects in Europe in every year since we started our European Attractiveness Program in 1997. But, in the most visible sign of change in the market, the top position was taken by France in 2019, building on its strong FDI momentum of recent years to attract 1,197 projects – a figure that represented a 16.6% rise over

the previous year and was the country’s highest-ever annual total. With the UK slipping to second place, Germany fell to third, with its projects recorded dropping by 0.2% to 971. The largest four recipients of FDI across Europe in 2019 remained France, the UK, Germany and Spain – with Germany the only country out of these four to see a year-on-year decline, its second in succession.

Total projects recorded by Europe’s largest four recipients, 2010-19



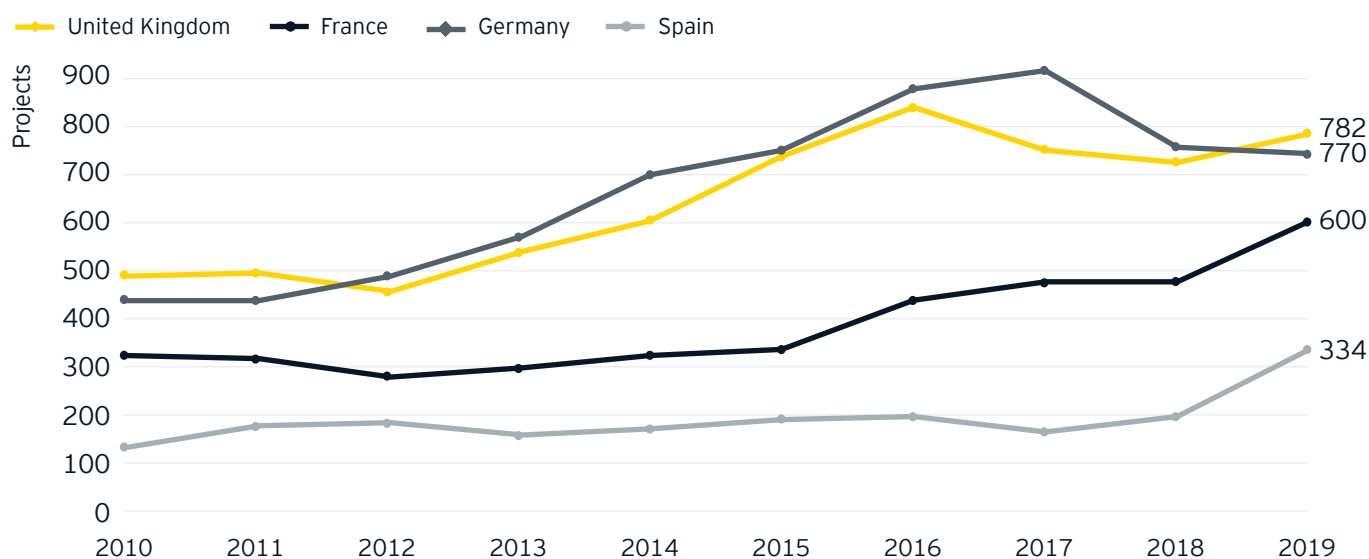
Source: EY European Investment Monitor (EIM), 2020



While the loss of the UK's leadership may capture the headlines, it is important to note that the UK's strategy for some time has been to focus on the value of the FDI it attracts rather than the volume. In this context, the UK's rise to first place in Europe for attracting new projects – it overtook Germany to become Europe's leading recipient of new FDI projects for the first time since 2011 – is an encouraging

sign pointing to the positive changes taking place in the UK economy. We believe new projects are a good indicator of dynamism, reflecting an extension of the investor and project base rather than solely building on past successes.

New projects recorded by Europe's largest four recipients, 2010-19



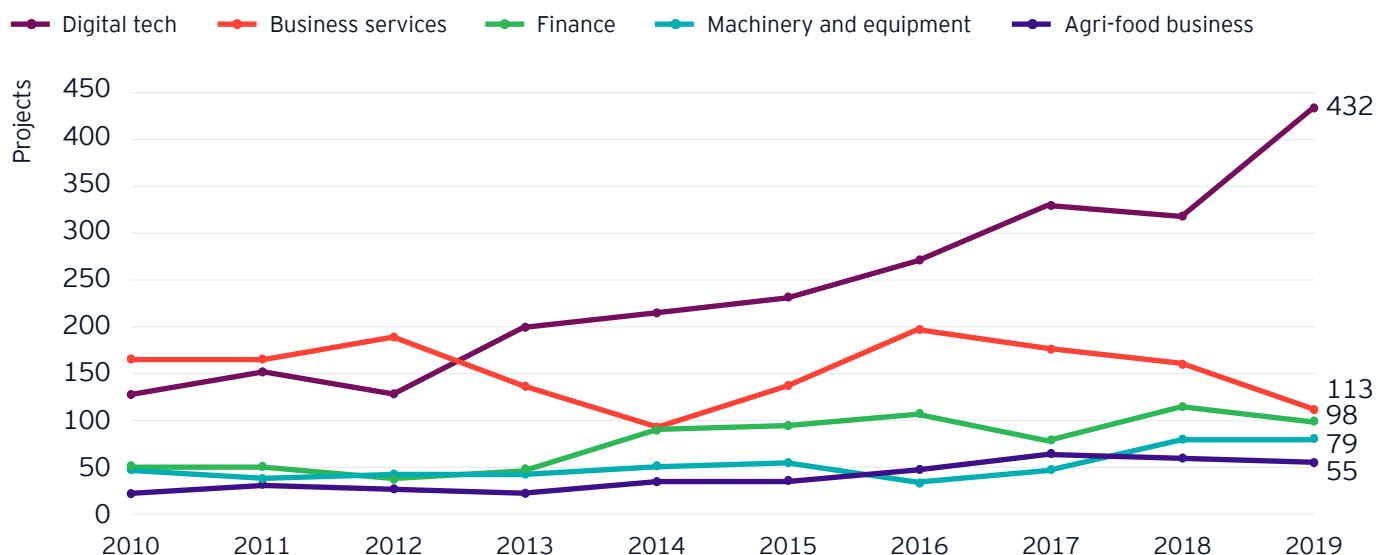
Source: EY European Investment Monitor (EIM), 2020

... with digital tech leading an economic transformation ...

The changing sector profile of UK FDI is further evidence of an economy in transition. Digital tech is the sector that has accounted for the largest number of projects in the UK in every year since 2013, but its growth accelerated in 2019 to 432 projects, up from 318 in 2018. The UK's 2019 performance in attracting FDI in the digital economy in 2019 – broadly defined as the digital tech sector – was truly spectacular. The UK secured 30% of all European projects in this sector, up from 24% in 2018. Digital tech investment in the UK grew by 36%, four times the European average, and the country attracted more projects than France and Germany combined. By contrast, no other sector contributed more than 120 projects in 2019.

The UK secured
30% of all European
projects in the digital
tech sector in 2019,
up from 24% in 2018.

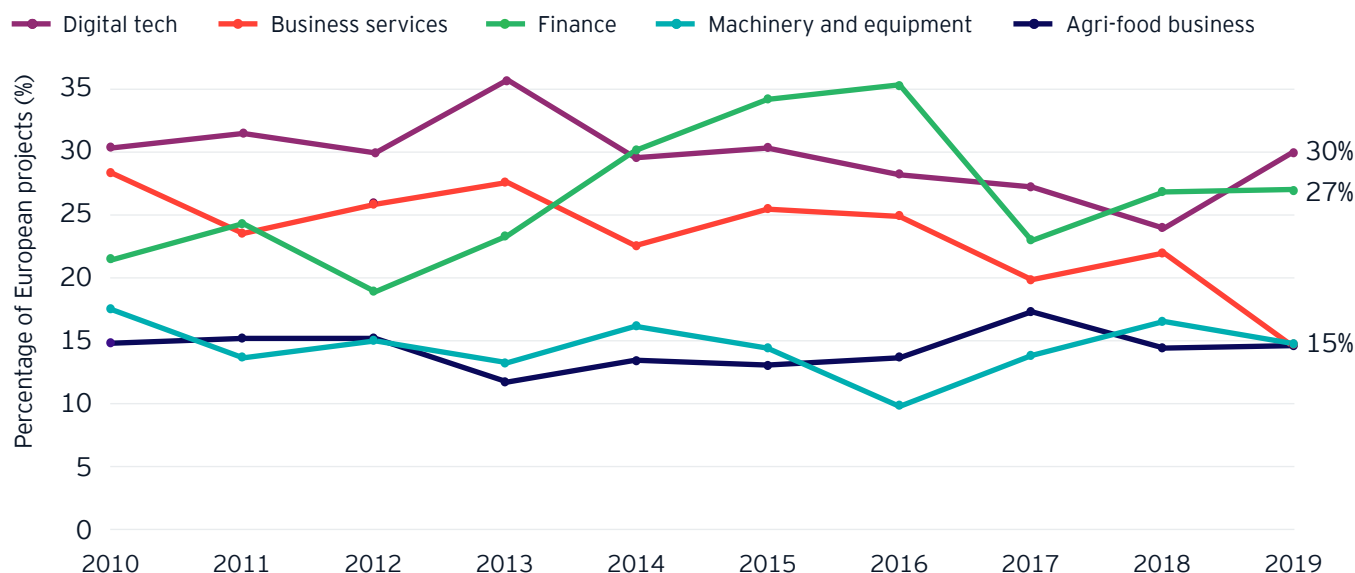
The five sectors generating the most UK projects in 2019, and their performance since 2010



Source: EY European Investment Monitor (EIM), 2020

The UK's market share of business services projects dipped by seven percentage points to a decade low of 15% in 2019. This may in part reflect catch-up as other countries close the gap following the UK's long dominance in this sector, and possibly a shift of the sector to the digital world, accounting for some of the surge in digital tech. The increase in the UK's share of European agri-food projects from 14% to 15% continues a trend that started in 2015 and may be a hint of shifts in supply chains to favor more local production, a theme we will return to later in this report.

UK long term market share of European FDI projects for the five sectors generating the most UK projects in 2019 (2010-19)

