

Continued resilience

EY's Attractiveness
Survey Scotland

June 2021



Building a better
working world



Contents

Foreword		3
Executive summary		6
1 Now	Scotland's FDI performance in 2020	8
2 Next	Perceptions of Scotland as an FDI location in 2021	18
3 Beyond	The outlook for Scottish FDI	26
4 Methodology	How EY researched the report	28

Foreword



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We are delighted to welcome you to the 2021 Scotland Attractiveness Survey, which – as in previous years – examines the evolving performance and perceptions of Scotland as a destination for foreign direct investment (FDI).

This report continues EY organization's long history of sponsoring research into UK trade, including FDI, reflecting our desire to encourage an open dialogue between business leaders, investors and policymakers on how to maximize Scotland's – and the rest of the UK's – economic performance.

The 2021 *EY Scotland Attractiveness Survey* reveals a welcome rise in FDI projects secured by Scotland in 2020, building on a smaller increase the previous year. At the same time, Scotland's relative attractiveness as an investment destination within the UK has risen to its highest level ever, putting it in clear second place behind London.

Bouncing back ...

With companies' investment intentions into the UK overall also at a record high, there's every prospect of Scotland winning a healthy proportion of a resilient pipeline of investments in the coming months and years.

Beneath the headline figures in this report, there are further reasons for optimism almost everywhere you look: be it the rise of nearly one-third in "new" projects into Scotland; the diverse spread of sectors for Scottish FDI in 2020, with digital tech leading the way; or the fact that more than twice as many investors cited Scotland as the UK's leading FDI destination in 2021 than in 2019.

... but ongoing engagement remains key

However, this is no time for Scotland to rest on its laurels. In the foreword to this report last year, I stressed that there had never been a more important time for business to engage with both UK and Scottish Government. Today, as we begin to move beyond the pandemic, engagement remains key in shaping the right policies, business environment and incentives to give companies continued confidence to invest.

True, our findings suggest the UK and Scotland are getting a lot right. But the global market for FDI will only become more competitive, making it imperative to keep listening and responding to what investors want. This includes recognizing the rising focus on sustainability and cleantech – areas where Scotland's strength is exemplified by Glasgow's hosting of COP26 later this year.

Whatever the challenges, there's no denying the good news in this report. In 2020, Scotland bucked the trend at a UK and European level by attracting more projects, while consolidating its position as the UK's most attractive FDI location outside London. In doing so, it laid down a strong base for the future FDI. Now it's time to build on that and to capitalize on the attractiveness of our country as a place to do business.

The UK as a whole had a challenging year for FDI in 2020, and put in a resilient performance in response. Compared to 2019, the total number of FDI projects secured by the UK fell by 12% – a downturn that would have been a cause for alarm in any 'normal' year.



However, for obvious reasons, 2020 was far from normal. To put the decline recorded in UK FDI projects in context, it was smaller than the 13% fall seen in projects across Europe, and significantly less than the 30% slump that was indicated by the investors we interviewed late last year.

Scotland bucks the trend

It's against this background that Scotland's achievements must be viewed, both in terms of increasing its number of projects secured in 2020 by 5.9%, and also in boosting its relative attractiveness to investors versus other parts of the UK to the highest level ever seen in this research.

Turning first to the FDI figures, the rise in projects into Scotland within a UK marketplace that was shrinking overall saw Scotland's share of all UK projects rise from 9.1% in 2019 to 11% in 2020 – a proportion exceeded only once in the past decade, in 2015. Scotland has been the second biggest recipient of UK FDI after London in every year since 2014.

In terms of Scotland's perceived attractiveness, the figure of 15% of investors who rate it as the UK's most attractive FDI location reinforces its position as second only to London in the UK. The last time we asked this question, in 2019, Scotland scored 7%.

A rising tide of FDI beckons

All of this points to a bright outlook for FDI flows into Scotland. The optimism is further buoyed up by investors' ranking of the UK as Europe's most attractive FDI country, and their plans for a resilient pipeline of UK projects – with Scotland well-positioned to pick up a disproportionate share.

That said, challenges remain. Other FDI locations will not stand still. If Scotland and the UK as a whole are to secure their long-term attractiveness, both must now capitalize on their strengths and continue to meet investors' changing needs. The opportunity is there. The priority must be to seize it.

What next?

The resounding performance put in by Scotland in 2020 in attracting FDI projects – with rises both in number of investments and market share of UK projects – sends out a powerful signal of intent as the world moves into the post-COVID-19 era. Our perception survey shows that some 41% of the investors in our study are intending to establish or expand operations in the UK in the coming 12 months, up from pre-COVID-19 levels of 31% in 2020 and 23% in 2019.

