Wanted: skills for inward investors

A report by the Skills Taskforce for Global Britain
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About the author

Jessie has over twenty years experience of working in foreign direct investment and skills. Previously a Senior Civil Servant at the Department for International Trade, she established the Department’s first ‘business environment’ function, supporting foreign investors on areas from talent to finance, and working across Government to improve the conditions for international investment. Before this she held a leadership position in the National Apprenticeship Service, where she helped many businesses establish their first apprenticeship programmes and formed an advisory panel of business leaders to increase employer influence in the development of vocational learning.

Jessie now works as a consultant with public and not for profit organisations to improve their relationships with the private sector, and as a leadership and career coach.

Acknowledgements

We would like to thank everyone who has given up their time to share their insights on the topics covered in this report. A full list of the organisations we spoke to for this project are in the annex.

Particular thanks go to John Cridland for chairing the Taskforce meetings expertly and to Josie Cluer for being the founding member of the Skills Taskforce and for the research support she has provided through EY. Special thanks also to the Chartered Management Institute for supporting our research by surveying their members. Finally, we would like to express our appreciation for all the companies and organisations who gave up their time to share their views with us.
In May 2021, WorldSkills UK invited twelve individuals to form a Skills Taskforce for Global Britain. These individuals represent different parts of the UK and all have an expertise in either skills or inward investment. Together they have generously given up their time since May 2021 to guide this project so that WorldSkills UK and its partners in UK governments, education and the private sector could learn more about how high-quality skills can help attract inward investment to create high value jobs in more parts of the UK.

John Cridland CBE – Pro Chancellor of Brunel University, and Chairman of the Home Group

Former CBI Director General John Cridland has chaired the Skills Taskforce for Global Britain. John has a wealth of experience in high-level policy analysis and delivery across the economy, education, business, and international trade and investment.

John is passionate about improving skills outcomes for young people and employers. He is a member of the board at Ofsted, and previously served as Vice Chair of the National Learning and Skills Council, and as a UK Commissioner for Employment and Skills.

He was awarded a CBE for services to business in 2006, and will help steer the delivery of the Taskforce’s final report, and act as a key spokesperson for the Taskforce to the media, politicians and other senior officials.

Josie Cluer – Founding Member (EY)

Josie Cluer, representing the professional services firm EY, was the founding member of our Taskforce. EY has also supported the Taskforce by sharing its research expertise, access to its regional network and insights and vast experience of working with international firms.
Andrew Hodgson OBE

Andrew has over 30 years’ experience in delivering major projects in the North East of England, within both the energy and technology sectors. Andrew was awarded an OBE in 2015 for his work in manufacturing and the North East economy and has extensive experience in strategic-level positions for leading companies such as Airbus and BAE Systems as well as smaller firms like Tyneside-based manufacturer, Soil Machine Dynamics. He served as Chair of the North East Local Enterprise Partnership (LEP) where he made skills development a leading priority until August 2020.

Anthony Impey MBE

Anthony is the Chief Executive of Be the Business, the not-for-profit organisation, boosting the productivity of small businesses.

He has started and operated private sector and not-for-profit organisations in the tech and education sectors including Touchbase Network and Technology House. He was founder and Chief Executive of Optimity, one of the UK’s leading providers of wireless internet services with an award-winning apprenticeship programme. He also founded TechCity Stars and Tech Up Nation, helping disadvantaged young Londoners kickstart their careers.

He Chairs the City & Guilds Industry Skills Board and is an advisory Board Member of the Institute of Coding. He was awarded an MBE in the Queen’s 2018 New Year’s Honours for Services to apprenticeships and small business.

Dr Ann Limb CBE

Ann is the independent business Chair of the UK Innovation Corridor one of the country’s leading regions for science and technology stretching from London to Cambridge and has a long track record of senior roles in the further education sector, including Principal roles at Milton Keynes and Cambridge colleges. Ann remains heavily involved in technical education delivery now as Chair of the City & Guilds Group. Up until 2019, Ann was chair of the country's top performing Local Enterprise Partnership the South East Midlands LEP and has continued as an Ambassador for the national LEP network.

In the 2011 Birthday Honours, she was awarded the OBE for work in education and in 2015 ‘upgraded’ to CBE for public and political services.
Dr Adam Marshall

Adam is a Senior Adviser to the Chartered Management Institute, and to business advisory firm, Flint Global. He also serves as a Non-executive Director with the UK Trade Remedies Authority. Prior to his tenure ending this year, Adam served as Director General of the British Chambers of Commerce since March 2016, where he focused on the global trade agenda and campaigned for the interests of over 75,000 businesses through the Brexit process and Covid-19 pandemic.

Prior to joining BCC, Adam helped to start up the Centre for Cities, built commercial links between universities and industry, and worked in local politics. Adam has also worked for the Institute for Public Policy Research, the Cambridge-MIT Institute, and on local economic issues in his native Washington DC.

Marie-Thérèse McGivern

Marie-Thérèse has extensive experience of both skills development and inward investment. Her current roles include chairing Belfast Maritime and the Employability and Skills Advisory Board for the £10bn Belfast Region City Deal. Marie-Thérèse also sits on the Strategic Investment Board for Northern Ireland and Northern Ireland Water and is a Director of the Collab Group. From 2009 to 2020 She was Principal and Chief Executive of Belfast Metropolitan College.

Baroness Ruby McGregor-Smith CBE

Baroness Ruby McGregor-Smith CBE is the President of the British Chambers of Commerce. She also chairs the Institute for Apprenticeships and Technical Education and the Air Operators Association, is a Non-executive Director at the Department of Education, the Tideway Tunnel, One Cam Limited and Mind Gym plc. Ruby was the Chief Executive of MITIE Group PLC, the strategic outsourcing company which employed over 65,000 people during her tenure and became the largest facilities management business in the UK.

She is one of a small number of women who have held the position of Chief Executive in the FTSE 100 and FTSE 250 and is the first Asian woman to be appointed in such a role within that group of companies.

Ruby is a member of the House of Lords, having been granted a Life Peerage in 2015.
Dame Julie Mellor

Julie is Chair of the Federation for Industry Sector Skills and Standards, which represents and supports eighteen employer-led sector skills organisations across the UK, covering over 170,000 employers.

She is also Chair of Demos, a leading cross-party think tank, and the Young Foundation, which puts people at the heart of social change. Her background includes a career at Shell, TSB, British Gas, and PwC, and she has served as a board member at Nesta and the Department for Business, Innovation and Skills.

Neil Rami

Neil is Chief Executive of the West Midlands Growth Company. Supported by local authorities, universities and regional businesses, the Growth Company was established in 2017 to create jobs and attract inward investment to the region. Under Neil’s leadership, the region secured the highest number of foreign direct investment projects on record, attracting investments from HSBC, Deutsche Bank, Jaguar Land Rover and ASOS. Neil held similar economic development roles in Liverpool and Newcastle upon Tyne, and he is currently Chairman of the Midlands Trade and Investment Group.

Chris Sutton

Chris is a member of the Welsh Government’s Ministerial Advisory Board for the Economy and is a former Chair of both CBI Wales and Central Cardiff Enterprise Zone. Chris is a Governor of the University of South Wales and Chair of USW subsidiary Merthyr Tydfil FE College. A chartered surveyor, he has advised the Welsh Government on the utilisation of public sector assets, the devolution of business rates and planning reform.

Linda Urquhart OBE

Linda is an experienced business leader and is currently a Non-executive Director at both Coutts and Edinburgh Airport, and a Trustee of Marie Curie. She has a wealth of experience including a key perspective on skills and inward investment in Scotland. She was the first female Managing Partner of major Scottish law firm, Morton Fraser, a Board Member of Scottish Enterprise, and served as Chair of both CBI Scotland and Re:markable (formerly Investors in People Scotland) and Co-Chair of the Fair Work Convention, an independent advisory body to Scottish Ministers. She was awarded an OBE for services to business in 2012.
WorldSkills UK is the international arm of the UK’s skills sector and our role representing UK governments in the WorldSkills network, comprising over 85 countries, gives us a unique perspective on how other economies develop world-class skills. It gives us the opportunity to benchmark the UK’s technical skills with the best of the rest of the world and to observe how other countries use world-class skills to improve their economic competitiveness. Singapore is a standout example, but others such as Taiwan, France, Switzerland, Ireland, Japan and South Korea also prioritise skills development in key growth sectors because that’s what their economy needs and they recognise the need to have skills that are internationally competitive.

We know in the UK that skill supply has been a key concern for employers and inward investors for many years. That is why we set up an independent Skills Taskforce for Global Britain almost a year ago to report to us at WorldSkills UK with recommendations on how to address investor concerns, exploring the specific question of how the UK could get better
at using high-quality technical skills to attract and retain more inward investment to help create more high quality jobs in more parts of the UK by 2030.

We know that the UK already has a world-leading knowledge economy and has been using it effectively to help attract investment to the UK, but most of this investment has gone to London and the southeast of England. The most important conclusion of this report is that the UK also needs a world-class skills economy to compete effectively for international investment and to make sure that the investment and high-quality jobs it brings go to more parts of the UK.

As a result of the findings and recommendations in this report, we are also committing WorldSkills UK to work with our partners in governments, education and industry on five key actions to help develop a world-class skills economy in the UK. We will:

- ensure our skills development programmes are increasingly aligned with the needs of international investors, with a particular focus on STEM and digital skills
- collaborate with our partners in further and higher education to boost the quality and attractiveness of higher technical education
- work with our partners in industry to champion their future skills needs
- establish more opportunities across the regions and nations of the UK to benchmark skills against world-class standards through our Centre of Excellence and related programmes
- showcase British excellence in skills through performance benchmarking in WorldSkills Europe and WorldSkills International to help attract more inward investment to the UK.

WorldSkills UK is indebted to the twelve members of the Skills Taskforce for Global Britain for their input to this independent report over the last twelve months. Their advice and expertise has been vital and I am sure that this report will not only provide a legacy of greater understanding about the critical role that skills plays in winning inward investment to help create high-quality jobs, but also help galvanise action to boost UK economic growth for the long term.
Foreword –

John Cridland

This report is fundamentally about how we can attract more foreign direct investment (FDI) to more parts of the UK to create jobs that need higher levels of skills, will attract higher wages and increase living standards.

Skills is the particular prism that we have approached inward investment through because it hasn’t been looked at sufficiently before and doesn’t seem to be a major consideration when policy on FDI is developed.

At one level this is surprising. As Director General of the CBI, I heard week after week from firms across the UK, both UK-owned and those with foreign parent companies, how a lack of skills was holding back their business from growing and innovating. But I also believe that skills has long been the ‘Cinderella’ of public policy, overlooked in part because it is complex and too few of the people who make public policy have personal experience of the skills systems in the UK.