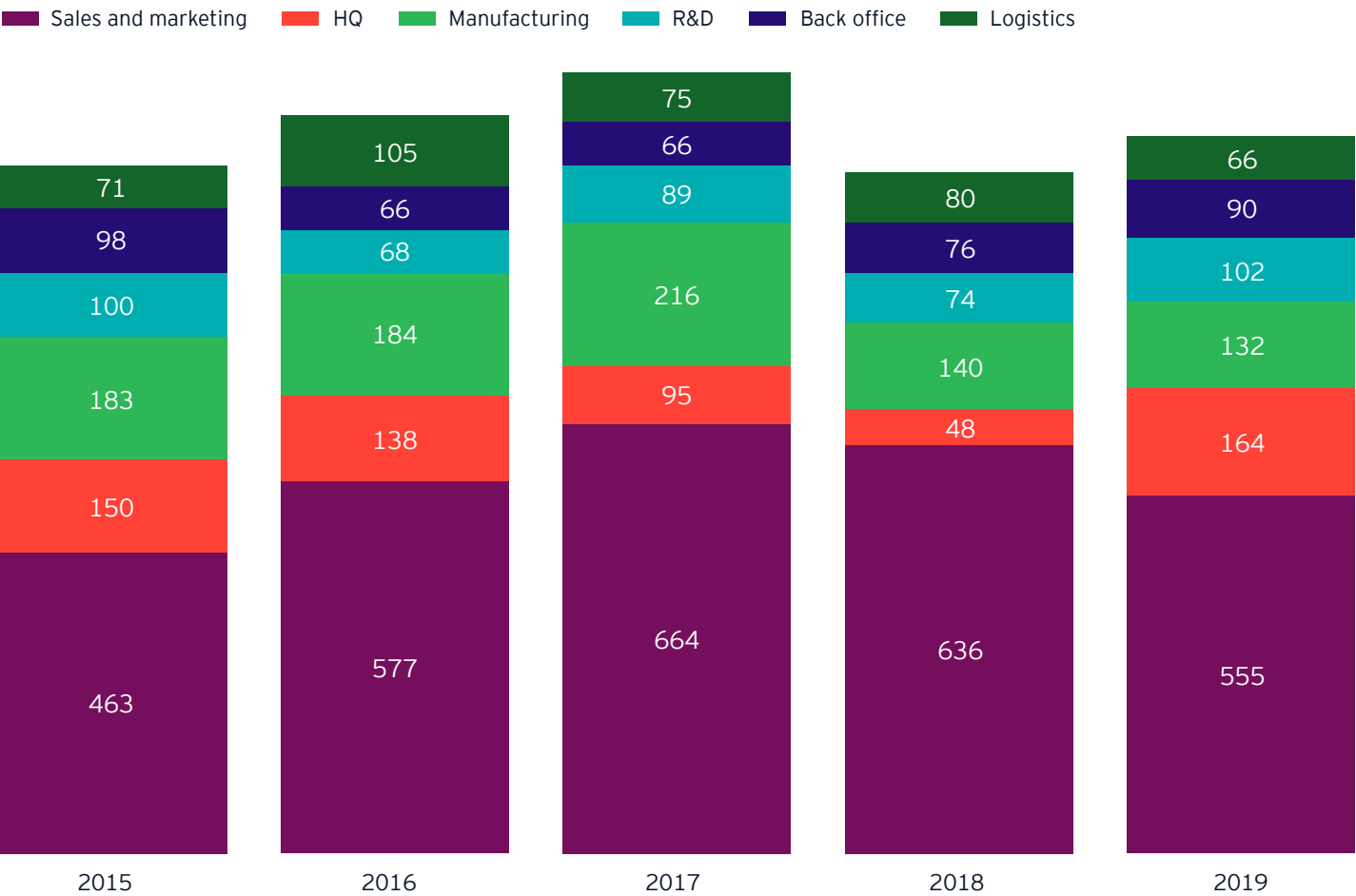


Source: EY European Investment Monitor (EIM), 2020

... bolstered by R&D ...

The breakdown of the activities of UK FDI projects secured in 2019 provides another important lens on the economy. Notably, R&D projects leaped from 74 to a decade-high of 102 – a 37.8% increase. This performance pushed the UK’s market share of all European R&D projects from 12.2% in 2018 to 18.6% in 2019.

Split of activities in UK FDI projects, 2015-19



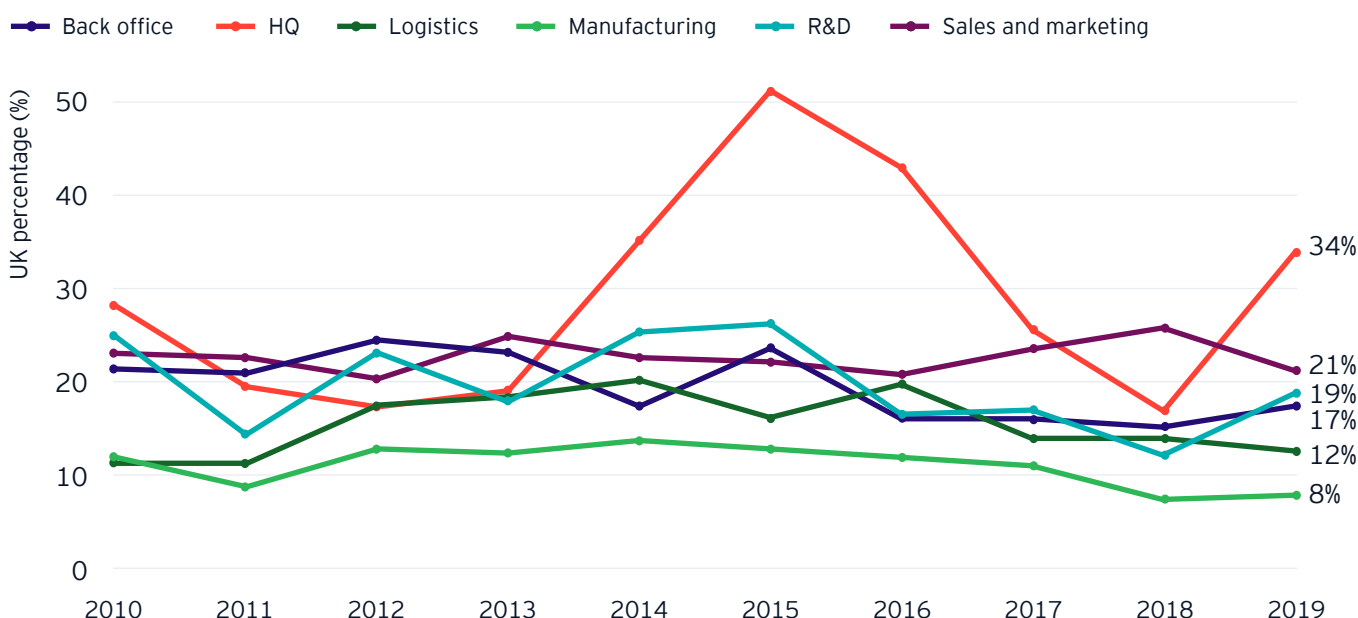
Source: EY European Investment Monitor (EIM), 2020

In line with previous years, sales and marketing activities account for the largest share of projects – although in 2019 these projects fell back to 555 (or 50% of the total) from 636 (60% of the total) in 2018. With the focus on value over volume, this decline is not a major concern as many of these projects tend to be smaller than average in terms of both employment and capital investment. The largest jump was HQ projects, which leaped by 116 projects or 240%, a positive development as these investments tend to provide relatively high-value employment and the potential for further related investments in future. While it is often a difficult decision whether to classify a first small office in a new country as an HQ or some other activity, a comparison with the European data does suggest the UK performed strongly in HQ FDI in

2019, doubling its market share of all HQ projects locating in Europe to 33.6% from 16.8% in 2018, indicating that the dampening impact of Brexit on this activity may have passed its peak.

On first sight, the fall of UK manufacturing projects by eight in 2019 – a decline of 5.7% – is less positive. However, this was against the backdrop of falling manufacturing projects across Europe in general – and as a result, the UK saw its market share of these projects in Europe increase marginally, from 7.5% to 7.9%. 2019 was a weak year for UK logistics FDI, with the 66 recorded projects representing a decline of 17.5% on 2018.

UK market share of European FDI projects by activity, 2010-19



Source: EY European Investment Monitor (EIM), 2020

... as a new geographic profile emerges, both inbound ...

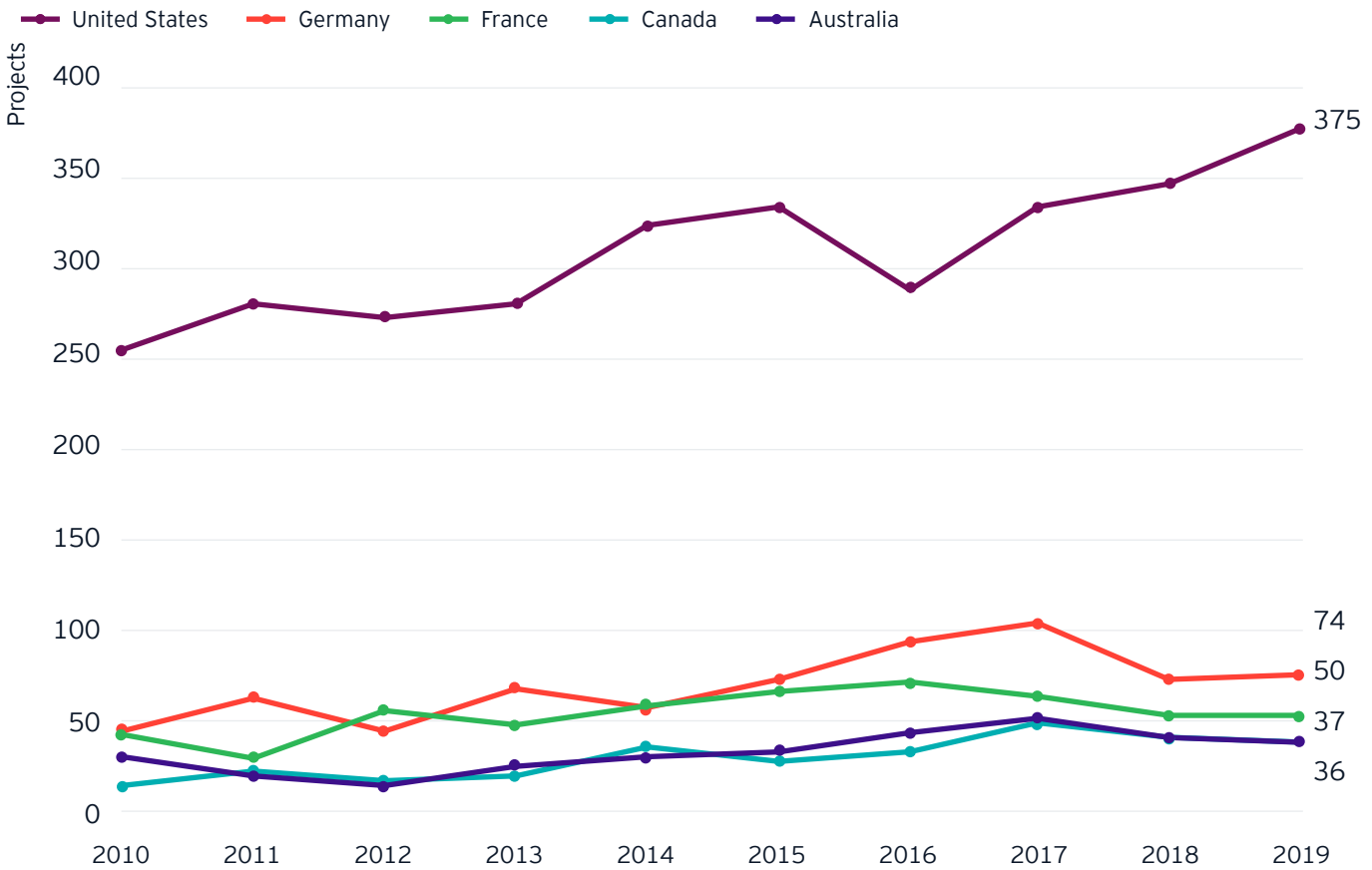
Turning to the leading origins of FDI into the UK, the five largest contributors of investment projects for the UK in 2019 were the US, Germany, France, Canada and Australia. The US extended its long-standing lead as the biggest single source of UK FDI, recording its third successive annual increase in UK projects, while Canada held firm, underlining North America's continued dominance of the UK's project inflows.

The growing volume of US investments primarily reflects the strong appeal of the UK's digital tech sector to US investors –

the UK is far and away the leading European destination for digital tech FDI.

The rise in projects from the US in 2019 continues the US's track record of increasing its projects into the UK in each year since the Brexit referendum of June 2016. In 2019, the UK secured 375 investments from the US – a figure that was up by 9% on the 2018 total of 345, and meant the US accounted for 34% of the UK's total projects in 2019.