Other findings suggest that those investment intentions are unlikely to be derailed by any after-shocks from the pandemic. Asked which European countries they believe have the most credible and investment-friendly COVID-19 recovery plans, investors put the UK in clear first place ahead of Germany and France, mirroring the success of the UK's vaccine roll-out. And having been ranked behind Germany and France for its post-pandemic attractiveness in our Autumn 2020 survey, the UK has since leapfrogged both to be ranked as the most attractive FDI destination in Europe.

Going forward, the goal must be to ensure the right blend of infrastructure, incentives, skills and sector focus to secure Scotland's growing share of FDI projects flowing into the UK post-pandemic. The past year has been a great start. Now to press home the advantage.

Scotland's FDI performance in 2020: an increased number of projects against the background of a decline across the UK overall, and an expanded share of UK projects

Sectors

The two leading sectors generating inward investments into Scotland in 2020 were digital tech and agri-food. These sectors overtook last year's top sector, machinery and equipment, which fell out of the top five.

Activities

Sales and service projects were the leading activity for Scottish FDI projects in 2020, followed by research & development (R&D) projects in second place. Manufacturing projects declined, slipping to third. The biggest percentage increase was in logistics projects, which more than trebled from three projects in 2019 to 10 in 2020.

Origins

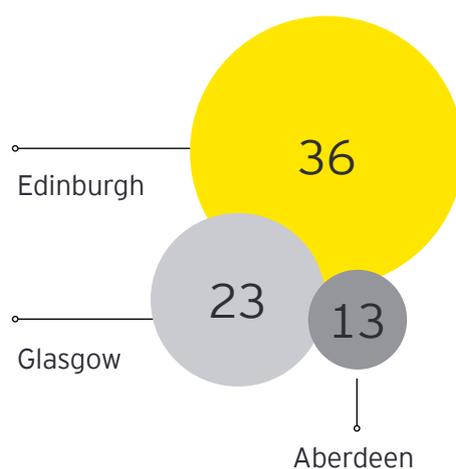
In 2020 the US remained the single biggest originator of FDI projects into Scotland, accounting for 38 projects or 35.5% of Scotland's total during the year – slightly above the proportion for the UK as a whole. Ireland was the second biggest source of projects into Scotland with 10 projects, followed by the Netherlands with eight.

Increasing UK investment plans

41% of investors in our UK survey are planning to invest in the UK in 2021 – up from pre COVID-19 levels of 31% in 2020 and 23% in 2019.

Scotland's top FDI cities

Scotland's 'big three' cities were all ranked in the UK's top 10 FDI cities outside of London in 2020, with Edinburgh placed first behind London.



Executive summary

Key findings from 2020

1. Scotland retained its position in 2020 as second to London among locations attracting new FDI projects into the UK.

107 inward investment projects were secured in Scotland in 2020.

2. Scotland FDI projects increased by six projects from 101 the previous year.

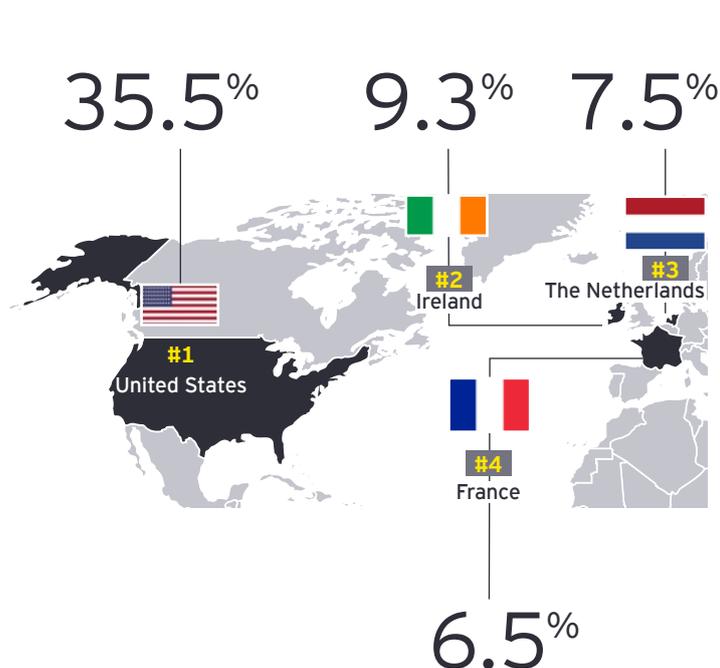


3. With projects into the UK as a whole declining, the increased FDI flow saw Scotland's share of all UK projects rise in 2020, from 9.1% in 2019.