So I believe this report is a very important and new contribution to the two worlds of inward investment and skills and I’m proud to have been invited to lead the Taskforce’s deliberations of how we can recommend some improvements.
The report contains many interesting insights and reflections, but I would like to draw your attention to three key conclusions the Taskforce has made:

- **a new vision for inward investment**: The UK’s traditional approach to inward investment needs a reboot. With France and Ireland increasing their competitiveness for investment we need a new level of ambition for FDI which allows nations, city regions and functioning economic areas across the UK to develop and implement their own strategies to attract investment, leveraging high quality skills as part of a package of support for investors. Importantly this vision should expect all areas of the UK to increase FDI; this report rightly highlights best practice, but all areas have scope to improve.

- **internationally competitive skills** Our skills base right across the UK needs to be more internationally competitive. To attract firms that are internationally mobile in sectors like advanced manufacturing, digital, clean tech and life sciences it is not enough to be competent, we need our technical skills to be excellent. WorldSkills UK’s knowledge of how to develop world-class skills will be vital to make this switch and a key by-product must be making technical education routes for young people more attractive and prestigious.

- **skills delivery must be focused on demand** For too long our skills systems across the UK have been focused on what skills we can supply, not what skills employers need. Policy is moving in the right direction, but needs to take account of the needs of inward investors as well as domestic firms, not least because the skills needed by international firms are likely to give a good indication of the skills we need to improve productivity and innovation across the economy and will lead to spillover effects for local firms.

If we can secure these improvements for firms that are internationally mobile, there will be significant benefits in terms of policy and delivery for domestic firms too and we will have skills systems that are better able to provide the skills that will make our economy more productive and innovative. We will have created, in the words of WorldSkills UK, a world-class skills economy.

I would like to thank my fellow Taskforce members for the time they have spent on this project, their keen focus on the specific issue of skills and inward investment, their valuable insights which have added greatly to the analysis in this report and their sound judgement on the recommendations we put forward. I would also like to thank the team at WorldSkills UK who have provided excellent support to the Taskforce over the past year.

I have pleasure in commending this report and the Taskforce recommendations. It represents a long-term agenda for change and progress, but we can all start now by making skills a critical part of the inward investment conversation.
Executive Summary

The Skills Taskforce for Global Britain was created to help make the UK a global leader in using high-quality technical skills to secure long-term international investment that will create jobs and growth in key sectors across our nations and regions.

Our report illustrates the barriers to meeting this challenge and provides practical recommendations for how these challenges can be addressed.

The case for linking foreign investment and skills

Foreign-owned companies are already providing highly skilled jobs in the UK; through global brands such as Apple, Airbus, Hitachi, Google, Pfizer and Nissan.

The UK has a historically strong record of attracting investment, however, there is international competition for foreign investment, with other countries looking to target similar investors to increase economic growth. Furthermore, currently foreign investment is not evenly spread across the UK: the majority of foreign investment landing in London and the South-East, whilst some regions such as the North-East are getting less than 5% of the UK’s overall foreign investment.
Foreign investors come to the UK to grow their businesses and to do that they need skilled workers in the resident labour force. As EY has shown through its annual Attractiveness Survey, skills play a vital role in the ability of the UK to attract investment, and the availability of skilled workers is also hugely important for companies when deciding which region or nation, within the UK, to invest in.

The current state of play

Despite the link between investment and skills, we currently lack a UK-wide investment strategy that articulates a vision for how skills can drive inward investment. Post Brexit we have an opportunity to present a new, and truly modern vision of Britain overseas to investors, but doing so requires promotion of the UK as a country where business can access skilled staff and high-quality technical training. A new vision would also support us to seek the type of foreign investment that provides high skilled, high wage jobs.

Investment Promotion Agencies are funded to enable foreign investors to take advantage of all the UK has to offer. Part of that role must include support on skills issues, both present and future. Though there are areas of excellence in the guidance given to investors, such as in Scotland and Northern Ireland, this service could improve elsewhere. Too often investment promotion is not working closely enough with those in the skills sector to deliver solutions for companies, and vice versa.

In their defence, investment promotion agencies are hampered by a lack of consistent data on skills levels in their areas (which are essential for advising investors) and limited training provision that meets the needs of investors. For those in the training sector, across many parts of the UK, a lack of funding prevents colleges from developing the training provision that new investment projects require. The result is investors are missing access to bespoke, flexible provision that can run alongside more structured programmes such as apprenticeships.

Recent well-published skills gaps such as in the recent HGV crisis, are both ‘real’ issues, capable of creating chaos and ‘perception’ issues, leading to a poor image of the UK overseas. These issues are not new - the UK has long had a ‘missing middle’ of workers with high-level technical skills- but they are becoming ever more pressing. For example, the energy security we all need depends on both foreign investment, and on skilled workers, to deliver growth in wind, nuclear or solar energy.
International and UK best practice shows the UK can improve its investment offer

As part of this research, we looked at how other countries embed skills in their investment offer and found much to learn. In places such as the Republic of Ireland, France, Singapore and Australia we found closer cooperation between parts of government that lead on investment and skills, resulting in high-quality information for investors; factoring in the needs of investors into skills provision and using foreign investment as a means of raising skills levels.

In the UK we also found areas of best practice, such as in Freeport areas where a partnership of training providers works specifically on investment projects, or in Northern Ireland where the Department of the Economy has joint responsibility for both skills and inward investment and where, operationally, colleagues from both the investment and skills sector work together to use skills as a key strategy for attracting investment.

Foreign-owned companies such as Siemens or Airbus, already provide skilled employment in the UK, including through apprenticeship routes. Foreign-owned companies arrive from countries- such as Germany or France- where there is a culture
of business investing in skills. This is likely to be part of the story of why foreign-owned companies are more productive than UK ones.

Therefore, if we are concerned about the under investment of UK business into skills (and the resulting poor productivity) we should care about foreign investment, because foreign investment can provide a ‘spillover’ benefit of showing UK business the competitive advantage of investing in skills.

Key recommendations:

To increase growth, we need an ambitious UK-wide strategy that will integrate skills and foreign investment

This requires government to set, through a published strategy, a vision for how skills can be used to attract the type of foreign direct investment that provides UK wide economic growth.

A post-Brexit vision of Global Britain needs to include showcasing the UK’s excellence in skills

This requires a bold new marketing campaign that promotes the UK’s technical workforce overseas, with skills becoming a core part of our investment promotion.

We must improve the quality and responsiveness of skills provision to drive foreign investment growth

Short-term this requires a ‘rapid response fund’ which will fund flexible, bespoke training provision for significant investment projects.

Long-term we need nations, regions and sectoral bodies to work with foreign investors and skills providers to ensure that skills-based training meets the needs of current and future investors.
Introduction

WorldSkills UK brought together the Skills Taskforce for Global Britain in May 2021 with this aim:

“To help make the UK a global leader in using high-quality technical skills to secure long-term international investment that will create jobs and growth in key sectors across our nations and regions.”

A coming together of critical factors – the need to secure economic growth in all parts of the UK to level up job opportunities and living standards, the creation of a new global outlook for the UK on the back of leaving the European Union and the Government’s strong support for improving our national record on technical skills – provided a window of opportunity to think about skills and inward investment in a new way.

At the same time, the evidence from EY Attractiveness Survey data has shown across successive years that skills is one of the top factors influencing investors’ decisions to locate in the UK. Yet there isn't much evidence of skills policy influencing our national approach to inward investment or vice versa.
For example, the Department for Education’s International Education Strategy focuses only on the economic opportunities of exporting the UK’s education offer but does not cover the role education and skills can play in supporting international firms to invest and create high-quality jobs in the UK.

WorldSkills UK supported the Skills Taskforce to examine the links between skills and inward investment through desk research, interviewing key stakeholders (see Annex 1), holding roundtables, issuing a call for evidence, commissioning international comparisons of investment approaches and polling employers and investors. Combined with the experience and expertise of the Skills Taskforce members, this report represents the key findings of the research and the conclusions and recommendations of the Skills Taskforce for Global Britain.

As WorldSkills UK is a UK-wide skills charity it was critical for the Taskforce to look at opportunities to improve skills and inward investment across the whole of the UK. From their first meeting the Taskforce was struck by how different the approaches and the resourcing are for skills and inward investment between the devolved nations and the English regions, and indeed within England between London and the combined authorities and Local Enterprise Partnerships/Local Authorities. The report acknowledges good practice within the UK, particularly in Scotland and Northern Ireland and importantly has recommendations that will improve the skills offer for FDI firms across all of the UK including Wales where we have noted both good practice and barriers, but with a particular focus on the English system which Taskforce members believed had the biggest room for improvement.

**For the purposes of this research, we used the following definitions:**

**Foreign Direct Investment:**

Foreign direct investment (also often called ‘inward investment’) can have a variety of definitions, though all stress the ultimate foreign ownership of the company.

In this report, we use the Department for International Trade’s official definition of Foreign Direct Investment, which is:

’an investment from a foreign investor into a UK enterprise. The UK entity then becomes what is known as an affiliate enterprise, which is either a subsidiary, branch, or an affiliate company of the parent company – the foreign investor. In practical terms, this can either happen where a foreign company sets up a version of itself in the UK, or where it acquires/merges with an existing UK company.’

Skills:

The term ‘skills’ also has a variety of meanings and definitions, though a common theme of these is the referral to ‘applied’ rather than ‘theoretical’ knowledge. Therefore, usage of the term ‘skills-based training’ usually denotes vocational (as opposed to academic) learning.

Currently the Department for Education in England describes skills as ‘post-16 technical education and training to support people to develop the skills needed to get good jobs and improve national productivity.’

Given that this definition focuses on how skills support productive work - and the focus of this report is on job creation for economic growth - we have used this definition to guide our research. Where we have referenced ‘higher level skills’ we mean vocational education particularly at Levels 4 and 5, which in academic terms sit between A levels and undergraduate degrees.

Within this definition we recognise the vital roles of technical skills, and employability skills including management and leadership in attracting FDI and boosting productivity within firms.

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2. Skills for jobs: lifelong learning for opportunity and growth, DfE 2021
Chapter 1: The case for linking foreign investment and skills

Foreign Direct Investment (FDI) is essential to the economic health of any country, and it plays a significant role in UK growth. However, though the UK has been successful at attracting FDI in total volume terms, there is a very uneven spread of FDI in the UK, which risks limiting scope to even up job opportunities and living standards across the UK.

A country attracts FDI through its business environment and how attractive that is to foreign investors. FDI companies come to the UK to expand and in doing so to hire the talent that will allow them to grow. This means that access to skilled employees plays an essential role in both securing investment into the UK, and then also determining where in the UK that investment goes.

If the UK wants to increase economic prosperity, and doing so whilst ‘levelling up’, we will need increased FDI across the UK. To win this FDI will require ensuring the UK labour market across all areas is attractive to investors, including by having the right skills.
Foreign Direct Investment leads to economic growth

Foreign-owned companies are already familiar to us as brands and employers in the UK, as they include names such as Apple, Airbus, EDF, Hitachi, Google, Pfizer, and Nissan. Foreign investment also supports many smaller companies across the UK that play a key role in developing cutting edge new technologies and services and are a vital part of our supply chains.