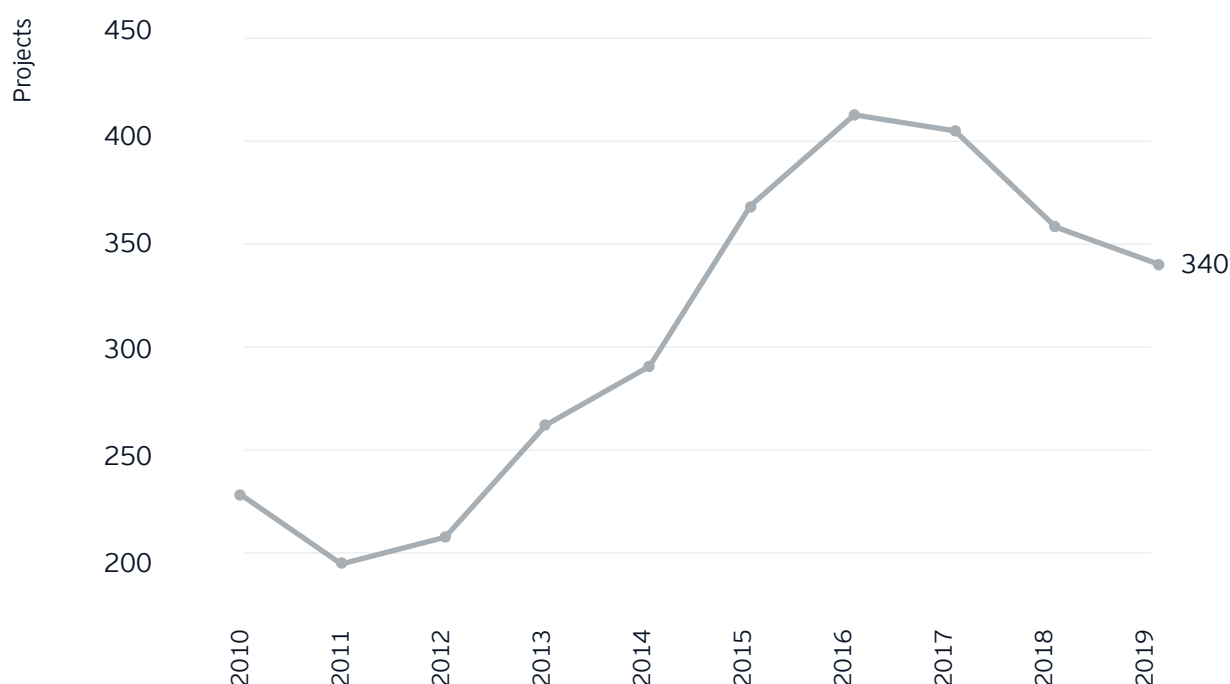
Top five origins of UK FDI projects, 2010-19



Source: EY European Investment Monitor (EIM), 2020

By contrast, further illustrating the transformation in the UK's economic structure, the decline in EU investment projects that began in 2016 – the year of the Brexit referendum – continued in 2019, albeit at a slightly slower pace than in the previous year. While not every EU country has recorded falls in investment projects into the UK over the period 2016-19, the UK has now recorded a 17% decline from the high point reached in 2016 to the position in 2019, when 340 projects were recorded from EU origins.

Annual number of UK projects originating from the EU, 2010-19



Source: EY European Investment Monitor (EIM), 2020

Fastest-growing origins of UK FDI projects, 2019

Country	2019 projects	Change on 2018
Russia	14	367% ↑
Turkey	27	350% ↑
Poland	13	160% ↑
Israel	34	143% ↑
South Africa	14	133% ↑
Singapore	13	44% ↑
Belgium	14	27% ↑
UAE	14	27% ↑
China	32	23% ↑
United States	375	9% ↑

Source: EY European Investment Monitor (EIM), 2020

As one door closes, another one opens. While EU flows into the UK have fallen in recent years, other countries have emerged to fill some of the gap. UK FDI projects from the US rose relatively strongly in 2019 and yet the US only just makes the top 10 in terms of the UK's fastest-growing origins. Consistent with the trends in overall EU investment, only two EU countries – Poland and Belgium – make the top 10. Instead of those more traditional origins, new investor countries have come to the fore, including Turkey and Israel.

Israeli investments into the UK reached a decade-high 34 projects in 2019, compared to a ten-year average of only 12 projects. Some 58.8% of Israeli investments into the UK in 2019 were in digital tech, and 29 of the 34 projects went to London. Turkish investments into the UK in 2019 rose to 27 projects – another ten-year high, against a decade average of eight projects a year. Turkish projects were also mostly in digital tech (63%), and 24 of the 27 projects were established in London.

An analysis of changes in the UK's project origins over the three years since the 2016 referendum on the UK's EU membership shows that the UK has been able to rebalance its investment to compensate for a decline in EU-originated projects. However, there is one area of concern – compared to the three years prior to the vote, there was a significant decline in projects from China (down by 46 projects or 25.7%). This contrasts with Chinese investment across the whole of Europe increasing by 11% between the two three-year periods, suggesting a more detailed review of this flow would be worthwhile.

An analysis of changes in the UK's project origins over the three years since the 2016 referendum on the UK's EU membership shows that the UK has been able to rebalance its investment to compensate for a decline in EU-originated projects.

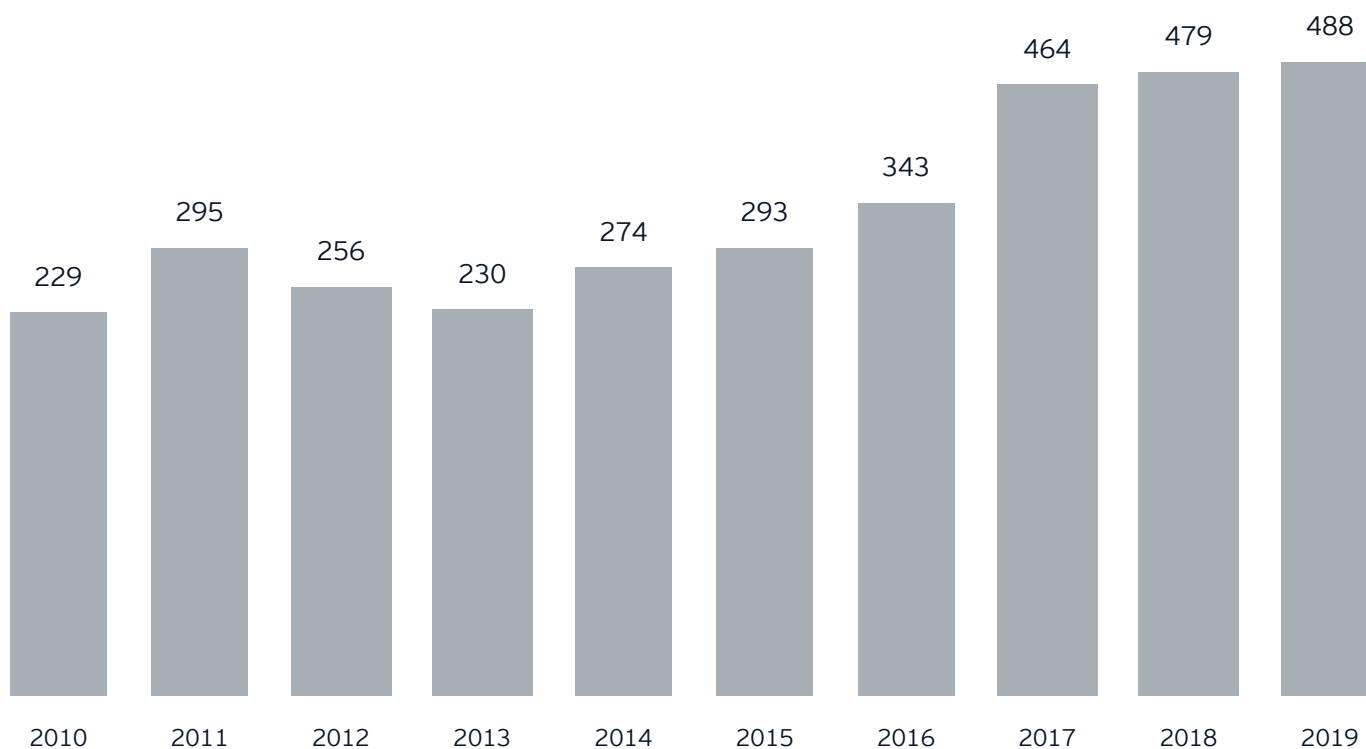
... and outbound as the post-referendum surge levels off

Since the Brexit referendum, UK outbound projects have been consistently higher in the three full years recorded since June 2016. Total outbound projects from the UK recorded in 2019 were 42.3% higher than in 2016, at 488 projects – their highest level to date. However, this figure was only 1.9% up on 2018, suggesting that the post-referendum surge has now plateaued.

There are also some interesting shifts in the destinations of UK outbound investment into other countries in Europe.

In 2019, France was the leading European recipient of UK outbound projects, overtaking Germany, which had been the top destination in recent years. Of the six largest European recipients of UK projects, only the Netherlands has not seen a significant increase from their level in 2016. UK investors have been repositioning their portfolios to provide greater capacity in Europe in anticipation of the impact of Brexit. The slowing growth in outbound activity suggests this process may have peaked or at least a significant part of the realignment has been completed.

Total outbound UK projects, 2010-19



Source: EY European Investment Monitor (EIM), 2020

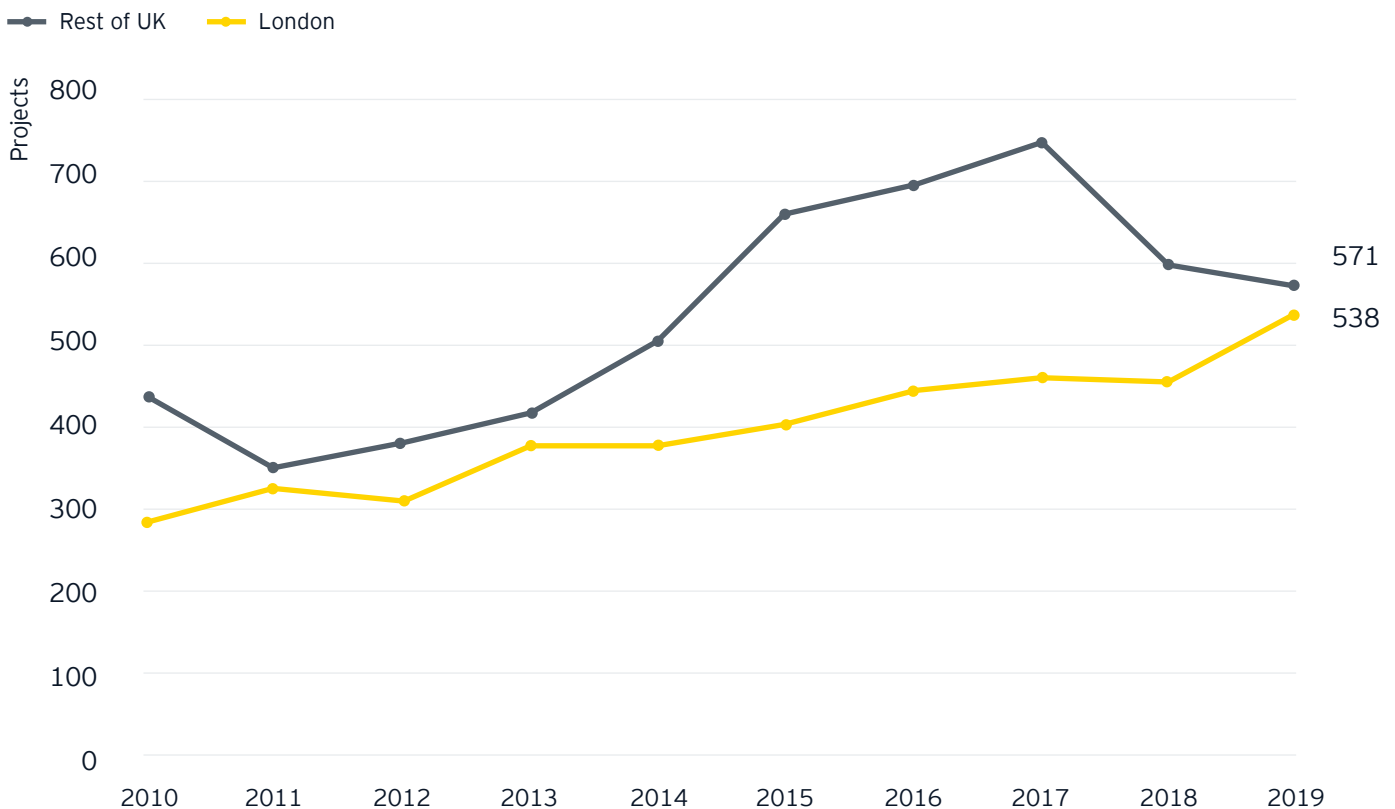
An unwelcome geographic shift toward London ...