4. Scotland's 'big three' cities (Edinburgh, Glasgow and Aberdeen) remain in the UK top 10 cities outside of London for attracting projects, with Edinburgh ranked first.

5. The top country for FDI in Scotland in 2020 was the United States, followed by Ireland, the Netherlands and France.



6. The top three sectors generating the highest numbers of inward investment projects in Scotland in 2020 were digital tech, agri-food and business services.

7. Scotland's top FDI activities were sales and service, R&D, and manufacturing, while logistics projects rose three-fold.

Investor perception

1. Increase in investors who rank Scotland as the most attractive area of the UK to establish operations.



2. The UK is rated as Europe's most attractive country for FDI, ahead of Germany and France.

3. When considering investing in regional locations outside of London in the UK, the criteria that investors rank as most important are:

- ▶ Availability and skills of the local workforce
- ▶ Strength of business network locally
- ▶ Access to regional grants and incentives for investment/ R&D

Now

Scotland's FDI performance in 2020



A robust showing, outpacing Europe and the rest of the UK ...

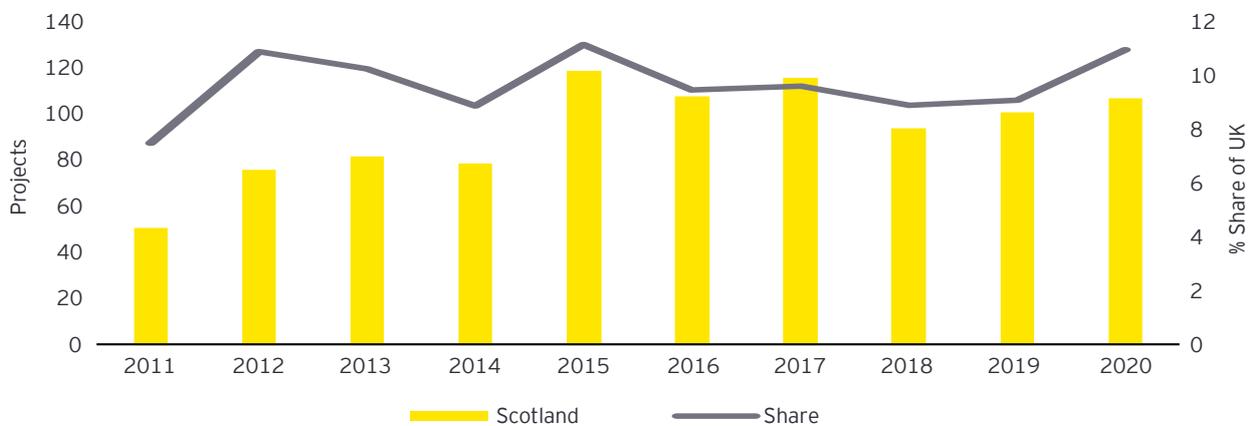
Scotland put in a very strong performance in attracting and securing foreign direct investment (FDI) projects in 2020. While incoming projects in countries across Europe as whole fell by 13%, and projects into the UK also declined, by 12.1% or 134 projects, the number of inward investment projects in Scotland actually increased from its level in 2019. Against the background of the lockdowns and general uncertainty caused by the COVID-19 pandemic, this represented a considerable achievement.

A closer look at the European Investment Monitor (EIM) figures for 2020 shows that projects into Scotland increased by 6, from 101 projects in 2019 to 107 projects in 2020, a rise of 5.9%. While the total may have shown only a modest

rise in absolute number terms, it represented a highly creditable and gratifying performance in the context of the wider pandemic. The combination of the rise in projects into Scotland and decline across the UK propelled Scotland's market share of UK projects up from 9.1% to 11%.

As a result, 2020 was the second strongest year in the past decade for Scotland in terms of its market share of UK FDI projects, only bettered in 2015 when Scotland recorded an 11.1% share. 2020 also saw Scotland record total project growth for the second year in succession – a feat not previously achieved this decade – as well as representing its fourth best performance in absolute terms during the decade and highest project total for four years.

FDI projects announced in Scotland and percentage market share of UK projects, 2011-20



Source: EY European Investment Monitor (EIM), 2011-2020

... and remaining the UK's leading FDI destination after London ...

The positive tone is reinforced by a comparison of Scotland's FDI performance against that of other UK regions and devolved administrations. This shows that Scotland secured the UK's second highest number of projects in 2020, with only Greater London recording more. Scotland has held this second-placed ranking in the UK behind London in every year since 2014 and in eight of the last 10 years. In each of these years Greater London has held the top spot.