While just 4% of local business units in the UK were foreign-owned in 2018, they accounted for nearly 40% of UK turnover and employed 4.9 million people, which in some parts of the UK represents up to 21% of local business employment\(^3\). FDI companies also make a positive impact on the overall growth of the economy, with a study by the Department for International Trade finding that a £1 million FDI project in Great Britain is associated to a net increase in national levels of Gross Value Added (GVA) of around £98,000\(^4\).

Inward investment in the UK arrives from a variety of overseas markets with, on ‘an ultimate parent basis’, US companies accounting for the highest value of inward investment in 2019 at £562.4 billion\(^5\). In addition, DIT statistics show a significant number of FDI projects originating from markets such as Europe (notably France, Germany, and the Netherlands), India and Japan\(^6\). The countries from which the UK receives investment have remained relatively unchanged in the last few years, except for Japan where 2020 represented the seventh straight year of decline in the UK’s market share of Japanese projects into Europe\(^7\).

Currently, the UK attracts FDI into a wide variety of sectors, such as advanced engineering, creative and media, automotive and biotechnology and pharmaceuticals, though, according to EY research, digital technology has accounted for the largest number of projects in the UK every year since 2013\(^8\).

In October 2021, the Government held a Global Investment Summit with the aim of promoting increased inward investment into green industries, such as clean energy.

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5 https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/articles/ukforeigndirectinvestmenttrendsandanalysis/july2021
7 EY Attractiveness Survey June 2021, p. 22
8 EY Attractiveness Survey, June 2021.
But that growth isn’t evenly spread across the UK

Although FDI has a significant role in our economic prosperity, its effects are unevenly spread owing to the location of where FDI stock and projects are currently distributed. The Office for National Statistics reports that London had the highest inward FDI of any region in the UK in every year between 2015 to 2019, and that London and the South-East accounted for over half of all FDI, with the North-West claiming just 4.7% of the total. This position on the distribution of FDI mirrors the analysis in the recent Levelling Up White Paper showing disparities of productivity on similar regional lines, with London and cities in the South-East outperforming other large urban areas such as Manchester, Sheffield or Glasgow.

Analysis by the Centre for Cities goes even further to suggest that even in areas where FDI represents a significant amount of employment outside London and the South-East, the jobs are mainly lower skilled and therefore don’t command higher wages and don’t contribute to levelling up in the way that higher skilled jobs do. For example, in Sunderland despite having a large proportion of jobs provided by FDI, the proportion of those from ‘exporter industries’ that are high-skilled is just 14% compared to 93% in Reading. The Centre for Cities acknowledges the importance of FDI to improving economic development in struggling parts of the UK and notes that increases in FDI in those areas will be a sign that levelling up is working and sees improving skills as a vital part of attracting FDI.

“if there is to be an increase in investment, policy must focus on the fundamental reasons why it doesn’t happen currently, focusing on skills in particular.”

The dispersal of FDI in the UK does not compare favourably with many of our competitors for FDI, where FDI is more evenly distributed than in the UK. Looking to some of our closest international neighbours: in France only around 20% of FDI is directed to Paris, and in Germany FDI is also more evenly split across its states, with the state Nordrhein-Westfalen – the largest recipient of FDI – receiving 25% of inbound investment, but equally Bavaria also receiving around 20%.

Wanted: skills for inward investors

In 2019 London and the South-East accounted for over half of all FDI

In France 20% of FDI goes to Paris

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9 https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/articles/foreigndirectinvestmentexperimentaluksubnationalstatistics/july2021

10 Leveling Up White Paper p. 49

11 https://www.centreforcities.org/blog/what-role-does-foreign-investment-have-in-levelling-up/

12 https://www.centreforcities.org/blog/what-role-does-foreign-investment-have-in-levelling-up/


There is competition for winning investment

Though the UK has a strong record in attracting inward investment, we have strong competition for this investment. In 2021 the UK was the most attractive destination for investment in Europe, but there is no room for complacency: other countries, such as Germany and France, have been exceptionally strong performers in recent years (with France previously overtaking the UK in 2020 and 2019). In fact, as EY noted in their Attractiveness Survey for 2021 ‘since 2016, the UK’s attractiveness to investors on a range of important criteria – such as political stability, labour skills and quality of infrastructure – has fallen by around a quarter on average.’

Skills matter to foreign investors

FDI projects are often described as being ‘internationally mobile’, which means the decision-makers that drive these investments can choose in which countries to set up or expand. Consequently, the market for FDI is a competitive one: there is a limited amount of global FDI, and other countries are also competing to increase their share. The Covid pandemic had a significant impact on FDI flows, with a global decline of 35% in

In the UK there is also evidence that Brexit has played a role in affecting investor confidence.

A country maintains its ability to attract to foreign investors by creating the kind of business climate that supports inward investment growth. For foreign investors – like domestic companies – a variety of factors influence the ability of a business to grow. These include factors such as access to finance, infrastructure and access to customers and supply chains, to name a few.

The skills offer is a key part of the investor decision-making process. There is international evidence that countries with ‘higher-skilled and better educated workforces tend to attract more greenfield FDI projects’. For the UK, the skills offer plays a pivotal role in our ability to attract inward investment, as has been tracked over several years as one of the most important criteria for foreign investors coming into the UK. As articulated by Deloitte, FDI companies come to the UK ‘to hire talent (and lots of it)’, and therefore central to our competitiveness must be ‘a ready supply of the skills foreign and domestic businesses need’. In 2020, a survey of investors by EY reiterated this stating:

‘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.’

17 https://www.investmentmonitor.ai/analysis/fdi-drivers-and-the-quest-for-talent
Furthermore, surveys have also had investors listing ‘improving the skills of the domestic workforce’ as more important to investors than tax rates, regulation, or infrastructure\(^\text{19}\).

The importance of skills in investor decisions also has regional and sectoral dimensions. In 2021, EY research demonstrated how critical skills availability is when FDI companies choose which regions to locate in, data that has a significant implication for plans to attract FDI into more areas of the UK.

Skills also play a critical role in the attraction of FDI in certain sectors, with reports that demand for skilled staff becomes even more important in the decision making for FDI projects in particular sectors, such as life science and digital technology\(^\text{20}\), showing that skills will play an increasingly important role as the UK tries to grow FDI opportunities in certain sectors.

\(^{19}\) EY Attractiveness Survey, 2019

\(^{20}\) See EY Attractiveness Survey, 2020
The sectoral dimension is also captured in the Government’s own innovation strategy, which outlines the role skills plays for FDI into innovation:

‘the availability of the right skills in the workforce plays a key role in where investors decide to invest and therefore is central to our competitiveness as a destination for Foreign Direct Investment (FDI). But innovative UK firms are in some cases struggling to access the skills they need to grow. In innovative emerging technologies, the UK is falling behind countries like the US, Canada, Germany, Switzerland, Singapore and Ireland in identifying and providing the training needed to fully exploit future opportunities.’21

Skills can also be a factor in the loss of investment, or the stalling of projects. We heard from foreign investors already based on in the UK who spoke of the need to get skilled staff into their organisations to expand their business within the UK, and who in some cases had to put projects on hold owing to a lack of skilled staff. Polling work carried out for the Taskforce reinforced this impression revealing that 46% of foreign firms would move their operations abroad if they couldn’t get the skills they needed versus only 22% of domestic firms. When asked about expanding their operations 61% of foreign firms would expand overseas if they couldn’t get the skills they needed in the UK, versus 32% of domestic firms. These points were further reinforced by a bespoke survey carried out by the Chartered Management Institute (CMI) for the Taskforce, which found that the availability of technical skills was twice as important as infrastructure for managers of foreign firms when thinking about expanding their operations in the UK.

21 UK Innovation Strategy, 2021
Chapter 2: The state of play

Part A: Using skills to promote investment

The UK has been a leader in attracting foreign investment based on its position as a gateway to Europe, its competitive business environment and its stable institutions. However, the context has changed in recent years; we are no longer members of the European Union's Single Market, and Covid has changed patterns of business both in the UK and globally. Of course, this presents an opportunity to act differently, to set new policies on attracting investment, and to ensure that we use skilled migration alongside training and investing in our local labour force. Important agendas such as new forms of energy, will require both foreign investment and a skilled labour market. The UK has much to offer investors, but to seize the opportunities to increase investment does require a new approach to how we deliver.
The UK needs a new strategic approach

UK inward investment operations and skills support

In the UK, the Department for International Trade (DIT) acts as the investment promotion agency for all areas of England except London, which has devolved powers for inward investment, (working in partnership with LEPs, local authorities and combined authorities), and the Devolved Administrations lead on investment promotion for their respective nations.

In this arrangement, DIT leads on the overall promotion of the UK as a destination for inward investment; co-ordinates the overall account management of foreign investors to ensure consistency in the support they receive and is responsible for the annual reporting of investment statistics (currently listed by investment projects).

DIT’s UK-based staff are supported by an international network based in over 170 countries. Recently, DIT’s investment architecture has been expanded to include an ‘Office for Investment’, which has the remit of ‘landing of high value investment opportunities into the UK which align with key government priorities, such as reaching net zero, investment in infrastructure and advancing research and development’. In addition, DIT has been opening new regional offices, including a base in Darlington.

The primary engagement with FDI companies in the UK is managed through a central Investment Services Team (IST) but also undertaken through DIT’s sector teams and UK regions teams, whose role it is to signpost to, and coordinate with, existing skills provisions.

In terms of specific support on a skills strategy for investment this is currently limited: we understand at the DIT’s head office a small team looks after policy on the business environment, including how skills are deployed (with one member of staff specifically focused on this).

The Department for International Trade (DIT) operates on a basis of an ‘investor-led’ model, meaning it works actively to respond to investors to land in the UK. However, DIT does not have a published Investment Strategy, meaning there are limited official sources of information setting out how (and why) DIT targets particular sectors or markets, and how skills are integrated as part of that work.

Looking at the way in which DIT is currently developing its investment promotion work, the International Trade Committee noted the Department’s new initiatives, such as the Office for Investment, but argued that:

‘the Government needs to show how all these initiatives fit effectively into its overall investment strategy, rather than just being ad hoc.’

22 https://committees.parliament.uk/publications/7423/documents/77694/default/ (p.58)
All our evidence supported the Committee’s finding. The UK is lacking a strategy which articulates how the Department is attracting, and supporting, investors who will provide high skilled roles across the UK. This need not involve DIT sharing all its competitive secrets with other investment promotion agencies, which we understand they are cautious of. But it would require DIT articulating how and why the Government is seeking to grow FDI in certain sectors or regions, and how this could contribute to increasing high-skilled jobs across the UK. It is worth noting that competitor Investment Promotion Agencies, such as those in the Republic of Ireland or in France (as part of their Relaunch France material) do have published investment strategies23.

In addition, information on the connection between investment projects and skills is not currently recorded, either as part of DIT annual reporting or in Office for National Statistics data, leading to a lack of evaluation of impact of FDI on skills (or vice versa). The International Trade Committee requested from DIT and Office for National Statistics better and more transparent data on the benefits of FDI, which will be essential to underpin a robust strategy.