Turning to the FDI performance by the various regions of the UK in 2019, the UK's performance was more mixed than in the areas discussed above. The most striking feature is a surge in projects secured in London, which leaped by 17.5% to a decade-high of 538. This sharp increase ended a period of three years in which London's complement of projects had remained relatively steady around the mid-400s.

The strength of London and its standout success in Europe are to be celebrated – it continues to be identified by investors

as the leading European city for technology and innovation. However, in stark contrast to London's success, the rest of the UK suffered a decline in projects of 4.2% to 571 projects announced. These shifts in performance resulted in London securing 48.5% of all UK project investments – the highest proportion recorded in the two decades we have been tracking the data.

London versus the rest of the UK, 2010-19



Source: EY European Investment Monitor (EIM), 2020

London aside, flows into most of the UK's other historically strong FDI cities were reasonably stable. Manchester retained its status as the leading city outside of the capital in 2019 despite an 8% drop in project numbers. Birmingham strengthened its hold on second place, with its project count rising by 36% to 30, only three behind Manchester. There were strong performances not only from Birmingham, but also from Bristol (up from 10 projects to 15) and Aberdeen

(almost doubling from 8 to 15), but overall the relative performance of cities was largely unchanged with minor shifts in rankings.

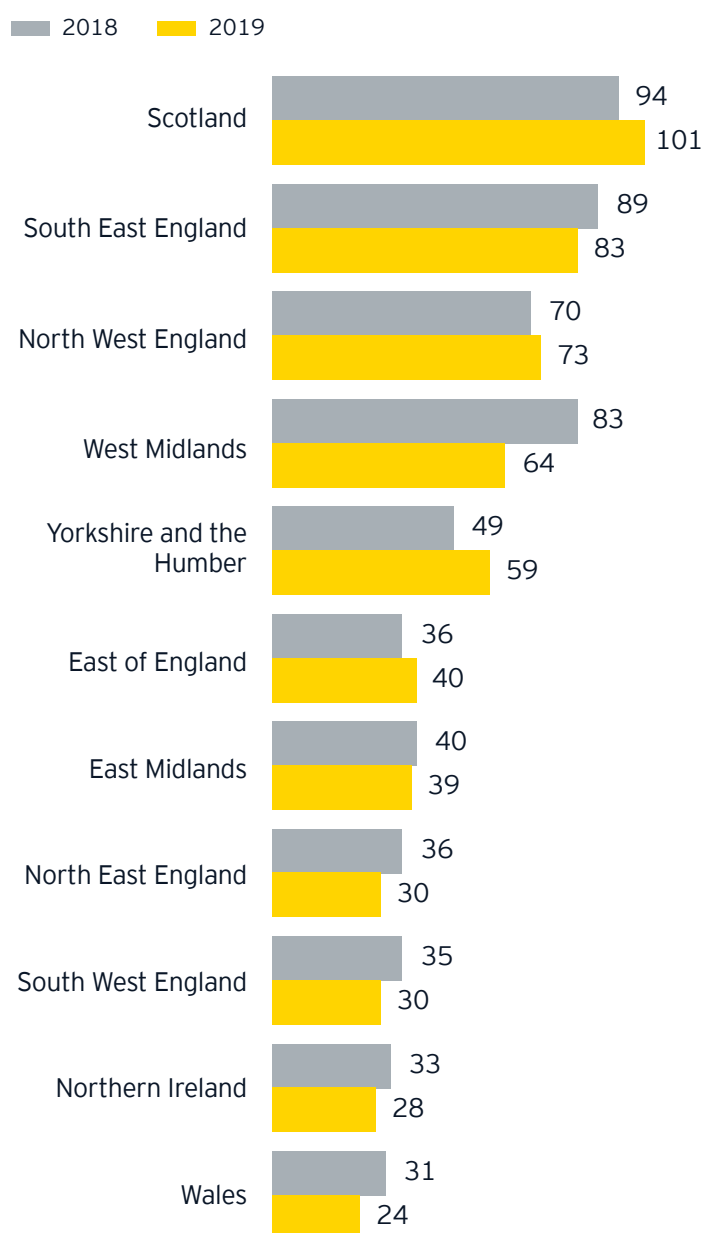
Leading UK cities 2018-19, excluding London

Rank	City	2018	2019	Change on 2018	Share of regional/DA* total projects
1	Manchester	37	34	8% ↓	45%
2	Birmingham	22	30	36% ↑	47%
3	Glasgow	19	23	21% ↑	23%
=4	Belfast	20	22	10% ↑	79%
=4	Edinburgh	20	22	10% ↑	22%
6	Leeds	21	20	-5% ↓	34%
=7	Aberdeen	8	15	88% ↑	15%
=7	Bristol	10	15	50% ↑	50%
9	Reading	12	14	17% ↑	17%
=10	Cambridge	10	10	0%	25%
=10	Cardiff	8	10	25% ↑	42%

*Devolved administration

Source: EY European Investment Monitor (EIM), 2020

UK FDI projects by region, 2018-19 (excluding London)



Source: EY Attractiveness Survey: Trends in foreign direct investment in Great Britain's towns, EY-Centre For Towns, May 2020

... means there is little sign of 'leveling up' in towns

While the UK's leading cities were generally thriving in terms of FDI in 2019, the performance of the UK's regions and devolved administrations was more mixed. Scotland had a strong year, partially reversing the decline seen in 2018 with a 7.4% rise in projects to 101. However, the picture across the other UK regions outside London was patchy. There were strong showings from Yorkshire and the Humber and the East of England, while the North West registered a more modest increase. Meanwhile, the most severe decline in absolute and percentage terms was in the West Midlands, where projects declined by 19 or 22.9% from 2018. Project numbers were also down sharply in Wales, the North East and Northern Ireland, while the South East and East Midlands suffered smaller declines.

Research undertaken by Ernst & Young LLP (UK) and the Centre For Towns (presented in more detail in a companion report to this one¹) clearly demonstrates how skewed the UK's FDI projects have become toward London and the other major cities and hence that the smaller places in the UK have received significantly less investment. In 1997, 31% of FDI went to London, Edinburgh and the 10 members of the Core Cities Group excluding Belfast. In 2019, the equivalent figure was 67%, around a third larger share than the portion of GDP accounted for by this group.

The share of UK FDI was lower in 2019 for every type of place identified by the Centre For Towns in its proprietary terminology compared to 2017, except for the group of cities mentioned above. The declines were most severe in medium-sized towns, down from a 20% share to 6%, and coastal towns where the share in 2019 was just 0.9% of total UK flows compared to 8% in 1997.

These shifts pose real challenges for economic policy and all the signs are that without concerted action, the divide will widen. We have seen how important digital tech is to the UK's FDI and in 2019, 83% of digital tech investments were in the major cities identified above and a further 10% in large towns. As a result, most places in the UK received no investment in the UK's fastest-growing and most successful sector for FDI.

The message from the geographic analysis of FDI in 2019 is clear: more needs to be done to ensure the benefits of FDI extend beyond London in particular, but also from all the UK's cities to the UK's towns and smaller settlements. Achieving a greater participation in the digital economy is a priority if the UK is to deliver on its ambition to rebalance economic activity geographically and to level up the country.

¹ EY UK Attractiveness Survey - Trends in foreign direct investment in Great Britain's towns, May 2020

A base for future recovery

In the face of a generally flat FDI market across Europe in 2019, and a decline in projects into Germany, the UK's FDI performance in 2019 was strong. The UK has shown itself to be surprisingly resilient in recent years. Our survey findings in the wake of the 2016 Brexit referendum, suggesting that international investors might make a significant move away from the UK as an FDI location, have never really been fulfilled. Indeed, it seems that – in the eyes of investors – the UK may now be past the peak of the Brexit shock and the country has made progress in reshaping its economy for the future. Certainly there are also a number of bright spots in the figures, including the buoyancy of digital tech FDI, the strong performance in R&D, the UK's lead in new European projects, a stable base in manufacturing, the continuing

strong links with the US, and the rising numbers of FDI projects from several newer origin countries together with higher outbound flows to Europe.

However, while London's excellent performance is to be celebrated, the failure to enable the UK's smaller and more remote places to capture more of the benefits of FDI is a major concern. The next phase of economic transformation must afford a much higher priority to achieving a better geographic balance in investment.

That is the picture that our FDI analysis paints of 'Now'. It provides us with an excellent basis to understand the impacts of the COVID-19 shock in 'Next' – and the longer-term future opportunities in the new normal, in 'Beyond'.



A close-up, profile view of a woman with blonde hair looking through the eyepiece of a black microscope. The background is a soft, out-of-focus blue.

2

Next

782

new projects were announced in the UK in 2019 – the highest number since the UK recorded 842 new projects in 2016.

7.7%

increase in new UK projects in 2019 outpaced the 2.9% growth recorded across Europe as a whole.

Understanding the COVID-19 shock

Establishing the new baseline

In any 'normal' year, the analysis of FDI performance we have set out would show where the UK is 'Now' in terms of this performance and provide the basis for identifying what would be likely to happen 'Next'. But 2020 is anything but a normal year. The onset of the COVID-19 pandemic has had a catastrophic impact on lives and economies worldwide, disrupting the established international flows of capital, people and goods. For the UK, in common with other leading FDI locations worldwide, the 'Next' is now all about understanding the potential impacts and fallout from COVID-19. When we have done this, we can move on to 'Beyond' – working out how to thrive and continue to attract investment in the post-pandemic world. To inform our thinking and analysis, we draw extensively on two surveys we have commissioned of around 800 international investors in total, one undertaken before the COVID-19 shock hit (comprising 60% of the sample), and the other one during the lockdown period in the world economy.

The UK was poised for growth ...

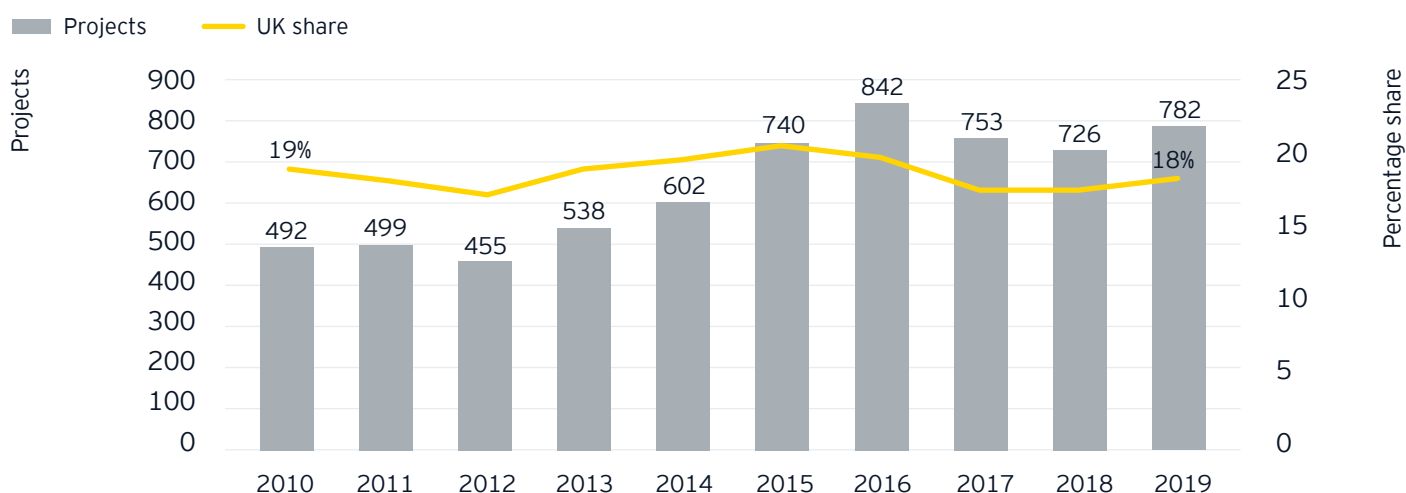
Before the virus struck, the transforming UK economy offered the prospect of strong growth in FDI. This was also true of the

economy overall. Following the general election in December 2019 and the UK's formal exit from the EU on January 31, 2020, increased certainty meant consumer and business confidence was showing signs of picking up and there was therefore a real possibility of increased activity with pent-up demand translating into actual expenditure.