However, Greater London suffered a steep decline in projects in 2020, with its number of investments slumping by 155 projects or 28.8%. As a result, while London retained top spot, Scotland narrowed the gap between itself and UK the capital city region from 437 projects in 2019 to just 276 projects in 2020. It is also noteworthy that no other UK region outside of Greater London has consistently recorded more than 100 projects within a single year apart from Scotland – and this is a project tally that Scotland has exceeded in five of the past six years. The only other region to have achieved this is North West England, just once (in 2017).

Scotland's total FDI projects compared to all UK regions, 2011-2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Greater London	327	313	380	381	406	446	459	458	538	383
Scotland	51	76	82	79	119	108	116	94	101	107
North West England	39	43	54	45	98	90	105	70	73	85
South East England	93	64	57	92	72	72	91	89	83	72
West Midlands	38	50	47	63	92	93	97	83	64	61
Yorkshire and the Humber	20	21	20	50	83	80	82	49	59	55
East of England	16	11	20	15	21	40	59	36	40	54
East Midlands	20	17	27	29	37	37	43	40	39	38
Northern Ireland	17	29	36	39	15	42	19	33	28	33
North East England	24	27	25	24	44	52	48	36	30	32
South West England	25	15	27	28	37	38	53	35	30	32
Wales	9	31	24	42	41	40	33	31	24	23
Grand total	679	697	799	887	1065	1138	1205	1054	1109	975

Source: EY European Investment Monitor (EIM), 2011-2020

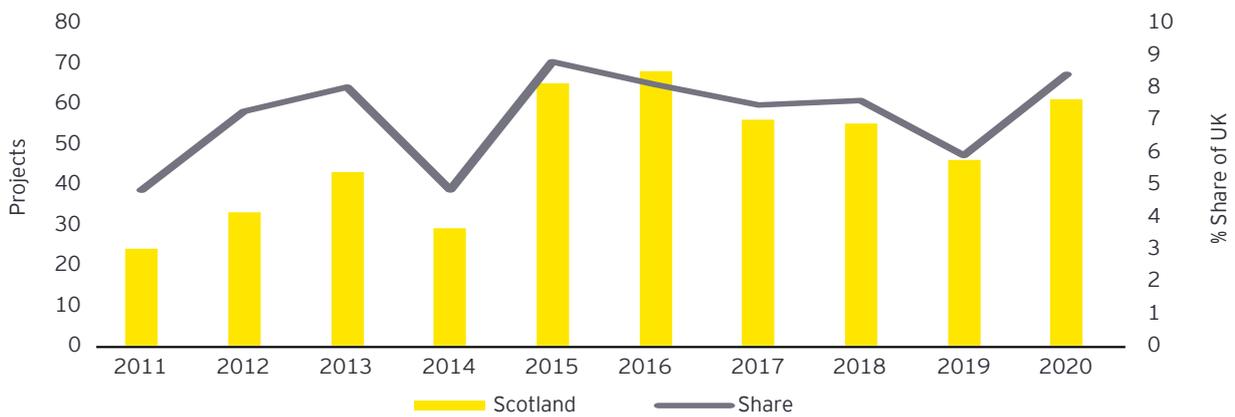
... while gaining ground in 'new' projects

Stripping out follow-on investments in existing facilities, the picture on "new" projects from first-time investors is even more positive for Scotland. The country's complement of new projects secured in 2020 increased by 15 or 32.6% from its level in 2019 to reach a total of 61 projects. This was the highest total of new projects recorded by Scotland for five years, and came after a period when new projects had fallen for three consecutive years.

This performance ensured that Scotland increased its market share of all new projects coming into the UK from 5.9% in 2019 to 8.4% in 2020. In common with total projects overall, the market share of new projects achieved by Scotland in 2020 was the second highest recorded in the past decade. The increase in 2020 means new projects recorded in Scotland are edging back towards their levels before the 2016 referendum that triggered Brexit. Indeed, when 2020 is compared to the level of new projects recorded at the start of the decade in 2011, the number in 2020 – at 61 – is more than double the total of new projects in 2011, at 24.