In policy analysis of publicly available information, we found very little evidence of consideration of skills and inward investment together. For example, DfE’s International Education Strategy only mentions FDI in relation to the education technology sector but does not cover the wider role the UK’s skills and education offer in attracting inward investment to all sectors. Consequently, the Ministerial led Education Advisory Group, which has attendance from both DIT and DfE, also has a limited remit which covers ‘efforts to boost UK education exports’ but makes no provision for looking at inward investment.

Similarly, the Levelling Up White Paper misses the opportunity to note the interdependence between increasing FDI in the regions and the role skills plays in attracting that FDI. While the White Paper fully recognises the greater productivity of FDI companies, and the need to ensure a more equal distribution of FDI across the UK, there is no recognition of the contribution skills make to attracting FDI, or how increasing FDI could raise skill levels. The White Paper only sets out a strategy to increase FDI through: ‘Freeports’ and ‘tax interventions’; ‘the Global Investment Fund’; ‘expanding the Office for Investment’ and ‘an export strategy and ambitious trade policy’.24 A case study of Nissan cites the impact made by this FDI company towards employment in the North East, but makes no mention of the significant engagement of Nissan in structured training programmes, such as apprenticeships25. This cements an impression that right

25 Levelling Up White Paper, p.165
across central Government the link between skills and foreign investment has not landed in policy terms.

The central Government approach contrasts with the Scottish Government’s published inward investment strategy, which features extensive content on the role of skills. In the Scottish strategy, it is stated that:

‘the availability of skills is a key determining factor in attracting inward investment...to further improve our performance in attracting inward investment, and importantly to maximise the wider spillover benefits, we have identified the skills pipeline as an area where additional policy initiatives can make a significant difference. This manifests itself not only in terms of attracting inward investment, but also of course in providing more jobs, of higher value, in the economy and in increasing tax revenues as a consequence.’

Scotland’s published investment strategy sits alongside their current position as regional leader in acquisition of FDI, with Scotland the ‘largest recipient of UK FDI projects in regions and devolved administrations in every year since 2015’ outside London.

Skills is also a key part of the inward investment strategy in Northern Ireland. In a recent session of the Northern Irish Affairs Committee about investment in Northern Ireland the Economy Minister Gordon Lyons opened his remarks by saying:

“I am being told that what is appealing to investors about Northern Ireland is the skills and talents of our people. First and foremost, people invest in Northern Ireland because we have the capabilities, and we have the skills that exist here. It is what I see sets us apart from elsewhere.”

Like Northern Ireland, the Welsh Government has an advantage in that skills policy and inward investment policy both sit with the Minister for the Economy and the Welsh IPA, Trade and Invest Wales acknowledges the importance of skills in its marketing material to international investors,

“There are many reasons why doing business in Wales gives you a distinct advantage – from skills to strategic partnerships, and a tailored approach to financial support.”

27 EY Attractiveness Survey, p.25
28 Oral evidence: Investment in Northern Ireland, HC 792 (Tuesday 22 March 2022)
29 https://tradeandinvest.wales/
UK investment marketing needs a modern vision of talent in the UK

The Department for International Trade is responsible for the way that the UK markets its FDI to prospective investors, but this marketing strategy doesn't use the UK's skills base as a pull for attracting investors. The top line on 'talent' used on the main portal for promoting the UK, the Invest in GREAT website, is:

‘The UK is the top-rated major European economy for attracting global talent and has one of the largest labour forces in Europe, with lower labour costs than Italy, France or Germany.’

Key benefits

• 3rd in the world for attracting global talent
• 4 top ten universities and the most leading MBA institutions in Europe
• Around 75% employment rate against a European average of 68.5%
• Competitive labour costs – lower than Italy, France or Germany
• 78 Nobel Prize winners – more than any other country besides the USA

Elsewhere in the GREAT material, there are points that emphasise the competitiveness of the UK’s universities (for example that the UK is home to 4 of the 10 top universities). However, the material on skills is primarily focused on skills training as a means of reducing costs, with the strapline of:

‘Bringing costs down with apprenticeships’.

This content (aimed at an international audience) is quite different to the messaging to domestic companies, which instead promotes this kind of training as ‘a productive and effective way to grow talent and develop a motivated, skilled
and qualified workforce. It is unclear why the Government promotes apprenticeships as a cost reduction mechanism to overseas companies, whilst promoting messages about productivity and motivation to domestic companies.

Strategically, the promotion to foreign investors of the UK as a lower wage economy, with skills training as a means of reducing labour costs, is out of step with the way central Government in England has recently spoken of the skills system in its White Paper, or how the PM has described the vision of the UK as high-wage, high-skills economy. This needs to be resolved to promote a clear vision of the kind of UK the Government wishes to set out for both foreign and domestic audiences.

In contrast to the UK-wide approach led by DIT, Scotland and Northern Ireland have embedded skills in their marketing approach for FDI. For example, the IPA for Scotland, Scottish Development International, state in their promotional material an ambition to attract investors to provide ‘well-paid and fulfilling jobs’ and advertises the country’s ‘network of 27 colleges covering every part of the country supporting people of all ages in gaining the technical, professional, and vocational skills needed to thrive in Scotland’s economy’. In addition, the website provides a link to a comprehensive document on the Scottish skills system specifically aimed at foreign investors, with tailored information on vocational routes like apprenticeships, which promotes the business benefit of training, including ‘improved productivity, morale, staff retention and quality of service.’

Similarly, the IPA for Northern Ireland, Invest NI, also takes an approach of marketing skills to investors based not on low cost, but on return on investment, advising that ‘the more skilled your staff are the more likely your business will succeed, grow and be profitable. But you need to invest effectively both in terms of time and cost of your staff’s training’. Material also references the specific support Invest NI provides to foreign investors to help them identify skills needs.

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30 https://www.apprenticeships.gov.uk/employers/benefits-of-hiring-apprentice#
31 https://www.bbc.co.uk/news/av/uk-politics-58814707
32 https://www.sdi.co.uk/business-in-scotland/people-skills-and-recruitment
More than ever, foreign investors need help with skills to grow in the UK

As part of our review of skills and foreign investment we looked at how much practical assistance companies are getting on skills from national and local agencies. In our research, though some investors reported positive experiences of government help in handling skills issues, this was not widespread, nor was it consistent. In fact, when surveyed, 77% of the investors in our research reported they received no assistance from any part of government in addressing their skills needs, whether national or local. In qualitative research, it was evident that small or mid-sized companies were on average receiving less support than larger firms, though they face greater challenges engaging with the UK’s skills systems than the big companies who have the benefit of significant HR teams.

FDI firms rely on advice from Investment Promotion Agencies about skills

Foreign investors have access to specific, tailored account management from Government through the activities of investment promotion agencies, which should provide these companies with enhanced support to address skills issues.

Practical ways investment agencies can, and should, support companies include advising foreign investors about skills availability in particular areas (with specific advice benchmarking skills quality, availability, and cost with competing locations), brokering relationships with education providers to meet training needs, and fostering a partnership between foreign investors and agencies responsible for the planning of future skills needs.

We know that this kind of intervention from IPAs matters to investors, with foreign investors rating the level of support they can obtain from regional economic advisory bodies as key criteria when deciding which area to locate in. And research has shown that the activities of investment promotion agencies do make a difference to FDI flows, with investment promotion adding value when it works to ‘remove the operational barriers to the activity of foreign investors where they emerge’. This means investment promotion agencies have a role to play in helping investors engage with, and benefit from, the skills systems in the UK.

In terms of support from the national IPA for England we found a lack of support on skills meant several companies that were new to England had never had the English skills systems explained to them and had not been advised about the key benefits of, or funding of, key programmes such as apprenticeships. Investors who did know about these programmes and wanted to establish new technical training
routes, were often working alone, and finding the process a long and difficult one. In the case of one company who wanted to set up an apprenticeship programme, it took them over a year to do so because of the time taken to understand the funding, identify the right job roles and qualifications, and find a relevant training provider.

Those involved in investment promotion in England also seemed to be hampered by a lack of connections to and knowledge of FE colleges. For example, although a large proportion of skills funding sits within further education colleges our research found limited evidence of investment agencies working with FE colleges to deliver skills solutions for investors. This contrasted with evidence of partnerships with independent training providers who deliver apprenticeships or pre-employment training with, for example, the investment promotion agency for Manchester, MIDAS, partnering with several independent training providers who deliver digital ‘bootcamp’ courses in their area.

The lack of relationship with colleges is, in part, a response to a lack of provision from colleges for foreign investors (see below); a result of a system of funding that means colleges are unlikely to take risks in developing new curricula and investing in staff and new equipment in response to potential investment projects. It also more generally reflects the competitive market for work-based training, given that independent providers currently deliver most apprenticeship provision.

For those involved in investment promotion we also found a significant challenge in acquiring sufficient information on skills levels to use in advising potential investors, given the lack of a central source of this data in the UK. This could mean reliance on information gathered from platforms like LinkedIn to advise companies about skills levels in their regions. This puts the UK at a competitive disadvantage to other countries where there is better information and databases about skills levels, which can be used to advise investors accordingly. In England the Skills Minister Alex Burghart MP recently noted that a Future Skills Unit would soon be in operation and would source information from across government on the skills needed for the economy and society. This kind of information is urgently needed to provide a better way of both advising investors on current skills levels, and for planning how to meet skill gaps to encourage increased investment.

Companies get different levels of support depending on where they land in the UK

In Scotland, Wales, London, and Northern Ireland the devolution of both skills and inward investment has created opportunities for joint planning and delivery. For the rest of England
responsibility for inward investment is not devolved and remains with the Department for International Trade working in partnership with several regional and sub regional bodies.

Looking at this arrangement, the think tank Onward concluded that there is a:

‘confusing patchwork of LA, LEP and city region bodies’ involved with inward investment in England, and that the Government should review and rationalise these bodies. This was evident in our research with some areas having a specific agency that handled inward investment such as the MIDAS and the West Midlands Growth Company, whilst in other areas there might be two people working for a Local Enterprise Partnership which is itself accountable to six different local authorities, such as SEMLEP. The result is that the level of support that each local IPA can offer a company is not equal with ‘a business in Glasgow better served... than an equivalent in Newcastle’, because of the ‘variation of powers, discretionary finance’, and ‘ability to operate at scale.’

This huge variety of different types of organisations involved in investment promotion in England makes the consistent integration of skills and FDI more challenging and is far too complex for many companies to engage with. Compared with IPAs in Scotland, Wales and Northern Ireland, where responsibility for inward investment is devolved, in England there are barriers preventing local agencies playing a more effective role in skills delivery for investors.

While local IPAs in England don’t have fully-devolved responsibility for inward investment, they work with the DIT to market their region for investment opportunities and help investment prospects find the right business environment for their needs, including helping them with skills, recruitment and training needs in their local area. However, although many English regions have economies of a similar size to those of Scotland, Northern Ireland and Wales, they do not have autonomy over either their inward investment strategies or skills policies. While it is not the purpose of this report to comment on devolution, Taskforce members have been struck by the relative ease with which the governments of Scotland and Northern Ireland have been able to respond to investor needs on skills because of the scale of their operations and the freedom they have to determine their own skills policies which English regions have a very limited remit over.