... with success in attracting new projects hinting at growing momentum ...

The rise of 55 UK projects in 2019 was driven by a strong increase in new projects, as opposed to follow-on investments in existing projects. New UK projects rose by 56 or 7.4% to 782 – the highest number since the UK recorded 842 new projects in 2016, and the second-largest secured by the UK in any year in the past decade. The rise in new UK projects in 2019 outpaced the 2.9% growth recorded in new projects across Europe as a whole, meaning the UK's market share of new European projects edged upwards, from 17.5% in 2018 to 18.3% in 2019. Some 70.5% of all UK projects secured in 2019 were classified as new, against 67% across Europe.

New projects secured by the UK and European market share, 2010-19



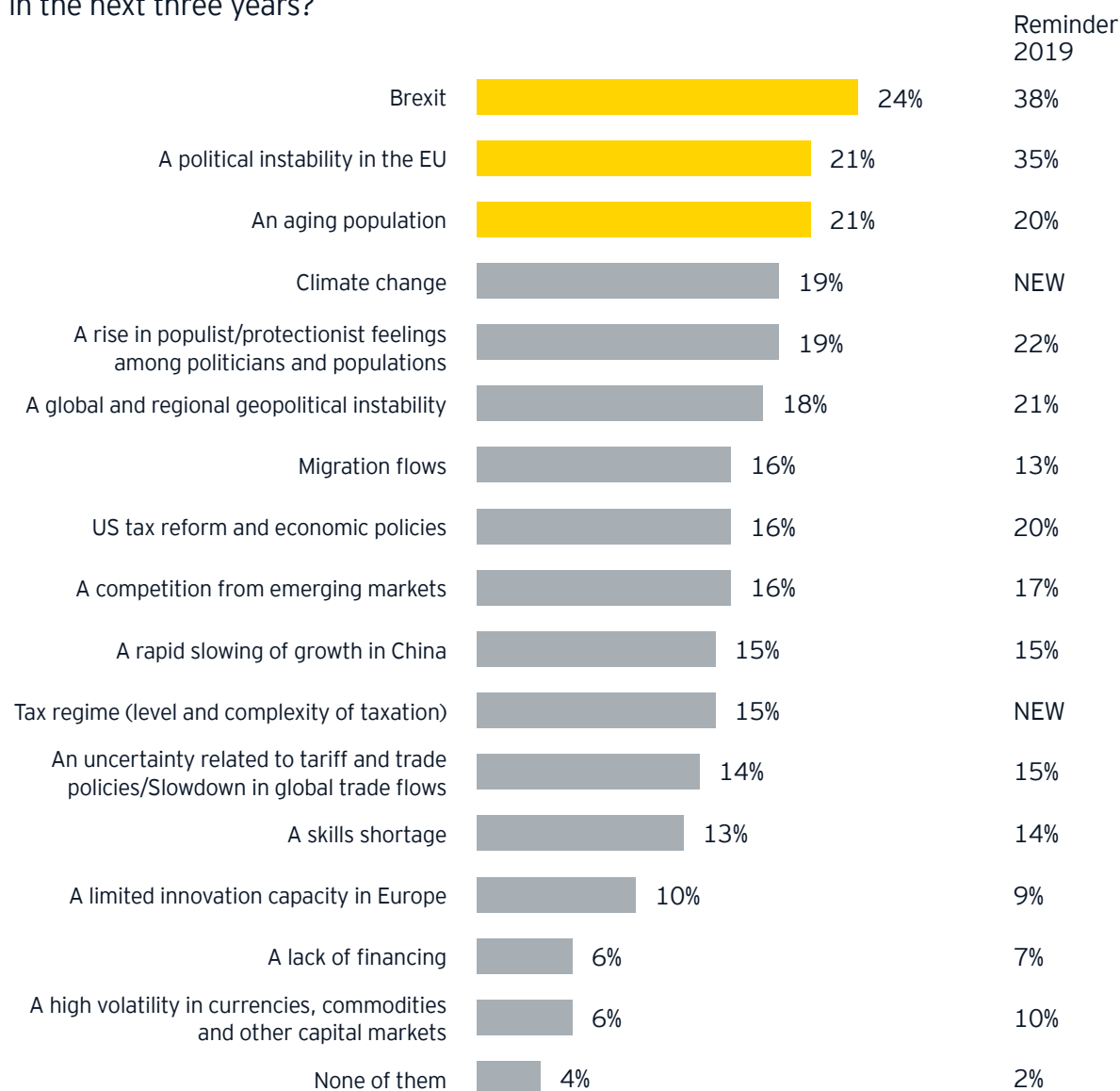
Source: EY European Investment Monitor (EIM), 2020

... and digital tech defining the future shape of the economy ...

With hindsight, the strong performance of the UK in attracting digital tech in 2019 should come as no surprise. In our investor survey last year, responses suggested around 25% of investments in this sector had been put on hold due to Brexit uncertainty but that 30% of investors planned to invest in the UK in this sector in 2020. The outturn was consistent with that survey's indications and further suggests that the impact of Brexit on the UK's attractiveness has started to fade, and the economy has started on the path of adjustment.

As the impacts from COVID-19 continue to play out, investors' level of concern over the effects of Brexit appear to be declining over time. While our perception study showed that investors still regarded Brexit as the biggest single risk affecting Europe's attractiveness to FDI in the coming three years, its rating was down sharply. Just 24% of investors cited it as a top-three issue, down by more than a third from 38% last year, with the level of concern over political instability in the EU also falling significantly. It seems that perceptions of the UK have moved on and the focus is shifting to other issues – a process that COVID-19 may serve to accelerate.

What are the three main risks affecting the attractiveness of Europe in the next three years?



Source: EY-CSA Survey (February 2020, 504 C-suite interviews)

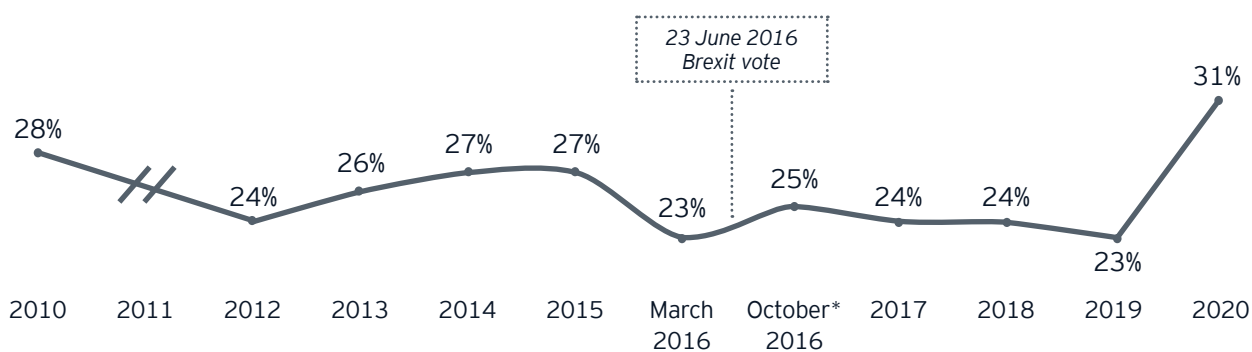
... such that 2020 could have been a record year for UK FDI

Our investor research strongly supports the positive view of the UK's prospects going into 2020. Before COVID-19 exploded onto the global stage, 31% of investors were planning to invest in the UK in 2020. That proportion represented both a significant increase from 23% in the previous year's survey, and the highest positive sentiment for the UK in over a decade, higher than the corresponding numbers for other European countries.

31%

of investors surveyed were planning to invest in the UK in 2020, before COVID-19 exploded onto the global stage.

Proportion of companies planning to establish or expand operations in the UK over the next year, 2010-20*



Source: EY's UK Attractiveness Survey 2010-20. * Pre-COVID-19 lockdown
2011: Only asked to companies not established in the UK. No comparison possible



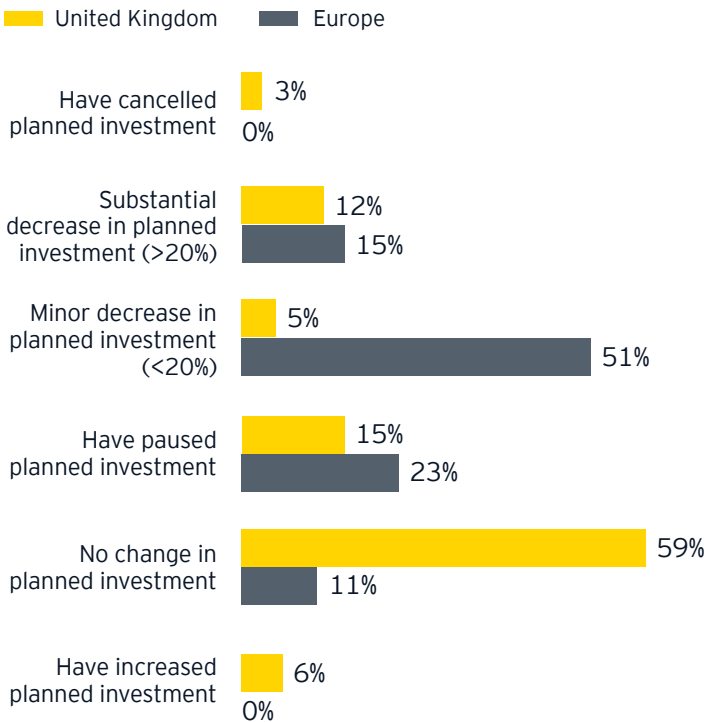


Resilient despite the shock ...

How has COVID-19 affected these plans? Our survey results indicate that investor intentions toward the UK, compared to other FDI destinations in Europe, remain relatively positive when they look beyond the immediate COVID-19 shock. Respondents told us that 65% of the projects planned for the UK were still going ahead – including 6% who had actually increased their investment in light of COVID-19 – with only 3% saying they had completely cancelled their plans. By contrast, the corresponding figures for Europe revealed a more cautious approach from investors, with 66% planning to decrease investment and 23% pausing it, against 17% and 15% respectively for the UK.

As we previously identified, FDI is an important window on economic performance because it tends to attract long-term investors, and the indications are that this perspective endures despite the unprecedented short-term shock. It is a positive that the UK pipeline is proving to be so resilient in these turbulent times.

Have you changed your investment plans as a result of COVID-19?



Source: EY's UK Attractiveness Survey, May 2020; EY-Euromoney Flash Survey (20-30 April, 2020, 113 C-suite interviews)



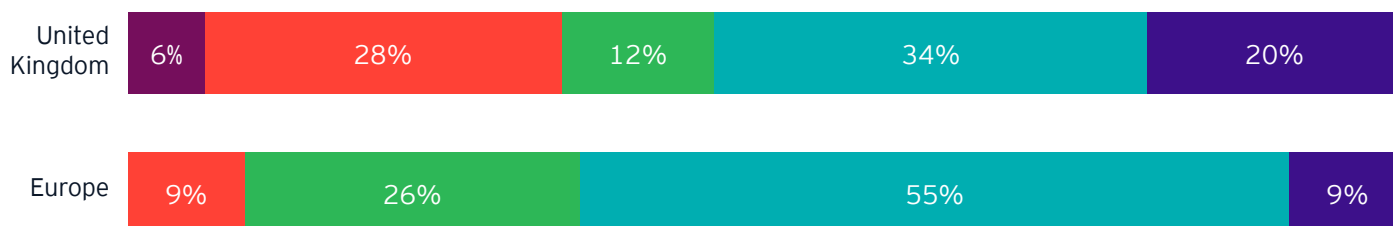
... with a continued strong level of attractiveness ...