New projects in Scotland and share of new UK projects, 2011-20



Source: EY European Investment Monitor (EIM), 2011-2020

FDI jobs in 2020: a decline – but still a healthy UK share

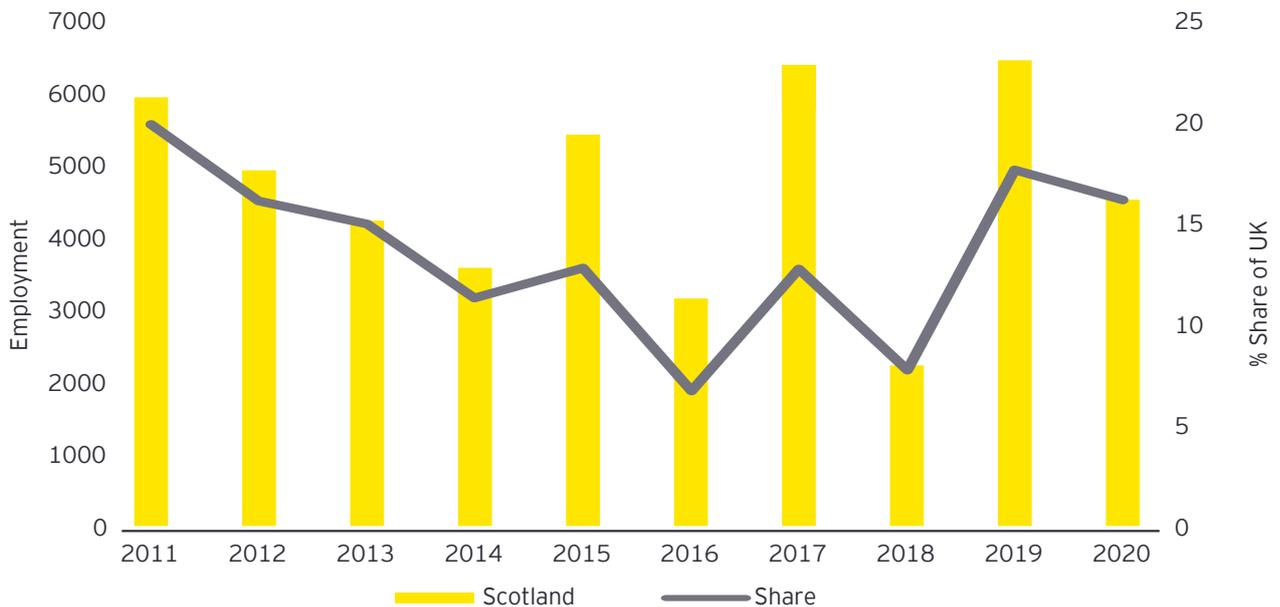
While the number of inbound projects secured represents one measure of FDI success, from an economic perspective it is also important to consider the employment that those projects generate. Data on the employment involved in each project is not always available, and as a result the information is less consistent than other factors for projects. The employment levels associated with FDI are also more volatile from year-to-year.

Taking these caveats into account, the available figures indicate that the jobs generated by FDI projects in Scotland

fell back in 2020 to 4,499 jobs. This represented a decline of 30.1% from the level recorded in 2019 – although it's important to note that 2019 represented the high point of the decade. However, it's undeniable that the FDI jobs total in 2020 was somewhat disappointing given the relatively high numbers of projects recorded, and the fact that the total of 4,499 jobs was below Scotland's decade-long average of 4,650 jobs a year.

The effect was that Scotland's share of the total employment generated by FDI across the UK fell from 17.5% in 2019 to 16.1% in 2020. That said, this still represents Scotland's third-highest proportion of UK FDI employment over the 10 years.

Jobs generated from FDI in Scotland and share of total UK FDI employment, 2011-2020



Source: EY European Investment Monitor (EIM), 2011-2020

Looking across the UK as a whole, while Scotland has retained its long-term position as the second placed destination for FDI projects, in terms of FDI employment it ranks third both in 2020 as a single year and over the past 10 years. Greater London and the West Midlands have both secured higher levels of employment in 2020 and over the decade, but these two regions – along with Scotland – are significantly ahead of the remainder during the period. It is noteworthy from a policy perspective that 10 years of FDI in the UK has been associated with the creation have more than 350,000 jobs.

FDI employment disclosed by region of the UK, 2020 and 2011-20

Rank	Region	2020	2011-2020
1	Greater London	7,055	64,435
2	West Midlands	5,307	49,115
3	Scotland	4,499	46,508
4	North West England	1,869	34,095
5	South East England	1,669	22,147
6	North East England	1,609	19,850
7	East of England	1,348	14,748
8	East Midlands	1,212	25,038
9	Yorkshire and the Humber	915	22,961
10	Wales	902	19,711
11	South West England	721	13,384
	Grand total	27,926	351,983

Source: EY European Investment Monitor (EIM), 2011-2020

Origins of FDI projects in Scotland: the US remains out in front ...