Wanted: skills for inward investors
Part B: The supply of skills to meet investor demand in the UK

Skills policies are moving in the right direction

The Department for Education’s Skills for Jobs White Paper, published in January 2021, set out a vision for a revitalised further education system in England providing ‘the courses and qualifications that enable people to get great jobs and which will support our economy to compete with the world’s best.’

Actions are well underway to deliver upon the priorities of the white paper, and resultant Skills and Post-16 Education Bill set for Royal Assent.

Local Skills Improvement Plans and employer-led standards are giving businesses a greater say in the development of skills and helping to ensure courses and qualifications meet the needs of the economy and underpin high quality skills. New Higher Technical Qualifications are supporting the provision of higher technical skills at Level 4 & 5, where the UK is currently in deficit compared to international competitors. The Government’s Lifetime Skills Guarantee,

34 Skills for Jobs White Paper, p.3.
and planned roll out of a Lifelong Loan Entitlement, can also unlock opportunities for lifelong learning and give businesses greater scope to support people upskilling and retraining into new and emerging roles. The Chancellor has also committed to examining whether the current tax system – including the operation of the Apprenticeship Levy – is doing enough to incentivise businesses to invest in the right kinds of training. And proposals for a reform to FE funding and accountability, could be key to making the skills system more responsive and forward-facing, with providers able to deploy a mix of accredited and short/modular training to meet the diverse skills and training needs of local people and the economy.

In Wales too, the policy direction is to create a more employer-led skills system. The proposed Commission for Tertiary Education and Research in Wales, if passed in law, will offer the opportunity for a more demand-led skills system in Wales, with a specific remit for the Commission to ‘align education and training more closely with the needs of employers’. And with recent announcements extending the Flexible Skills Programme to fund future skills needed for industry there will be more funding designed specifically to respond to employer and investor needs.

These measures should, long-term, improve the quality and responsiveness of the skills system for international firms. However there a number of historical issues which persist that risk affecting foreign investment landing in the UK.

UK skills are not internationally competitive

The quality of the UK’s skills base is also a key concern when it comes to skills being an effective part of our package of measures to attract and retain international firms to the UK. The UK’s skills systems have been comprehensively reviewed in other reports, but this analysis looks at the UK’s skills systems from the point of view of attracting and retaining FDI: how the skills offer in the UK is supporting foreign investment, how skills policy affects our current climate for inward investment, and how policy might develop to increase the UK’s competitiveness.

WorldSkills, a global movement of well over 80 countries which promotes high-quality technical skills for young people offers an important opportunity to benchmark the UK’s skills base against the best in the world. Through biennial international competitions, colloquially known as the “skills olympics”, WorldSkills member organisations, such as WorldSkills UK, have the opportunity to test the best of their nation’s skills with other countries across areas that are vital for internationally mobile firms such as cyber security, welding, industrial robotics and lab technician skills.
The UK’s record in recent years has been good, but also shows room for improvement. The medal table below shows that the UK’s overall position has declined because more countries are realising the importance of investing in high-quality technical skills to their economic competitiveness. For example China and Russia didn’t feature in the top ten in the 2013 event, but by 2019 held the top two positions, showing the scale of investment in skills in that short timescale, and previous research by the RSA for WorldSkills UK and the Further Education Trust for Leadership shows that the improvements in Russia and China’s standing in the medal table reflect broader improvements in their skills planning and delivery35.

Technical skills matter, because analysis36 demonstrates the role technicians play not only in routine operations and maintenance, but also in innovation by incrementally improving productive methods, and firms without these skills will be less innovative, productive, and competitive.

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35 https://www.worldskillsuk.org/insights/adopting-global-skills-innovations/
In 2018, the Augar review of post-18 education found that England has, comparatively, very few students on higher technical education courses (Levels 4 or 5), and the UK would need to double its current numbers of students on higher technical education courses to match international standards, such as those in Germany. In England in 2009/10, there were over half a million learners enrolled on higher technical courses but around a decade later the number of enrolments on higher technical qualifications had dropped to 190,000\(^37\). The review pointed to the post 18 funding system as being the primary cause of such decline through incentivising students to take degree-length courses at the expense of technical education, and by making it financially risky for providers to develop new technical provision. Other explanations include poor understanding of higher technical education by students and lack of employer awareness, especially in sectors where there isn’t an established qualification at level 4 or 5\(^38\).

The lack of funding for shorter and more flexible periods of learning has also led to major gaps in training provision that support existing employees upskill or retrain. Persistent skills gaps result from these issues, with the Department for Education reporting in 2020 that ‘specialist skills or knowledge’ required to perform a job role was the most prevalent skills gap.

Skills shortages hamper economic growth

The recent and well-publicised skills shortages across the UK, which caused significant headlines in the autumn of 2021 with the HGV driver shortage, combined with news by the end of the same year that half of all businesses were struggling to recruit because of a skills gap\(^39\).

In addition, several of the sectors where the Government has prioritised for FDI attraction, such as clean tech and energy, require a huge step change in the number of technical staff available for those sectors. Looking at areas such as clean energy, in the offshore wind sector alone, it is predicted that ‘the requirement for workers is set to increase from 10,000 today to 36,000 by 2032’, and that ‘skills shortages could become more prevalent, and the industry is going to need a wide range of skills sets – from asset management, leadership, engineering and scientists through to the softer skills such as team-working and problem-solving’.\(^40\)


\(^{38}\) https://researchbriefings.files.parliament.uk/documents/CBP-8732/CBP-8732.pdf


Workers in the offshore wind sector need to increase to 36,000 by 2032

Wanted: skills for inward investors
The UK also wants to be a centre of foreign investment into electric vehicles but as the Institute for the Motor Industry flagged there will need to be 90,000 electric vehicle technicians by 2030. In 2020 the IMI were forecasting a shortfall of 35,700. These skills gaps - combined with a lack of tailored information for investors on skills - could make the UK seem a difficult market to enter for foreign investors if they have projects requiring skilled staff.

During our research, we spoke to a range of investors for whom skills was their number one concern. Companies we spoke to were facing serious skills issues, with several roles staying vacant owing to a lack of skilled staff. In many cases these skills issues were long standing, but had been exacerbated by Covid and Brexit, with overseas staff (who companies were previously reliant on to meet their skills gap in the local labour market), returning home. The Government’s post-Brexit ambition is that skilled migration will work alongside a skilled domestic labour market, but many companies reported that once migrant workers had returned home, the same expertise was not found in the resident UK labour market. One company summed this up as a ‘skills crisis’, which was right now affecting expansion plans.

In a roundtable with foreign direct investors from the tech, manufacturing, space, creative, and financial industries we heard further specific feedback about skills needs that were impacting their businesses. These included ageing workforces that were not being replaced by a sufficiently-skilled younger workforce and technological change that is driving a continual need for upskilling and retraining staff. We also heard that skill gaps and new skills requirements are being driven by digital transformation and automation, meaning that digital skills are increasingly important in all sectors, a finding also reported by WorldSkills UK in previous research on digital skills.

Companies also told us that technical shortages in areas such as construction have cross-sector impacts, with, for example, the television production sector (which has been a huge growth area for foreign investment) reporting significant shortages of staff in areas such as set-building.

The need to address skills gaps and ensure that provision and funding supports addressing skills gaps is therefore an urgent task for Government if the UK is to stay internationally competitive for foreign investment, and especially if we want to attract that investment into certain growth sectors. Put simply, if UK is going to ‘go for growth’ post pandemic, it will need to tackle skills gaps, particularly in those sectors that are internationally mobile such as advanced manufacturing, life sciences and digital and creative, and invest in improving skills level in the UK.

42 https://www.worldskillsuk.org/insights/disconnected-exploring-the-digital-skills-gap/
There are barriers to colleges responding to investors

Through our research we also found that colleges, particularly in England, face barriers to providing a more investor-led, responsive skills service. Foreign investors told us that FE colleges struggle to be responsive to demand and deliver a tailored skills solutions to firms, and that colleges appear focused on delivering non-specialised training pathways to high volumes of learners. Companies reported a better experience of engaging with universities and Knowledge Transfer Partnerships, which they felt were well-organised and had some success in embedding businesses’ skills needs into curricula.

From talking to colleges, we understand that governance and/or financial barriers often prevent colleges from taking on the risk of developing the high-quality, be-spoke courses needed for prospective investors. Interviewees in Wales noted that colleges don’t have much funding freedom to respond to investor requirements and the funding of apprenticeships is limited to those approved by the Government, which currently only includes three degree apprenticeship frameworks. However, the recently extended Flexible Skills Programme does provide additional funding specifically for future skills needs and with Airbus, one of the largest FDI firms in Wales using this funding to develop skills for green aerospace.

Some colleges are good at finding solutions, but this is mostly down to leadership and in spite of the system rather than because of it, since colleges are not funded to work on speculative skills offers for FDI prospects. This is partly down to partners in other parts of the public sector not understanding the college system. The College of the Future report43 recognised the need to build understanding and partnerships outside the college sector, calling for ‘new college network strategies that will help build stronger partnerships with other public and private agencies and civic partners and their wider investment plans locally and regionally.’

Where companies had apprenticeships in place, we found in many cases this was a positive experience, with investors speaking to the real difference a good apprenticeship programme made to meeting skills needs. However, other investors were frustrated that apprenticeships seemed to be the only funded learning option. Concerns were also raised that apprenticeship standards do not always keep up with the pace of technological change, and as apprenticeships

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43 https://static1.squarespace.com/static/5c8847f158dfc8c45fa705366/t/5fa281933c71c0e01556060/160448524723/CoT+October+report+-+English.pdf
are longer duration qualification-based programmes, this didn’t meet the need for more flexible, modular training that was often required by investors. A key part of this is the need for adaptive skills where adults with traditional skills might only need a small amount of retraining to fill a role in a newer sector for example someone trained as an engineer in combustion engines, might be retrained quite quickly to work in a Gigafactory manufacturing batteries for electric vehicles.

Good practice that exists within sectoral bodies such as Enginuity (which developed a programme for the Cell and Gene Therapy catapult matching traditional skills to new roles)44 are not yet embedded within the UK’s skills infrastructure, despite having the sectoral expertise and the confidence of employers in those sectors.

CASE STUDY

Attracting investment through world-class skills

Gower College played a vital role in attracting one of China’s largest television manufacturers, Tongfang, to open its European Headquarters in Wales. Despite considering another destination in Europe, a strong local skills base in electronics, reinforced by the college, helped secure £1.6m of investment and 70 new jobs in Port Talbot.

Tongfang were particularly impressed by Gower College’s partnership with WorldSkills UK and delivery of world-class occupational standards in electronics skills development through their apprenticeship programme. This demonstrates not just the importance of technical skills to FDI, but that being able to demonstrate world-class standards can make the difference in a competitive market for FDI.