The view that the UK's attractiveness to FDI is less exposed to the shock of COVID-19 than the rest of Europe is reinforced by other responses to our survey. Asked whether the UK and Europe will be more or less attractive for FDI in the three years after the COVID-19 pandemic has passed, the balance

of investors was negative for both geographies but relatively less downbeat about the UK's prospects. The recovery from COVID-19 will be a challenging one but there are some reasons for optimism in investor perceptions of the UK.

Will the UK/Europe be more or less attractive than today in three years once the COVID-19 pandemic has passed?

■ Significantly more attractive
 ■ Slightly more attractive
 ■ No change in attractiveness
■ Slightly less attractive
 ■ Significantly less attractive



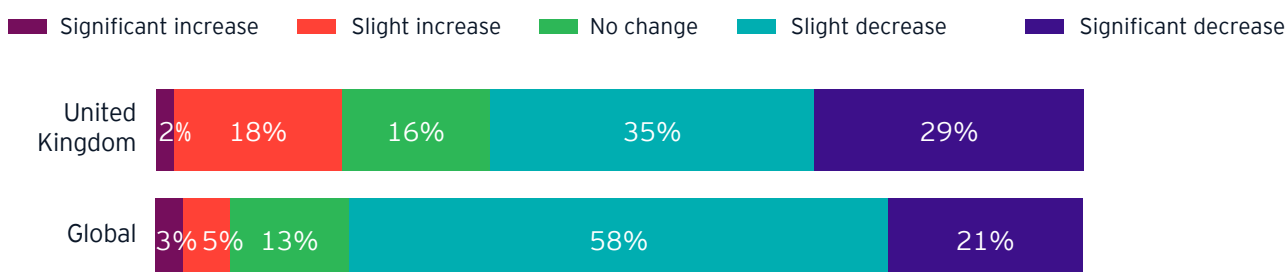
Source: EY's UK Attractiveness Survey, May 2020

... in a competitive global market ...

There is no doubt that the outlook for FDI will be extremely challenging as the world seeks to recover from the economic and social shock caused by COVID-19. Asked whether they expected to see an increase or decrease in FDI globally following a period of recovery from the COVID-19 pandemic,

a net -71% of investors responding to our survey said they were anticipating a decline in global FDI. Asked the same question about investment specifically into the UK, the balance expecting a decline was -44, still very challenging but more positive than the overall market outlook.

Do you foresee an increase or decrease in foreign direct investment globally/ in the UK following a period of recovery from the COVID-19 pandemic?



Source: EY's UK Attractiveness Survey, May 2020

... with trade pressures other than Brexit growing ...

This relatively positive view is supported by investors' responses when asked whether the UK may be more or less attractive after the end of the transition period with the EU, a step scheduled for the end of 2020. Just over half – 53% – think the UK will be less attractive, but four-fifths of these

respondents think the impact on the UK's attractiveness will be 'slight'. And more than one-third of respondents – 34% – think Brexit will make the UK more attractive due to greater policy freedom, a proportion that is double the response in previous years.

The UK left the European Union on 31 January, 2010 and the transition period is due to end on 31 December, 2020. Do you think that the UK's status outside of the EU with its ability to pursue independent policies to respond to future shocks such as COVID-19, makes it more or less attractive as a location for FDI?

Legend: Significantly more attractive (dark red), Slightly more attractive (red), No change in attractiveness (green), Slightly less attractive (teal), Significantly less attractive (dark blue).



Source: EY's UK Attractiveness Survey, May 2020

Asian investors surveyed appear much more positive about the opportunities that will be available in the UK post-COVID-19. They are also less concerned about the UK leaving the EU and this appears to be part of a realignment of their supply chains, with respondents 40% more likely to be considering this than US or European investors. Unsurprisingly, European investors are more concerned about the consequences of Brexit and are therefore relatively less positive about the UK's prospects.

While the UK has formally left the EU, the transition period until the end of December 2020 means little has changed in practice. There is obviously a risk that investors have become distracted by the shock caused by COVID-19 and will return to focus more on the risks associated with future UK-EU relations in the coming months. Nevertheless, the analysis presented in this report does suggest that the UK economy may have changed more than we had realized as part of an adjustment to the UK's impending new status, and that investors have recognized this.

While the adjustment to the post-Brexit situation is welcome, there is no doubt that trade will remain challenging in future. The UK's strong position in digital tech may in part

reflect the fact that this sector is less exposed to trade policies than others. Our survey found that investors are considering the structure of their international operations in the light of changes in the global market, and COVID-19 may cause further and/or faster shifts. In addition to the already established moves toward regional rather than supply chains, investors told us they are considering reducing their reliance on single source suppliers and moving to introduce technology more widely across their businesses.

Regionalization of supply chains may create challenges for the UK as we embark on a different relationship with Europe. 34% of European investors surveyed indicated they were considering moving more operations into Europe, compared to 16% considering reducing their European presence. By contrast, only 8% of the UK investor group expect to increase their UK presence and 11% are thinking of moving activity out of the country. While the adjustment to Brexit appears to be underway, there is no scope for complacency in trade policy – the UK does need to develop its strategy for a post-Brexit, post-COVID-19 world.

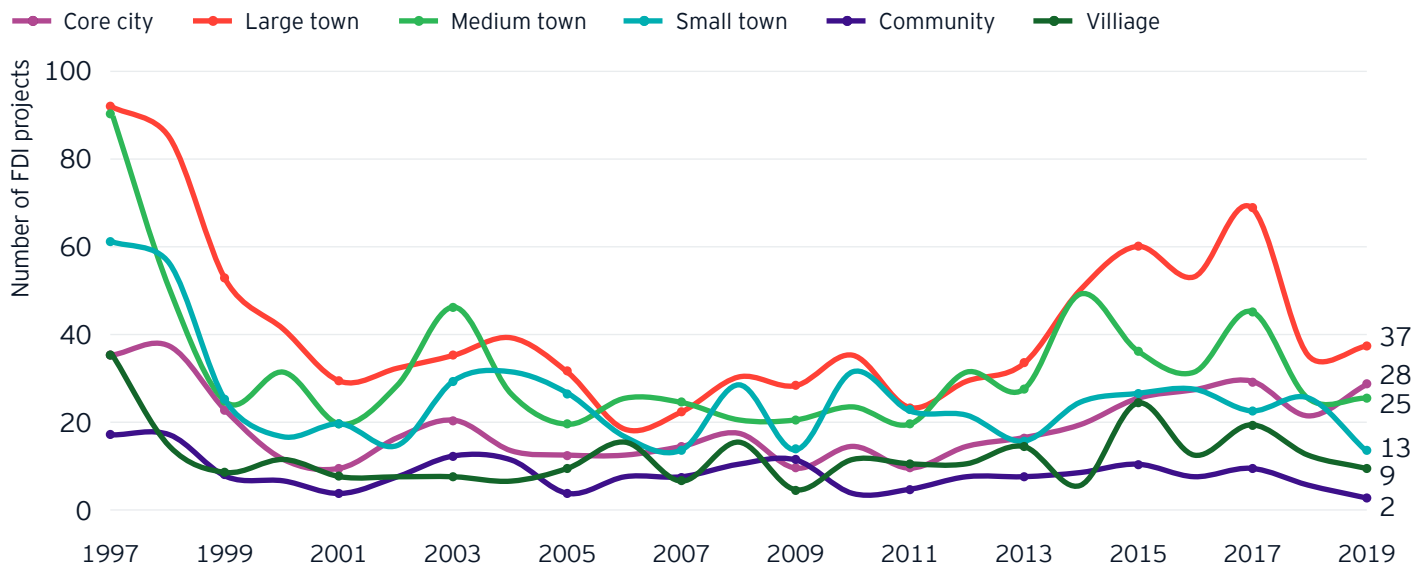


Our research findings
— both pre and
post the outbreak
of COVID-19 —
suggest that the
UK's attractiveness
to FDI remains
comparatively strong.

COVID-19 will create more challenges for leveling up

We have identified that the increase in the concentration of FDI in the UK's largest cities in recent years is acting against the desire to rebalance the UK geographically. Projects in the fast-growing digital tech sector have flowed almost exclusively into the major urban areas with 83% flowing into London, Edinburgh and the Core Cities group, excluding Belfast, in 2019. By contrast, as our work with the Centre For Towns demonstrates, manufacturing FDI has been spread much more equally across the country with smaller places able to leverage their historic strengths to attract foreign capital. Logistics and R&D offer similar benefits albeit not as widely distributed as the manufacturing sector.

FDI in manufacturing projects by place type, 1997-2019 (number of FDI projects)



Source: EY Attractiveness Survey: Trends in foreign direct investment in Great Britain's towns, EY-Centre For Towns, May 2020



Although their performance tailed off in 2019, university towns have been recipients of manufacturing FDI in recent years, reflecting the key role that technology and knowledge will have in driving the UK's post-COVID-19 recovery. As we move toward a hi-tech economy, universities will have crucial roles to play in developing skills and acting as civic champions in their local areas.

Both the Centre For Towns and the Centre for Cities have published research that demonstrates how the COVID-19 shock and the policy responses are likely to hit remote places harder than the UK's cities. Urban centers tend to have more jobs that can be done remotely while towns, especially market and coastal ones, have a much greater share of activity and employment in the sectors that have been shut down to protect lives. In Newquay for example, the Centre For Towns estimates 56% of employment is in sectors that are not currently operating in what is the traditionally the busiest time of year for these tourist-oriented economies. As the UK

develops its economic recovery policies, capturing the benefits of FDI for the whole country should be a priority action.

A resilient base to prepare for life after COVID-19

Our research findings – both pre and post the outbreak of COVID-19 – suggest that the UK's attractiveness to FDI remains comparatively strong, and relatively resilient to the impact of the pandemic. The UK has a base on which to build its future strategy with strengths in digital tech and R&D, a reasonable manufacturing base and a geographically balanced portfolio of investors. Investor sentiment is also relatively favorable meaning that there should be opportunities as the COVID-19 shock recedes. How can the UK win the global and European battle for FDI in the 'Beyond'? We turn now to look at what is needed to do this.

3

Beyond

39%

of respondents identified cleantech, 35% digital and 24% health as offering the highest growth potential.

81%

of investors expect technology adoption to accelerate in the next three years as a result of COVID-19.

The UK in the future

The challenge: driving recovery in a difficult economic environment

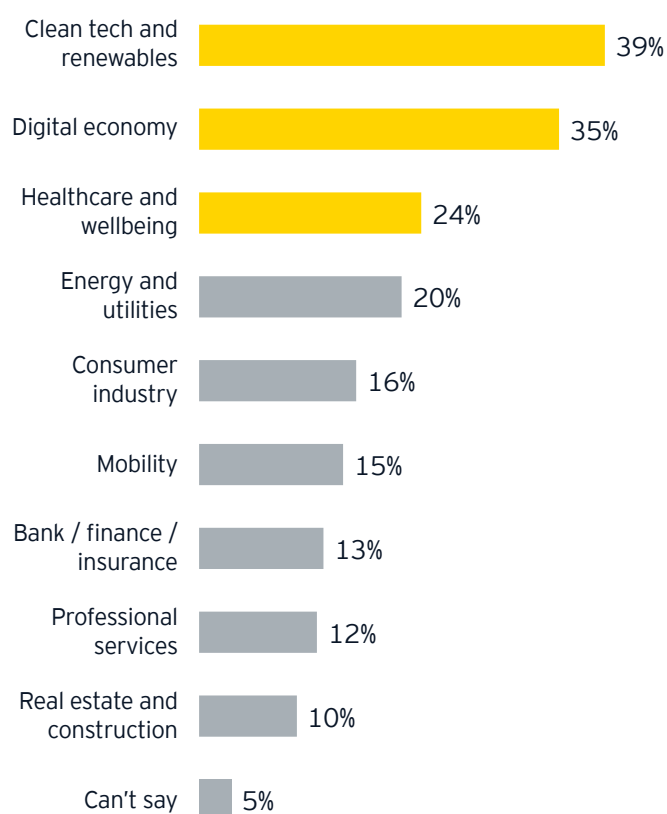
The shock caused by COVID-19 will mean that the economic environment will be very challenging in future and, with investors indicating some decline in FDI activity is likely, the competition for FDI will be intense. Following a resilient performance in 2019 in attracting FDI – especially in high-value, fast-growth sectors such as technology and R&D – and with investors perceiving the country as being likely to recapture its attractiveness faster than the European average after the COVID-19 crisis has passed, the UK starts from a good base. The task now is to work out how to maximize the chances of a successful, sustainable and lasting recovery. We use the insight derived from our recent investor surveys to identify what policies should drive the UK's recovery strategy to build back better than before.