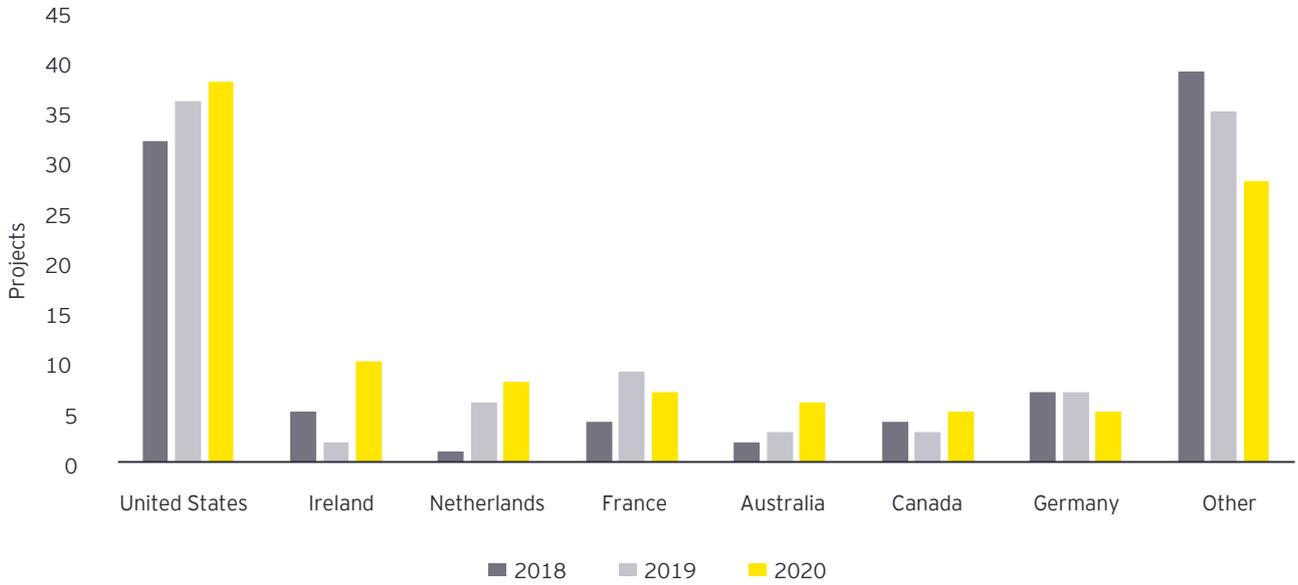
The leading origin for FDI projects in the UK is the United States. In fact, the flow of FDI projects from the US is the single most important source of investments across Europe. This has been true in every year of the EIM data, and in 2020 US projects made up 22% of all projects in Europe. US investment is even more important to the UK, with US projects accounting for 31% of UK inbound FDI investment projects in 2020. This meant that the UK secured 25% of all US projects into Europe during the year.

Against this background, it is unsurprising that the US was also the largest contributor of Scottish FDI projects in 2020. The 38 investment projects originating from the US accounted for 35.5% of all projects recorded in Scotland in 2020. As a result, the US is even more important to Scotland's FDI success than it is to that of the UK as a whole.

US projects into Scotland have increased in each of the past two years, and the country is substantially ahead of the next largest origin. For Scotland, the next two most important origins of FDI investment projects in 2020 were Ireland and the Netherlands. Both Ireland (10 projects) and the Netherlands (8 projects) recorded increases in projects. While these countries were ranked in the top 10 FDI origins for the UK as a whole in 2020, they were placed far lower, at sixth and seventh respectively.

For the UK overall, Germany and France were ranked second and third as FDI origins in 2020, but in Scotland both of these countries recorded a reduction in projects. France was down by two projects (to seven) and ranked fourth, with Germany also down by two projects (to five) and ranked joint sixth. It is notable that the UK secures relatively large proportions of projects arising from Commonwealth countries. In the case of Scotland, Australia and Canada were ranked in the top seven origins of investment in 2020, and ranked joint seventh for the UK overall.

Leading origins for Scottish FDI in 2020 compared to 2018 and 2019

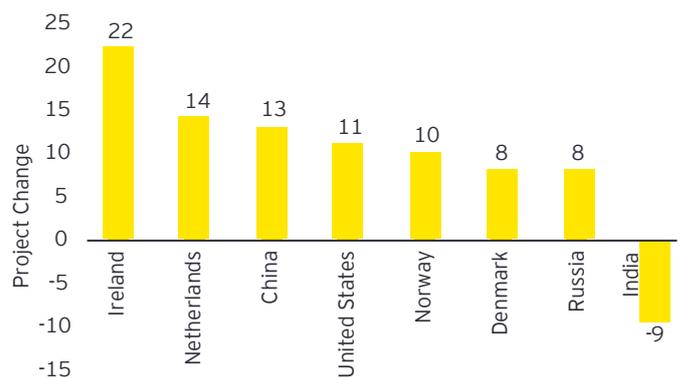


Source: EY European Investment Monitor (EIM), 2018-2020

... with FDI from Ireland on a rising trend

Since investments from different countries can fluctuate significantly from year to year, it is interesting to compare sources of investment using longer term trends. By comparing project numbers from the first five years of the decade are with those in the latter five years, is possible to identify changes in origins of investment – albeit taking into accounts that project numbers were generally higher in the later period. For Scotland, the largest increase in project numbers between the two five-year periods have been recorded by Ireland (up by 22 projects), the Netherlands (14) and China (13). India, meanwhile was the origin of nine projects fewer in the latter five years of the decade, despite the generally rising trend in project numbers during this period.