“Links between THTF Tong Fang Global, Gower College Swansea and WSUK are embedded in the cultures of all stakeholders. The college uses WorldSkills UK’s seven-step approach in all courses supplied to THTF. This process ensures that the development of electronic engineers in the sector is of the highest possible standard. THTF then support Gower College by providing real life work experience for our FE learners. The links between Gower College and WorldSkills UK is providing a rich talent pipeline in electronic engineers in South-West Wales, untapping major international investment.”

Steven Williams, High Performance Skills Coach, WorldSkills UK

44 https://www.atskillstrainingnetwork.org.uk/career-converter/
Making skills demand led, also requires skills to be economy led

According to the Skills White Paper for England, Local Skills Improvement Plans (LSIPs) will provide a ‘framework to help colleges and other providers reshape what they offer to tackle skills mismatches and ensure that they are responding as effectively as possible to labour market skills needs’. LSIPs are inspired by best practice ‘in countries with strong employer-led skills systems, such as Germany and the Netherlands' where Chambers of Commerce work closely with further education providers to ensure that provision meets business needs. LSIPs have been piloted in eight areas of England, led by an Employer Representative Body (ERB) in each area. Leading FE providers for each area have also been granted Strategic Development Funding to deliver upon needs identified through each local plan.

LSIPs represent an opportunity to help providers become more responsive to employer demand, close skills gaps, and develop the competitiveness and quality of skills across different areas of the country. However, for this opportunity to be seized, areas must respond to the local, national and international demand. Current LSIP guidance risks driving providers towards prioritising immediate local demand, at the expense of international firms and opportunities to attract foreign investment. For example, neither the LSIP nor the Strategic Development Fund application guidance reference of either inward investment or the role international businesses can play in local and regional economies.

LSIPs also represent an opportunity for skills provision not just to be demand-led, but also economically valuable, supporting sectors and industries that can provide the most impact on increasing UK growth and productivity. This will require LSIPs to factor in the needs of future investors, to work with investment promotion agencies to do so. If LSIPs only look at local, and current employers, this risks missing the opportunity to see how changing the skills provision of a local area could help attract the type of new industries which are needed to ensure areas across the UK have the opportunity to benefit from higher-skilled, higher-wage jobs.

45 ‘Skills for Jobs: lifelong learning for opportunity and growth’ p.15

Wanted: skills for inward investors
Without promoting skills, or meeting skills demand, the UK could lose FDI

There is clear evidence of the contribution of FDI to economic prosperity; of the role of skills in attracting FDI, and of FDI having an impact on skills development. However, the UK does not have a comprehensive and strategic approach for linking foreign investment and skills. This risks:

• an overall decline in our competitiveness for foreign direct investment given our competitors for FDI are using skills in a more sophisticated way to attract investment [see chapter 3]. Individual investors with significant technical skills requirements may overlook the UK in favour of countries with a more developed offer in this area (eg Germany). The UK may also struggle to attract investment in particular sectors that have a high dependency on technical skills

• missing the opportunity to raise skills levels in the UK by strategically targeting certain sectors, or particular investors, for the impact they might make on skills development in the UK (particularly by setting up or expanding in areas with fewer existing skilled jobs). In addition, investors may invest less in technical skills development than they might were they aware of the initiatives and incentives on offer.

One of the medium-sized FDI firms interviewed for this report noted that his firm may have to relocate if the technical skills shortages his firm is experiencing aren't resolved.

CASE STUDY

The UK could lose FDI without skills improvements

Chris Akers, Group Managing Director of Titan Europe, an engineering firm in the West Midlands, which makes wheels for off-road vehicles with a parent company based in the United States, is concerned that a skills shortage in welding, CNC operators and mechanical engineering could force his division to relocate within Europe.

“As a medium-sized company, employing 350 people, we can offer fantastic opportunities to young people in the West Midlands region, but we struggle to find and retain people with the right skills. This has already stunted our growth in the UK and if the situation doesn't improve we could end up having to relocate outside the UK.”

Titan Europe have recruited and trained many apprentices in recent years but find it difficult to retain the best talent in competition with larger engineering firms in the region. As a medium-sized firm it’s also time-consuming for the management team to work out who to speak to within the government or local authority to access support.
Chapter 3: Raising our game: learning from best practice

Research for the Skills Taskforce for Global Britain looked at how other countries use skills as part of their investment offer and showed other countries have adopted some sophisticated methods of using skills as part of their investor offer.

Research also showed there are areas of best practice within the UK either where specific devolution of powers or economic development initiatives have encouraged institutions to come together to work on a shared skills and inward investment plan.

Both these international and home-grown examples show how the UK might improve its offer.
Our competitors are already using skills to win FDI

Almost all countries have some form of IPA, though it varies country by country how this activity is run (in the degree to which it is centralised or regionally devolved and the degree to which it is run by the state or contracted out to private agencies).

To inform the recommendations in this report, we commissioned the specialist trade consultancy OCO Global to research how IPAs in other markets promote their technical skills offer, and how feedback from investors informs the development of the skills offer and system within other markets. Their conclusion was that skills and inward investment are integral to each other: having a sophisticated skills offer for investors should be a key part of any investment strategy, but the most successful IPAs also target particular firms for the high-quality skills they can bring into an economy. The research produced case studies of six other markets: Singapore, Costa Rica, France, the Republic of Ireland, the Australian State of Victoria and the State of Ohio, USA47.

In this research, case studies deliberately chosen to cover a range of differing types of economies, and all six IPAs were found to be taking more interventionist approaches to integrating skills and foreign investment. OCO identified three major themes in international best practice, which are:

‘Partnering effectively with institutions responsible for skills policy. This allows for the demands of foreign investors to be factored into skills and education policy and can utilise the propensity of FDI to act as a lead indicator for wider skills demand.

Targeting specific investors because of their expected impact on skills. Advancing a location’s capability frontier – ie the limits of what it can produce – is a key goal of economic development; the gap between the skills a location currently possesses and those it wants to acquire can be most effectively bridged using the expertise of the world’s leading companies - foreign direct investors.

Encouraging technical skills transfers from foreign investors once they have arrived. Foreign investors are typically 60-100% more productive than the average domestically-owned company but for these benefits to proliferate through the economy, the transfer of skills to domestic employees is crucial; every opportunity to facilitate and, where necessary, incentivise this, should be taken’.

Where good practice was specifically observed OCO also reported that:

‘The most successful examples of this, such as the Republic of Ireland’s National Skills Council, achieve this alignment with councils or boards that bring together ministries of labour, education, and economic development to jointly address the supply of skills, given current and expected future demand. Institutional integration also facilitates the promotion of existing workforce skills and skills infrastructure to prospective investors. While mapping of those skills at a regional level gives foreign investors – who may lack detailed local knowledge – the ability to set up in the most suitable locations.

Several of the locations studied for this report have an explicit industrial strategy with skills development at its core. The State of Ohio’s productive sector prioritisation, France’s focus on tech and Singapore’s multi-stage transition from low-cost manufacturing base to knowledge economy all exemplify this approach. By contrast, countries such as Singapore and Ireland have actively courted FDI from companies they have identified as pivotal to their economic development plans’.
## France: Key takeaways

### Investment promotional material
France's skills offer prominently in Business France’s investment promotional activity including flagship events, such as the Consumer Electronics Show and Choose France.

### Strategic focus on tech skills shortage
87% of foreign chief executives believing that workforce education and training in France is an attractive criterion for FDI. However, Business France has made attracting tech investors and startups a strategic priority and is concerned with the digital skills gap.

### Skills benchmarking
Annual report covering all key areas to attract FDI, including “education and human capital” but also “foreign skills” and “research and innovation”.

### Skills as a national priority
France Relance is investing heavily ($36 billion) in a skills renewal programme.

## Republic of Ireland: Key takeaways

### Institutional alignment
IDA Ireland sits on the National Skills Council that: oversees research; advises in prioritisation of identified skills needs.

### Local skills support
Investors skills needs are served by the well established network of Regional Skills Fora, which provides a single contact point for companies in each region for support in accessing educational needs.

### Skills mapping
IDA Ireland maps the supply of skills at both a regional, sector and activity level and makes this freely available to prospective investors.

### Partnerships between stakeholders
The National Skills Council involves various organisations from the public and private sector, at the national and regional level.
Singapore: Key takeaways

Integrated skills
EDB Singapore has an integrated skills and FDI remit.

Strong governmental partnerships
EDB has worked closely with the Ministry of Manpower, switching their focus to technical and vocational skills. The Institute for Technical Education was launched in 1992 and EDB Singapore ensured that it remained close to its account-managed international investors.

Strategic positioning
EDB Singapore has a central role at the interface of foreign investors and skills policy including: ensuring that Singapore's skills and education programme meets the needs of investors and actively courts FDI with the highest skills spillovers.

Reduced reliance on immigration
The Singapore Government has taken steps to increase productivity and limit the requirement for foreign labour.

Costa Rica: Key takeaways

CINDE helps set skills agenda
CINDE's Investment Climate team plays a key role in the skills development agenda, working with existing investors to address skills issues. Around 60% of staff in the Investment Climate team are devoted to work on talent development.

Annual HR Survey to benchmark salaries
Through the Annual HR Survey, CINDE is able to gather data on salaries across all roles in the sector.

Partnerships between industry and academia
CINDE's works with key stakeholders across the educational landscape to develop tailored, accredited courses that respond to the needs of companies.

Aftercare programmes
CINDE has a major focus on skills development as part of its aftercare activities. For example, every year it holds an annual job fair which its existing investors are invited to attend to advertise jobs for which they are hiring.
**State of Victoria (Australia): Key takeaways**

**Technical skills a competitive edge**
Invest Victoria has identified technical skills a priority. Its main competitor for FDI is the state of New South Wales and Invest Victoria has identified its skills proposition as an area in which it can compete effectively.

**Historic reliance on skilled immigration**
Victoria has historically relied on skilled immigration. The pandemic has cut off the flow of skilled migrants, cutting increased focus on local skills development.

**Partnering investors with education institutions**
Victoria helps investors partner with technical education institutions.

**Partnerships between stakeholders**
Victoria has 13 public dedicated TVET institutions, four universities that offer technical education alongside academic courses and over a thousand registered vocational training organisations.

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**State of Ohio (USA): Key takeaways**

**Focus on quality jobs**
JobsOhio’s focus is not simply on the number of jobs, but also their quality. Focus is on nine key sectors identified as having the highest productivity and wages and the greatest indirect economic impact.

**Monitoring the gap between skills demand and supply**
JobsOhio monitors the gap between skills demanded by employers and those offered by job seekers. This policy was initiated by a McKinsey strategy conducted five years ago but is now carried out by JobsOhio.

**Strategic financial incentives**
When JobsOhio offers financial incentives and direct support to foreign investors to support their vocational skills training in key areas, they consider: Are the technical skills required by the company transferable to other companies?