The market is changing ...

Let's start with the market opportunity. Despite having left the EU at the end of January 2020, the shift by corporates to regional operations in Asia-Pacific, the Americas and Europe that had already been apparent before COVID-19 struck, means the UK will continue to compete primarily in the European market for FDI. Our research into investors' perceptions of Europe, conducted in February, provides clear indications on the sectors that investors believe offer the greatest potential for future growth.

39% of respondents identified cleantech, 35% digital and 24% health as offering the highest growth potential. Long-term investors have been adjusting their priorities in recent years with cleantech being cited by more investors in each of the last four years, increasing from being cited by only 15% of investors in 2017. Digital has consistently been in the top two sectors identified during this period, but this is the first time it has lost top spot to cleantech.

In your opinion which business sectors will drive Europe's growth in the coming years?



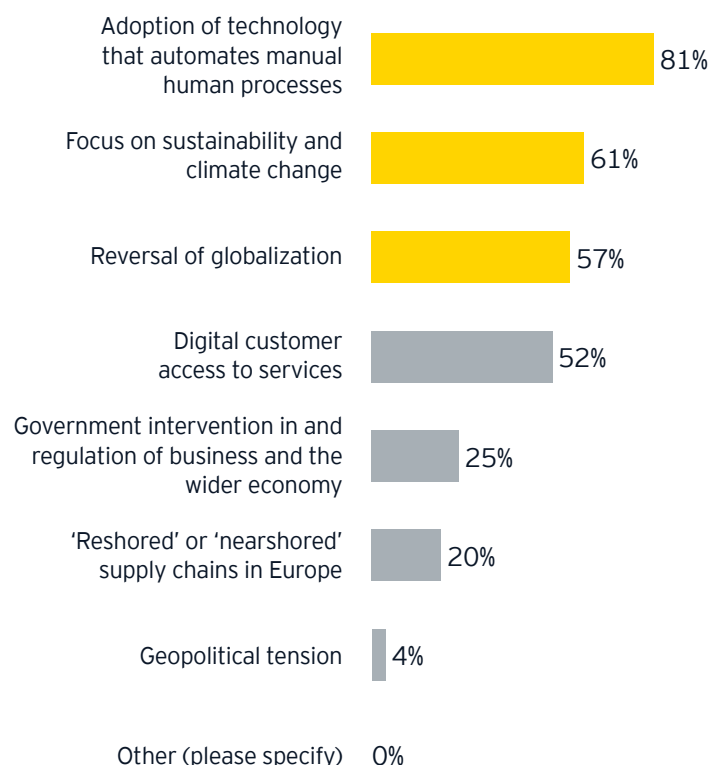
Source: EY-CSA Survey (February 2020, 504 C-suite interviews).

... and COVID-19 will accelerate the shifts ...

Our follow-up research conducted during the pandemic suggests that, if anything, COVID-19 is likely to reinforce these sectors as priorities. Asked to name the trends that they expect to accelerate most rapidly in the next three years as a result of COVID-19, investors highlighted an increased focus on technology to automate processes, sustainability and climate change, digital access to services for customers, and the reversal of globalization. All are sources of potentially significant disruption that will create opportunities as well as threats.

These responses reflect the major shifts that have already begun to develop in the global economy and suggest further significant change is likely; this is a dynamic environment that will not be easy to navigate. Investors responsible for FDI tend to have longer time horizons than financial investors because of the lead times involved in putting together projects that require a new physical presence, often with an investment in fixed and/or intangible assets. The shock associated with COVID-19 has focused minds and we can see signs of accelerated shifts in long-term thinking as trends that were already apparent increase in importance.

Which of the following trends do you expect to accelerate most in the next three years as a result of COVID-19?



Source: EY-Euromoney Flash Survey (20-30 April, 2020)

The shock associated with COVID-19 has focused minds and we can see signs of accelerated shifts in long-term thinking as trends that were already apparent increase in importance.

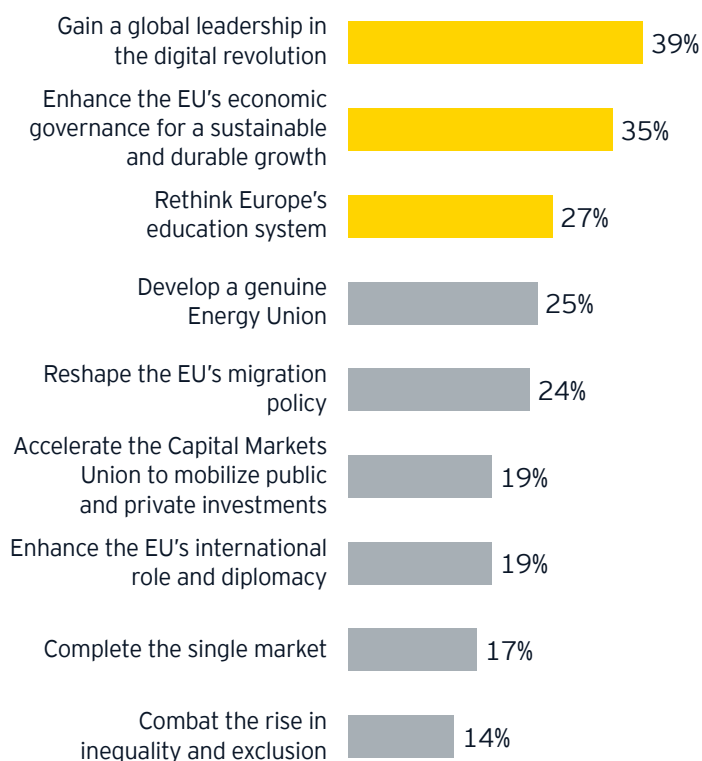
... as investor views on policy evolve ...

It is not just the market that is evolving; investors have also begun to change their views on the policies they believe are priorities. To understand the potential impact of the available policy levers, we asked investors where the EU should focus its efforts. The answers provide insight as to how the UK should position itself to maximize its competitiveness. Investors pointed to the importance of actions to: secure leadership in the digital world, focus on shaping economic governance to foster sustainable and durable growth, and rethink education. By comparison, the priorities attached to historically popular policy areas such as reducing bureaucracy and simplifying the fiscal regime ranked lower than in our previous research.

Change is underway. Long-term investors are starting to view the world differently both in terms of the sectors they see offering opportunity but also in terms of their priorities. Yes, growth is a priority but not at all costs – investors recognize the importance of growth being sustainable and the role that governments and businesses both have to play in delivering this.



In your view, where should the European Union concentrate its efforts in order to maintain its competitive position in the global economy?



Source: EY-CSA Survey (February 2020, 504 C-suite interviews).

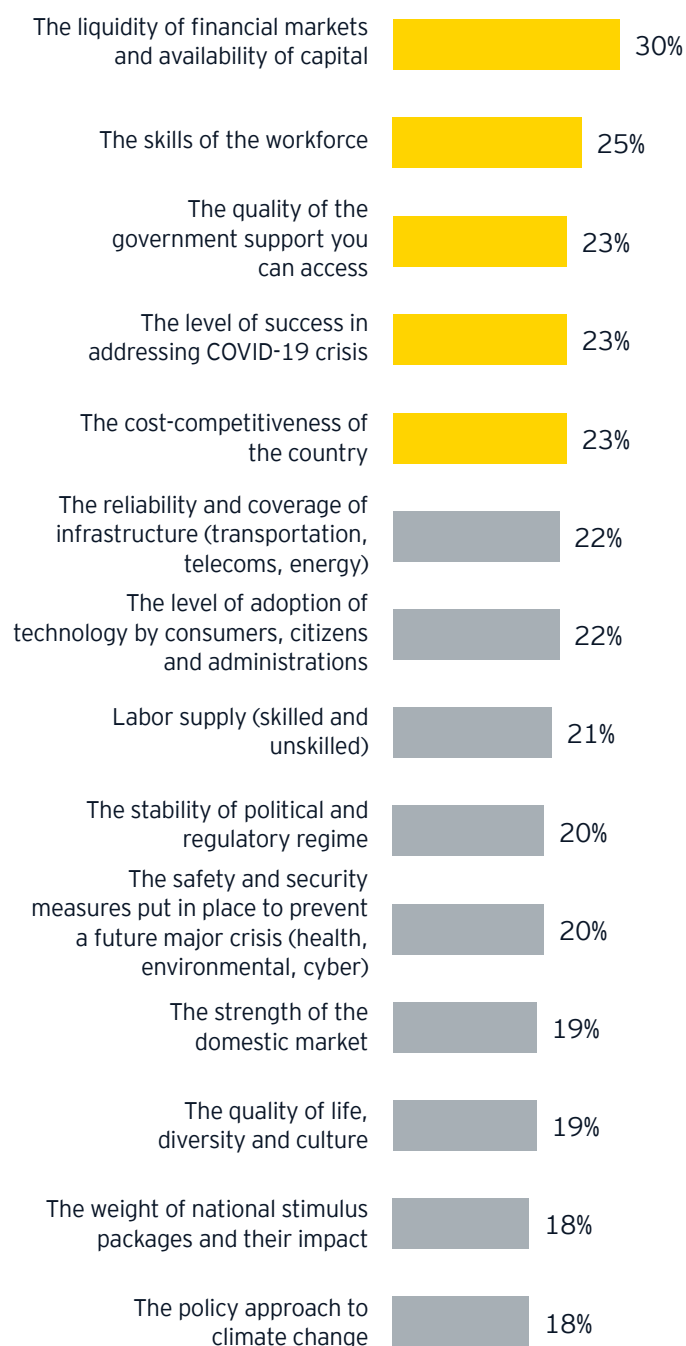
... with a search for more balance in the post-COVID-19 world

Investors' evolving views are really brought into focus when we consider the criteria they use to define an attractive FDI location. Asked to rank the factors influencing their decision to select a particular country, investors' responses clearly reflect the reality of the pandemic – not only in focusing on a destination's level of success in addressing the crisis itself, but also in stressing the importance of the availability of finance and government support and stimulus. More long-standing priorities such as skills and infrastructure still rank highly, and new themes such as climate change policy and technology adoption now also feature strongly.

What is most striking is the relatively small gap between criteria. In previous surveys, skills and infrastructure have stood out as the key criteria, but we now have a much broader set of factors influencing investors. We have seen the trend toward more purposeful business gather momentum in recent times, and climate change and the growth of geographic inequalities had already become priorities for the UK Government. The advent of COVID-19 appears to have accelerated these shifts as the drivers of the balance between economic growth, the environment and lifestyle have been brought into sharper focus.

While the broad shape of the results is similar between investors asked about the UK and those questioned about Europe – technology adoption and skills are equally important to both groups of investors surveyed – the differences do provide a steer on the priorities for the UK going forward. Investors are keener to understand the availability of private finance in the UK than across Europe, and the role the government is likely to play in the economy both through the response to COVID-19 and the provision of infrastructure – both are higher priority issues for investors considering the UK than those considering Europe. With the risk of a trend away from globalization, the UK must move quickly to create the most attractive environment possible to maintain its appeal to foreign investors. As our survey clearly demonstrates, this requires an integrated set of solutions that will require collaboration across multiple domains.