Largest positive and negative changes in Scotland's FDI origins in 2016-2020 versus 2011-2015



Source: EY European Investment Monitor (EIM), 2011-2020

Scotland's FDI sectors: a diverse spread – with digital leading the way

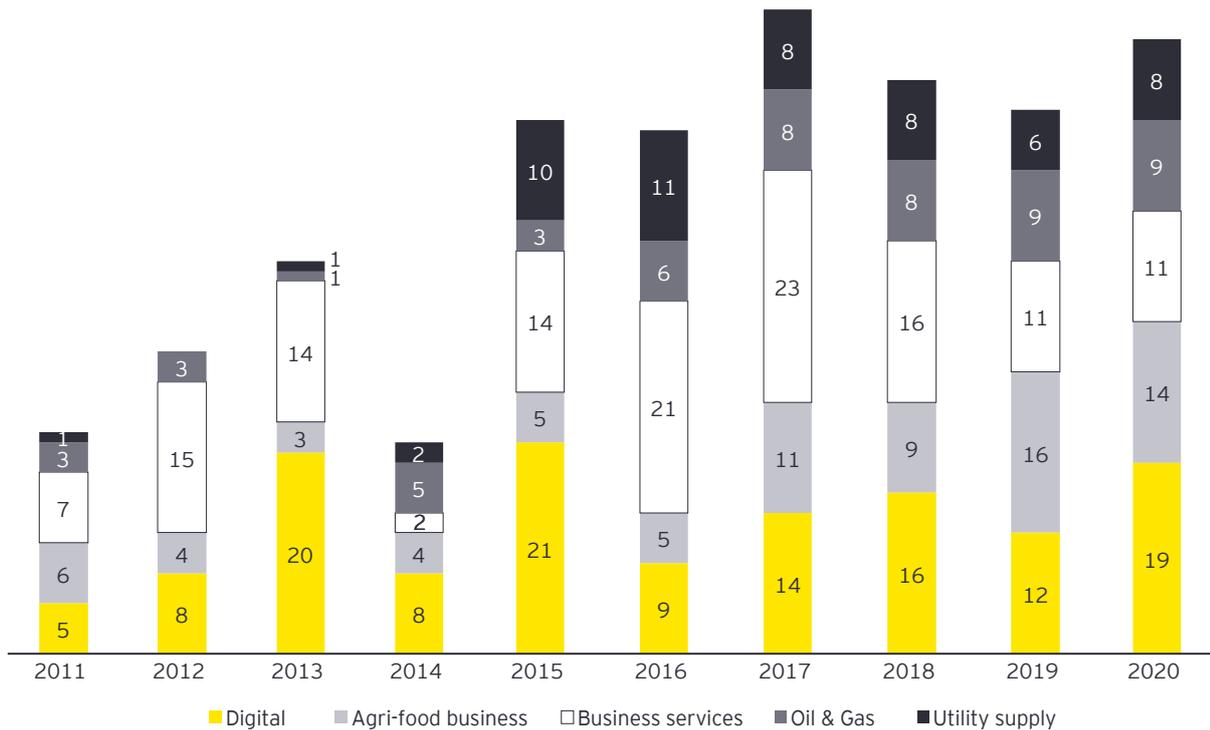
In the UK as a whole, digital tech was the leading sector generating FDI projects in 2020, a position it has held since 2012. In 2020, digital tech was substantially ahead of the UK's second-ranked sector of business services, by 322 projects to 117. The ranking in Scotland has been less clear-cut, with the digital, agri-food and business services sectors trading places as the leading sector for investment over the past decade.

In 2020, in keeping with the UK as a whole, Scotland did record its largest number of projects in digital tech with 19 projects. However, unlike for the UK as a whole, agri-food

was ranked second in Scotland with 14 projects. For the UK overall, agri-food was ranked fourth. A closer look at the figures confirms that digital projects play a less prominent role in Scottish FDI performance. In the UK as a whole digital tech accounted for 33% of projects in 2020, while in Scotland its share was only 17.8%.