**Strong partnerships with educational organisations**
JobsOhio has partnerships with multiple institutions, involved in the design, delivery and accreditation of vocational training, including technical schools and the (state) department of higher education.
Areas within the UK also demonstrate best practice

Good practice exists within the nations and regions of the UK – as the case studies below illustrate. These cover some common elements of success such as:

- joint policy planning between economic development and skills
- skills recognised and used as part of marketing to investors
- tailored training for foreign investors to meet specific industry needs
- education providers working in partnership with each other.

While these are all positive signs of skills being used to attract inward investment there is a risk of creating an even more confusing landscape for FDI firms where the join-up in delivery is only implemented for a particular area like freeports, rather than the broader functioning economic area in which those freeports are located.

CASE STUDY

Freeports

There is also good practice of joining up skills and inward investment in Freeport areas, special areas within the UK’s borders where different economic regulations apply to drive increased trade. Successful freeport bids must demonstrate a strategic approach on skills, including: a central role for skills providers in the coalition of key local stakeholders; a clear approach on how skills will be used to attract inward investment, and investment in skills providers to help them respond to the needs of investors.

In the Tees Valley Freeport, the Skills Academy, which is a partnership of FE Colleges, universities, and independent training providers, is a key part of the area’s marketing to potential investors. Once an investor demonstrates an interest in the area they are put in touch with the most relevant provider in the Academy, with the range of providers meaning a wide variety of business skills can be met (for example, with colleges being able to support technical roles, universities able to support management and leadership roles, and independent training providers supporting retraining from other industries). This approach has led to training partnerships with investors such as Hitachi Rail.
Joining up skills and public investment to attract FDI in Swansea Bay

The Swansea Bay City Deal demonstrates how backing local skills providers can maximise the economic impact of public investment, and lever greater FDI to realise opportunities for regional growth.

A £30m Skills and Talent Programme is helping to identify and deliver the skills and training requirements for City Deal projects, and support providers to underpin industries with high growth, investment and job potential.

This includes floating offshore wind. Though in its infancy, rapid job creation is predicted for the sector, with high levels of inward investment secured from energy developers and suppliers seeking to invest. To unlock these jobs and consolidate the region’s position as a magnet for investment, providers such as Pembrokeshire College are expanding qualification and apprenticeship pathways that will support the sectors value chain. This is being developed in partnership with Swansea University, rolling out higher technical qualifications, and using its research base to build an ecosystem for innovation and skills.

Dr Barry Walters, Principal, Pembrokeshire College, said;

“There are a number of energy developers and suppliers such as EDF Energy, DP Energy, Blue Gem and Bombora Wave which are working with the college in developing new provision. Funding is being sought through the SBCD Skills and Talent programme to underpin a 14-16 renewables programme and also to update post 16 programmes which are being adapted to include new modules such as power generation and floating wind. This is the start of the development of a curriculum to prepare young people for high quality career opportunities that will become available locally.”
CASE STUDY

Joining up skills and inward investment in Northern Ireland

In the last ten years the Department of the Economy, which importantly has responsibility for both skills and inward investment, Invest NI and the six colleges that make up Northern Ireland's further education sector have been working increasingly closely to make sure investors get a bespoke and responsive solution to their skills needs.

Since 2015 the Department for the Economy has been using a Skills Barometer to monitor the skills demand from employers and the skills pipeline from educational institutions and forecasts the skills needed for the economy over a ten-year period. The Barometer is reproduced every two years, helping institutions like Invest NI understand how to market Northern Irish skills to prospective investors.

The six FE colleges in Northern Ireland have worked hard to show that universities aren't the only institutions that can offer skills solutions for inward investors and have shown that they can work well with investors to turn round bespoke courses very quickly. The six colleges also play to their individual strengths having taken on curriculum leads for different priority sectors such as Belfast Metropolitan College on ICT, Southern Regional College on health and life sciences, making the skills landscape easier for Invest NI and their clients to negotiate.

The flagship programme to facilitate this co-operation across institutions is the Assured Skills Academy programme. First developed in 2011, for employees the programme offers pre-employment training and a guaranteed interview and a contribution towards living costs during the course. For investors it offers the opportunity to deliver bespoke training with a strong record of finding talented employees at the end of the course. For Invest NI this provides a clear offering to prospective investors. The success of this programme relies on the fact that it:

- is quick to set up in response to investor needs
- is bespoke to investor needs with colleges and investors working together to develop the curriculum for the course
- has funding support both for the training provision and for the trainees.

With global firms such as Microsoft recently choosing Northern Ireland and investing in an Assured Skills Academy it is clear that Northern Ireland has an effective way of delivering the skills that inward investors are looking for. And it does seem that Northern Ireland punches above its weight in FDI. According to EY's 2021 Attractiveness Survey, Northern Ireland secured the second highest increase in FDI projects in 2020, attracting 18% more than in 2019 and Belfast was the fourth most successful city for FDI outside London, coming higher than places like Aberdeen, Glasgow and Cambridge.
Attracting investment raises skills levels

The benefits of action go even further. Other IPAs are building FDI into their skills strategy to reap the spillover benefits that international firms bring to key sectors of their economy.

According to various academic and government sources, FDI companies are on average more productive than domestic firms, with recent evidence to the International Trade Committee showing that FDI companies are ‘69% more productive than their British counterparts’\(^48\). These higher levels of productivity are likely to be correlated to the very international nature of these firms, as, to move markets, companies have already developed advanced business processes and invested in technologies and skills. FDI also leads to an overall increase in productivity in the host country, by ‘forcing domestic firms to increase their efficiency to remain competitive’\(^49\) and productivity ‘spill overs’ occur in the sectors and regions where the FDI companies are based\(^50\). In addition, FDI ‘expands the production set of the economy toward more sophisticated goods or introduces more advanced technology, thereby increasing the demand for skilled labour. This results in higher overall labour demand, higher wages for skilled labour, leading to a higher skill premium and increased average wages, and higher labour productivity’\(^51\). Therefore, increasing FDI has a key role in improving the UK’s overall productivity levels, and raising wages.

Evidence also shows that FDI has an impact on increasing skills levels, with the United Nations Conference on Trade and Development finding that FDI attracts ‘more advanced skills’, which in turn ‘incentivizes the further development of skills’ in the local labour force\(^52\). As a result, many other Investment Promotion Agencies (IPAs) are successfully targeting investors based on the ‘spillover’ benefits they could provide. Singapore for example, ‘actively courts FDI with the highest skills spillovers:

Singapore targets investors that it believes will bring skills that will help it achieve its industrial policy

…examples include Sunstrand, a high tech aerospace components manufacturer in the 1970s when Singapore was trying to develop higher value add manufacturing; ST Microelectronics, a semiconductor giant, in the 1980s; Citi (and

\(^48\) https://committees.parliament.uk/publications/7423/documents/77694/default/ (p.10)


\(^52\) Skills and Foreign Investment Promotion, UNCTAD, 2014
many other banks) in the 1990s and Facebook and Google in the last decade as it has shifted towards the knowledge economy and digital skills.53

Some parts of the UK, and in particular Northern Ireland, are aware of these benefits and realise the importance of bringing FDI to their region.

“Northern Ireland needs the lifeblood of inward investment, especially in higher level industries, so we can create catalysts for further growth. Foreign direct investment has created a breeding ground for indigenous business growth so we get clusters in cyber security, fintech and advanced manufacturing right across Northern Ireland.”

Marie-Thérèse McGivern, Non-Executive Director Strategic Investment Board for Northern Ireland

It was recently highlighted by the Chancellor in his Spring Statement speech, that

‘UK employers spend just half the European average on training their employees.’54

In this research we found many examples of international firms who are investing in skills in the UK, including sizeable apprenticeship programmes at foreign-owned companies such as Microsoft, Amazon, Airbus and Volkswagen. We also found that over a third of companies in DfE’s own list of the best Apprenticeships employers are international firms. Finally, our survey of employers in the UK found that FDI investors are more likely to recruit apprentices than domestic firms and were 50% more likely to be planning to increase investment in skills compared to domestic firms. Several of the key markets that the UK attracts FDI from, such as Germany, have well-developed skills systems, where technical expertise is on a par with academic excellence. This would indicate that many FDI companies are headquartered in areas that have a tradition of engaging with structured vocational training programmes, and so would bring that culture into their business practices in the UK.

CASE STUDY

International firms that develop world-class skills with WorldSkills UK

International firms with a presence in the UK have been strong allies of WorldSkills UK for many years, demonstrating commitment to developing high quality skills within their workforce. Japanese firm Fanuc is involved in the industrial robotics programme and American firm Autodesk works across a range of WorldSkills UK’s programmes such as digital construction and mechanical engineering. Both firms are involved to make sure their clients have access to a skilled workforce benchmarked against international standards.

Toyota’s involvement in WorldSkills UK’s programmes demonstrates rationale for continued investment in the UK.

Toyota first got involved in WorldSkills UK competition programmes to benchmark their skills within the UK and having embedded WorldSkills UK’s standards within its apprenticeship programme then went on to field apprentices for international competition.

Involvement in WorldSkills UK’s skills development programmes at a national and international level, gives Toyota in the UK an opportunity to benchmark their apprenticeships against world-class standards, with benefits for all of their apprenticeships not just those who enter the programmes and critically is used to make the case for continued investment in the UK.

Toyota also fed their learning from WorldSkills UK into the trailblazer group for the mechatronics.
Chapter 4: Recommendations

1. To increase growth, we need an ambitious UK-wide strategy that will integrate skills and foreign investment

   a. The Department for International Trade should develop a strategy that tackles the key role skills plays in attracting investment

   At present the UK lacks a public strategy for investment. We therefore call on the Government to address this by setting out a new, ambitious strategy for foreign investment growth.

   A published strategy is an opportunity to plan how the UK can use foreign investment to increase jobs, skills, and productivity right across the UK. This strategy should set out how the Department for International Trade, as the lead Investment Promotion Agency for the UK, will work across Whitehall to drive the kind of business environment that will increase investment, including the skills offer. This strategy is a chance to consult with Devolved Administrations, the English regions, business and education groups to ensure the way in which the UK is deploying its skills offer helps us stay internationally competitive.

   This strategy needs to be about investment promotion ‘in action’, and therefore should also cover activity that
will improve the ability of the UK’s investment promotion architecture to promote the existing skills offer to investors and shape the future skills offer by understanding investors’ skills needs. Finally, this strategy should establish a method for ensuring better measurement of the link between FDI projects, jobs creation and skills, so that the Government, and the public, can understand the impact of foreign investment on our economy and or communities.

b. The Department for Education should ensure that its international strategies include foreign investment

No education strategy can be truly international until it recognises the role that skills play in the UK’s international competitiveness. So, while we recognise the importance of exports to the education sector, this must be balanced by equal attention to the role that skills, and education, play in attracting- and retaining- foreign investment in the UK. That’s because while the value of education exports is significant, at £23.3 billion\(^5\), the value of inward FDI in the UK is £1.6 trillion\(^6\), and that investment depends on the UK having the skills that investors need.