In your company's future location choices, what factors will influence your decision to select a particular country?



Participants selected their top three from the list.
Source: EY's UK Attractiveness Survey, May 2020

Creating opportunities for innovative policy solutions

When asked about how to drive digital investment, 93% of investors cited the need to improve digital skills but 87% also identified the requirement to support the cleantech and renewables sector. The other top priorities were building an innovative culture, protection of intellectual property rights, government and regulatory support for the digital agenda, and investment to promote a network of start-ups.

These responses highlight both the importance of striking the right balance between public and private sector investment and the opportunities this creates to devise innovative solutions. Investors increasingly recognize the need for collaboration and to work toward more sustainable growth. There is a real opportunity to craft a new social contract that balances growth, lifestyle and the environment as the basis for policy to drive the recovery. As an example of what this might mean, in our perception study, investors' responses underline the extent to which they find a green deal appealing – with 39% believing it can open up new investment opportunities for their business at the same time as generating economic and social benefits.

Investors increasingly recognize the need for collaboration and to work toward more sustainable growth.



Building back better ... a clear set of priorities

The emergence of COVID-19 has made economic policy more challenging and while it has not changed the priorities, the scope of policy will have to be broader and more ambitious than previously envisaged to make up for lost activity. Prior to the pandemic, the UK Government had made clear the importance it attached to driving UK economic growth, leveling up the country economically and accelerating the transition to 'net zero'. These priorities have not changed, but the importance of building a resilient economy and the need to recognize the contribution during the crisis of many people in the economy who tend to find themselves at the lower end of income distribution, are likely to

feature more prominently than would have been the case prior to the pandemic. We assume in our suggestions below that these objectives will form the basis of future policy.

Against this backdrop, the analysis and data presented in this report provide a clear direction of travel and a set of themes on which to anchor economic policy. COVID-19 has delivered a major shock to the economy but it has also spurred innovation in many sectors through its impact on supply chains and health care as well as creating experiments on ways of working, the use of technology and how change in the economy impacts the environment. All of this is reflected in our proposals.

1

Place sustainable growth and leveling up at the center of the strategy

The investors we surveyed could not have been clearer about the importance they attach to the need to ensure the sustainability of future growth. Indeed, even when asked about the key digital policy requirements, a focus on how technology can support sustainable growth was their second priority.

The UK's FDI performance in 2019 was strong in many aspects but did not deliver on supporting geographic rebalancing, with a failure to capture the benefits of digital tech outside of major cities a standout failing. Moving forward, all policy and initiatives should be assessed for their likely contribution to sustainable growth and improved geographic balance, thereby

providing the opportunity to develop integrated solutions and avoid the unintended consequences of previous policies.

A sustainable economic recovery will require close collaboration between the public and private sectors. Our survey responses demonstrate that investors recognize that the world has changed and are embracing the need to play their part in creating an economy that works for everyone for the long term. Equally, there is an expectation that government will have a central role in driving the recovery, especially in providing resources and establishing the framework to support investment in skills and infrastructure.

The provision of funding and support gives government an opportunity to design incentives to shape future cooperation with investors to ensure that all stakeholders reap the benefits of state support. All support and funding deployments should therefore seek to incorporate commitments from business on their future conduct.

2

Refresh and expand the Industrial Strategy to create the framework for delivery

The existing Industrial Strategy is based around four grand challenges – mobility, big data, renewables and an aging population. These should be reviewed in the light of recent developments and the desire to drive sustainable growth across the country. Our investor survey identifies the trends and opportunities that will shape the economy in future. There is no doubt that the UK's strength in technology offers the opportunity to reshape the economy, and the new strategy should look to maximize the potential of digital tech developments that can be deployed across the economy, especially if they can support growth in cleantech, health and advanced manufacturing, including the potential for reshoring. Together with digital tech, these sectors should form the core of the new Industrial Strategy, a strategy that should be developed bottom-up with local input, not solely top-down as in the past.

Building back better ... a clear set of priorities

3

Reshape the national infrastructure strategy

The Government had signaled its intention to increase spending on UK infrastructure prior to the outbreak of COVID-19. The pandemic has only served to increase the importance of this activity as evidenced by investor responses to our survey. However, the response to COVID-19 has led to the increased adoption of remote working with less travel, offering glimpses of a potentially more sustainable future. We have seen that the UK's preference for agglomeration-led growth centered around major cities does come with costs in terms of lifestyle, environment quality and health risks.

Priority should be afforded to reviewing the proposed infrastructure strategy in the light of what we have learned from the response to the pandemic especially in terms of the potential benefits of doing things differently. It may well be, for example, that an accelerated shift from atoms to electrons would be beneficial, potentially prioritizing faster and greater investment in fiber and 5G over transport infrastructure and offering the possibility to drive the benefits of the UK's digital lead to all locations in the country. In recent years, the focus has been on growing cities and hoping for a leveling out from this with most of the success coming from increased commuting. Technology offers the opportunity to adopt a broader approach that may allow us to take work to people via more remote and virtual working without the need for physical collocation.

4

Increase the investment in human capital

There is no doubt in the minds of investors that skills development, especially in the digital and renewables sectors, is a key driver of investment decisions. If the UK is to maintain its lead in the digital tech sector and in R&D, improving the capabilities of the population is vital. In keeping with our overall philosophy, this needs to be a nationwide initiative but one that has a geographic lens to ensure that different places across the UK can tailor initiatives to best position themselves to capitalize on local opportunities.

Universities have a key role to play in developing talent and skills, not just for their core undergraduate students, especially in the areas identified in the Industrial Strategy. This should form the basis for an expansion of their role as true civic establishments, playing a central role in their local economies and communities.

5

Ensure that trade policy is designed for a deglobalizing world

Trade was already changing prior to the advent of COVID-19. Companies had begun to redesign their supply chains to reflect the new geopolitical environment and the crisis is likely to accelerate this trend. The UK has been focused on adjusting to prepare for trade outside of the EU, but it is important to ensure that trade policy reflects all the potential changes in the global order and how the UK can ensure it remains competitive and attractive outside of the EU. This should include clear links to the opportunities for reshoring and the continuing investment by UK businesses internationally.

6

Create an innovative financing platform

The response to COVID-19 has included unprecedented levels of government support for the economy. Investors have clearly signaled that this will need to continue to help drive the recovery. Resources are not finite, and policy will need to be as innovative as possible, seeking to use resources in the most effective manner and providing incentives to encourage investment in the identified priority areas.

Among the options we believe should be considered are:

- ▶ The opportunity for public equity investment to provide a means to reduce the debt burden taken on by businesses to survive the lockdown period, possibly facilitated by a National Investment Bank.
- ▶ Sector and local funding deals to reflect specific sector challenges such as the restaurant and food sector nationally or tourism resources in selected local markets.
- ▶ Consideration of ways to use public investment/funding to de-risk greenfield projects to incentivize pension funds and other investors to invest, offering the potential for long-term growth.

Methodology

The “real” attractiveness of the UK for foreign investors

Our evaluation of the reality of FDI the UK is based on the EY European Investment Monitor (EIM), EY proprietary database, produced in collaboration with OCO Global. This database tracks the FDI projects that have resulted in the creation of new facilities and jobs. By excluding portfolio investments and M&A, it shows the reality of investment in manufacturing and services by foreign companies across the continent.

Data on FDI is widely available. An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity and takes a role in its management. FDI includes equity capital, reinvested earnings and intracompany loans.

But our figures also include investments in physical assets, such as plant and equipment. And this data provides valuable insights into:

- ▶ How FDI projects are undertaken
- ▶ What activities are invested in
- ▶ Where projects are located
- ▶ Who is carrying out these projects

The EY EIM is a leading online information provider that tracks inward investment across Europe. This flagship business information tool is the most detailed source of data on cross-border investment projects and trends throughout Europe. The EY EIM is frequently used by government bodies, private sector organizations and corporations looking to identify significant trends in employment, industry, business and investment.

The EY EIM database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 news sources. To confirm the accuracy of the data collected, the research team aims to directly contact more than 70% of the companies undertaking these investments.

The following categories of investment projects are excluded from the EY EIM:

- ▶ M&A and joint ventures (unless these result in new facilities or new jobs being created)
- ▶ License agreements

- ▶ Retail and leisure facilities, hotels and real estate*
- ▶ Utilities (including telecommunications networks, airports, ports and other fixed infrastructure)*
- ▶ Extraction activities (ores, minerals and fuels)*
- ▶ Portfolio investments (pensions, insurance and financial funds)
- ▶ Factory and other production replacement investments (e.g., replacing old machinery without creating new employment)
- ▶ Nonprofit organizations (charitable foundations, trade associations and government bodies)

*Investment projects by companies in these categories are included in certain instances: e.g., details of a specific new hotel investment or retail outlet would not be recorded, but if the hotel or retail company were to establish a headquarters facility or a distribution center, this project would qualify for inclusion in the database.

The perceived attractiveness of the UK and its competitors by foreign investors

We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country's or area's ability to provide the most competitive benefits for FDI.

We have adapted our regular investor survey this year, to provide more insight into the impact of COVID-19 on the perceptions and aspirations of investors into the UK and Europe as a whole.

- European field research was conducted by the CSA Institute in January and February 2020 via telephone interviews, based on a representative panel of 504 international decision-makers.
- A second perception survey for Europe was conducted from 15 April to 29 April to reflect decision-makers' perception changes due to the COVID-19 crisis. This online survey was led by Euromoney, based on a representative panel of 113 international decision-makers.
- A final perception survey for the UK was conducted by Longitude from 10 April to 30 April to reflect decision-makers' perception changes due to the COVID-19 crisis. The survey was conducted by telephone and email and based on a representative panel of 200 international decision-makers.

Centre For Towns

The Centre For Towns is an independent non-partisan organisation dedicated to providing research and analysis of our towns. While our cities receive a good deal of attention, we believe that there should be equal attention paid to the viability and prosperity of our towns.

The Centre has created a database of around seven thousand places across the United Kingdom, ranging in size from villages to small towns to large towns and cities. Those towns have been further categorized where possible into types of towns.

We aim to use our research and analysis to advocate for policy and practical solutions to the challenges faced by our towns.

Typologies of place based on population size (Centre For Towns)

Village	Place with a population of less than 5,000 people
Community	Place with a population of between 5,000 and 10,000 people
Small town	Place with a population between 10,000 and 30,000 people
Medium town	Place with a population between 30,000 and 75,000 people
Large town	Place with a population above 75,000 people but not a Core City
Core City	One of twelve Core Cities* identified by Pike at al. (2016)

Typologies of place based on characteristics of place (Centre For Towns)

University town	Town with a university and at least 5% of the population as students
Market town	Hub towns as defined by Defra
New town	Designated new town status post-war
Ex-industrial town	Town under the remit of the Industrial Communities Alliance**
Commuter town	Town with over 10,000 people within commuting distance of Core Cities
Coastal town	Town with over 10,000 people and a substantial coastline

* Birmingham, Bristol, Cardiff, Edinburgh, Glasgow, Leeds, Liverpool, London, Manchester, Newcastle-upon-Tyne Nottingham, Sheffield.

** Christina Beatty and Steve Fothergill. (2018). 'The contemporary labor market in Britain's older industrial towns.' *Centre for Regional Economic and Social Research, Sheffield Hallam University Working Paper*, p. 7.

About the EY Attractiveness program

EY Attractiveness Surveys are widely recognized by clients, media, governments and major public stakeholders as a key source of insight into FDI. Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses make investment decisions and governments remove barriers to growth. A two-step methodology analyzes both the reality and perception of FDI in the country or region. Findings are based on the views of

representative panels of international and local opinion leaders and decision-makers.

The program has a 19-year legacy and has produced in-depth studies for Europe, a large number of European countries, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit:
ey.com/attractiveness #EYAttract

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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