We therefore call on the Department of Education to update its International Strategy with content that will acknowledge and act on this link, so that skills interventions that support inward investment can be developed and deployed. Following this the Education Advisory Group should be re-launched with an official mandate to oversee activity on investment, in addition to its existing role on exports. This refreshed group will need a new membership to include groups who can advise on utilising skills as a means of winning increased investment. We suggest this should include colleges that have shown leadership in attracting FDI such as Belfast Metropolitan College, Gower College, Bridgwater and Taunton College, plus WorldSkills UK given its international outlook and international business representation.

c. The Future Skills Unit should issue consistent data which is used in our investment promotion

A huge part of investment promotion acts like any other business enterprise in that it advises potential customers on the best options for their needs, and where that option isn’t available and further develops products that do match.

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56 [https://commonslibrary.parliament.uk/research-briefings/cbp-8534/](https://commonslibrary.parliament.uk/research-briefings/cbp-8534/)
However, at present, the UK does not have a consistent data set on skills levels to use in investment promotion, though this kind of data is needed to pitch to investors about the skills levels in certain areas, and to ensure information about skills gaps, and future skills needs is being used in the planning of future provision. Not having this kind of data risks the UK losing investment to other countries such as Ireland who as our international case studies show have taken a more structured and interventionist approach to gathering information on skills.

The Northern Irish Executive already has a ‘Skills Barometer’ and the Department for Education in England has recognised the need for better sources of data on skills levels in the creation of a Future Skills Unit.

We therefore recommend that the Future Skills Unit within the Department for Education brings together the insights of sector skills bodies and regional authorities (local authorities, LEPs and combined authorities) who already collect data on skills needs in England. Local Skills Improvement Plans, led by Employer Representative Bodies, should also complement this fuller data picture, and draw insight from the unit to ensure they are mapping and delivering high quality skills the UK needs at a local level.

We also recommend that the governments in Scotland and Wales consider mapping skills supply and demand for the purposes of attracting inward investment if they don't already do so.

We also recommend that all four nations work with the Department for International Trade, which may also build up a picture of skills demand through the Investment Services Team, and colleges and independent training providers to share this intelligence.

2. A post Brexit vision of Global Britain needs to include showcasing the UK’s excellence in skills

a. The GREAT campaign should use a ‘Skills are GREAT’ message

The GREAT campaign aims to showcase all four corners of our nation to inspire the world and encourage people to visit, do business, invest and study in the UK. Launched in 2011, it has recently been updated to focus on the UK’s ‘distinctive edge as a diverse, innovative and collaborative global nation’, with ‘driving foreign investment’ as a core outcome. Previous campaigns have included headings such as ‘innovation is great’, ‘entrepreneurs are great’.
While this report makes important recommendations about needing to improve the quality of the UK’s skills base to be world-class in priority sectors we also believe that the UK’s marketing material should present a revitalised image of the UK overseas, and in doing so address a long running parity of esteem issue between academic and vocational education in the UK.

The UK does have skills excellence in areas from automation to engineering at companies from Airbus to Toyota, which are a key part of a modern, highly-skilled country. So, where there is excellence, we should celebrate and promote this. This can be achieved with campaigns that recognise vocational skills as vital to a well-functioning economy ready for investment from overseas.

For this reason we recommend that, alongside embedding improvements to the quality of our skills base, the Department for International Trade should run a Skills are GREAT campaign, using images of companies and individuals involved in skills training and skilled work.

b. DIT should update its talent proposition to set a more positive vision of the UK’s offer

The Department for International Trade should also update its information on GREAT to ensure that the messages aimed at investors are aligned to mainstream central Government messaging about the UK as a centre for highly-skilled, high-wage jobs, reflecting the evidence in this report that skills are important to investor decision-making. We propose that the messaging on ‘talent’ on the GREAT platform articulates a more update to date vision of the UK with the skills offer set out as an opportunity to increase productivity rather than lower costs.

c. Investment promotion agencies should improve their ability to work with companies on skills

We found varying levels of understanding of the skills system within investment promotion agencies which means some businesses, and especially SMEs, are not getting the right information and advice on skills. To improve this we recommend that investment promotion agencies work with skills providers, including colleges, to get better information on the skills offer. Furthermore investment agency staff should have access to training on the skills offer (including benefits of vocational training, funding of these routes). Investment promotion agencies should consider working with organisations such as Be the Business to provide specific support to FDI companies in the SME category.
3. Ensuring skills and foreign investment delivery are integrated across the UK is essential to delivering economic prosperity

a. All investment promotion agencies should target foreign investment that will raise skills levels

As we have demonstrated in this report, foreign investment is a critical way in which nations and regions in the UK can increase economic growth in their area. The pattern of inward investment has for too long been overly skewed to London and the South East, and true leveling up will require landing foreign investment across a wider geographical area. To attract this new investment, nations and regions will need to use the skills in their area to win investment and use foreign investment as an opportunity to raise skills levels in their areas. Done well, this is a virtuous circle, but neglected, it creates a barrier to investment.

Throughout the research for this report, we found evidence of where regional and local investment agencies were working strategically to attract the type of foreign investment that would support the growth of highly-skilled jobs. One of the strongest examples of this is in Scotland where there is public commitment via the investment plan to use inward investment to ensure Scotland’s ‘skills system and management match global standards’. Importantly the prominence of skills in Scotland’s investment plan also filters through to similar priority for skills in its investment promotional material and support for companies.

We recommend that all nations and regions set out plans for how they will use information about their skills offer as part of their investment promotion, and how they will target and work with investors to encourage skills ‘spillover’. Developing these plans are opportunities to ensure those leading inward investment have established active partnerships with education providers in their area including both independent training providers and further education colleges. Consideration should be given to where formal structures such as the Skills Fora in the Republic of Ireland, or the Skills Academy model in the Tees Valley would support this kind of partnership working.
b. Local Skills Improvement Plans in England should capture the views of foreign investors, so that skills provision is economy led

Our evidence and policy analysis has shown that England has the least well-developed approach to skills and inward investment combined with the most confusing landscape of responsibilities within the UK. Whilst Local Skills Improvement Plans offer promise on making the English skills system more business-focused, current guidance risks orientating providers towards immediate local demand at the expense of opportunities for international investment. We therefore recommend that local providers and Employer Representative Bodies, responsible for Local Skills Improvement Plans (LSIPs), are given a clear mandate to incorporate the views of foreign investors, who are often in innovative and growth sectors and take a long-term view of investment and skills priorities.

Through taking this approach, the forthcoming roll-out of LSIPs could help all areas of England boost their competitiveness for international investment and demonstrate the unique strengths of different English regions in meeting investors’ skills needs.

4. We must improve the quality and responsiveness of skills provision to drive increased foreign investment growth

a. Government should pilot a ‘Rapid Response Fund’ to fund training for internationally mobile investment projects

The value to the taxpayer of increased foreign investment is significant, with more than 55,000 new jobs created last year thanks to foreign investment\(^57\). We should not therefore lose any opportunity to increase jobs through foreign investment.

Throughout this research we heard from foreign investors who were finding that the current skills system does not always provide the competitive offer it should do, with shorter, innovative and more bespoke training unfunded and therefore also unavailable. We believe that the skills system should be more demand-led and where any significant investor into the UK is going to be providing a high number of high-skilled jobs but cannot find appropriate skills training to support the

project, there should be access to a ‘Rapid Response Fund’ that further education colleges and independent training providers can bid for that will allow for development of funded provision that meets these needs, on a par with the assured skills academies in Northern Ireland. These funds could work on a co-investment basis with companies and could be targeted at areas where there has been a lack of, or low, foreign investment.

b. The Department for Education in England should deliver on proposals to reform FE

Proposed Government steps to reform FE Funding and Accountability could be key to improving the responsiveness of the skills system, meeting employer demand identified through LSIPs, and supporting greater FDI. The development of an outcomes-focused, and multi-year ‘Skills Fund’ holds potential in allowing providers to deploy a range of accredited and non-accredited provision to support the diverse skills and training needs of international businesses choosing to invest. By being forward-facing and supporting a richer mix of full-length qualifications and apprenticeships, as well as shorter, more flexible, and modular forms of training, this approach can both make providers more agile to investor demand and make the English skills system more attractive to firms internationally.

c. BEIS should use part of the Global Britain Investment Fund on skills interventions for its priority sectors (automotive, offshore wind, life sciences).

During this research we found that skills shortages are especially acute in sectors where the Government wishes to grow investment such as in clean tech, clean energy and life sciences. We therefore think it is critical that the Government ensures that its investment into these sectors addresses skills needs, working with sector skills bodies, innovation catapults and national governments in Scotland, Wales and Northern Ireland to make sure plans are in place to make sure skills supply matches demand, helping people adapt their skills to current needs to keep up with the fast pace of technological change and make the most of investment opportunities.
d. WorldSkills UK should use its knowledge of international standards to improve our skills offer for investors:

Given WorldSkills UK’s access to international best practice in technical skills development it can and should play an important role in making sure all UK nations can develop world-class skills in the sectors that are most internationally mobile and which can create high skilled, high-wage jobs.

It should do this by:

• making sure its skills programmes are aligned with FDI needs, with an even greater focus on STEM and digital skills
• work more closely with further and higher education institutions, including Institutes of Technology in England and universities across the UK to help boost the quality and attractiveness of higher technical education provision with employers and students
• sharing insights on investors’ skills needs to help make sure skills provision in all four nations are more demand-led
• engage with more English regional authorities and the national Governments of Scotland, Wales and Northern Ireland on opportunities to benchmark skills against world-class standards and showcase skills excellence through WorldSkills UK’s Centre of Excellence and other programmes
• promote excellence in skills through UK engagement in WorldSkills Europe and International benchmarking activities to help attract FDI to the UK
• consider the possibility of the UK hosting a future WorldSkills event to provide an even bigger platform for showcasing UK skills.
Annex 1 – List of organisations consulted

Airbus
Accenture
Association of Colleges
Astroscale
ATB (Wolong Holdings)
Avnet Silica
Belfast Metropolitan College
Bouygues
British Film Institute
Bridgwater & Taunton College
Be the Business
Cabinet Office
CBI
Centre for Cities
Charles River Laboratories
Chartered Management Institute
CITB
City & Guilds
Cogent
Collab Group
Covea Insurance
Department for Economy, Northern Ireland
Department for Education
Department for International Trade
East of England Local Government Association
Eatron
Eco2Solar
EDF
Enginuity

Financial Services Skills Commission
HSBC
IMI
Innovation Corridor
Institute for Apprenticeships and Technical Education
Invest Northern Ireland
Kaplan
London & Partners
London & South East Education Group
Micross Components
MIDAS
Middlesbrough College
NCG
North Warwickshire and South Leicestershire College
Number 10 – Prime Minister’s Delivery Unit
OCO Global
Onward
Scottish Enterprise
Scottish Government
SEMLEP
Siemens
Sunderland College
Titan Europe
Universities Wales
Warner Bros
West of England Combined Authority
West Midlands Growth Company