Further contrasts include the fact that machinery and equipment ranked as the UK's third most prominent FDI sector in 2020, while for Scotland it did not make the top five. However, oil and gas ranked as the fourth most important FDI sector, with utility supply fifth – underlining the continued importance of energy projects to Scotland in 2020.

Number of projects from Scotland's leading FDI sectors in 2020, and comparison over 2011-2020



Source: EY European Investment Monitor (EIM), 2011-2020

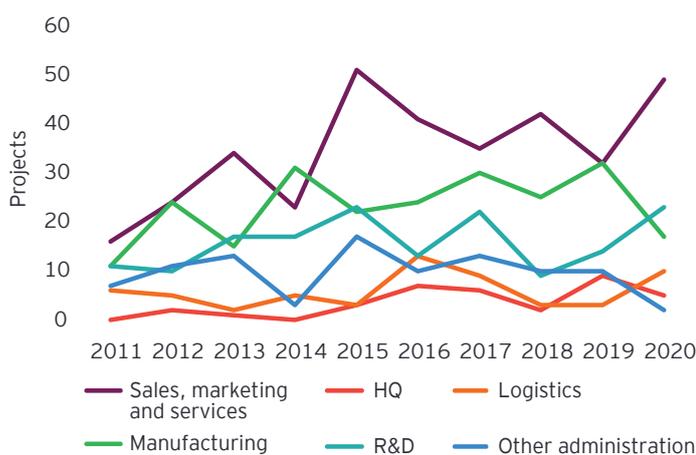
FDI activities: sales and service surges ahead

A further perspective from which FDI projects can be analysed is the activity being undertaken by the investment project, irrespective of its sector or country of origin. In the UK as a whole, the most common type of FDI project is involved in sales and service activity. These accounted for 55% of all UK projects in 2020. Sales and service projects also made up the largest category of activity for FDI in Scotland in 2020, at 49 projects out of the total of 107, a share of 45.8% – slightly lower than for the UK overall.

The second most common activity for FDI projects in Scotland in 2020 was research and development, which overtook manufacturing as the second largest activity for the first time in five years. In fact, manufacturing projects suffered a sharp decline – almost halving from 32 projects recorded in 2019 to just 17 projects recorded in 2020. This decline meant that Scotland accounted for just 15% of UK manufacturing projects in 2020, down from a share of 24% in 2019.

Of the remaining activities for Scottish FDI projects, logistics investments increased from just three in 2019 to 10 in 2020, while headquarters and other administrative projects fell back slightly. However, none of these three activities recorded more than 10 projects in 2020.

Activity of Scottish FDI projects, 2011-2020



Source: EY European Investment Monitor (EIM), 2011-2020



Scottish FDI cities: three strong UK contenders – led by Edinburgh

In 2020, Scottish cities were well placed within the ranking of the top 20 UK cities outside of London securing FDI. Edinburgh was the number one ranked city in 2020, overtaking Manchester – which had been the city which recording the most projects outside of London for each of the five years between 2014 and 2019. The 36 projects that Edinburgh recorded in 2020, up from 22 in 2019, was two more than Manchester and significantly ahead of Edinburgh's own decade long average of 22.7 projects per annum.

More generally, the figures suggest that as the UK has secured more FDI projects over time, so towns and cities have been the main beneficiaries. In 2020, all of the top 20 towns and cities in the UK were ahead of their trend project count for the decade with the sole exception of Reading.

Edinburgh was not the only Scottish city in the UK's top 20. Glasgow was ranked as the fifth biggest FDI city outside London with 23 projects (unchanged from 2019 but ahead of its decade average of 18.3 projects a year), and Aberdeen was ranked seventh with 13 projects (down from 15 in 2019). Combined, these three cities accounted for 70 of the 107 projects secured by Scotland in 2020.



Top 20 cities outside London for FDI in UK in 2020

Rank	City	2020 total	2011-2020 average
1	Edinburgh	36	22.7
2	Manchester	34	30.5
3	Birmingham	26	19.4
4	Belfast	25	18.2
5	Glasgow	23	18.3
6	Leeds	16	14.5
7	Aberdeen	13	11.5
8	Bristol	12	10.7
9	Cambridge	12	9.1
10	Newcastle upon Tyne	11	7.3
11	Coventry	10	8.3
11	Nottingham	10	4
11	Peterborough	10	3.5
14	Northampton	9	3
14	Sheffield	9	4.9
16	Liverpool	8	6.2
17	Newport	6	3.3
17	Reading	6	7.9
17	Sunderland	6	5.1
17	Warrington	6	3.4

Source: EY European Investment Monitor (EIM), 2011-2020

Seven projects in Scotland created 250+ jobs each

While Scotland's overall FDI job creation was slightly disappointing in 2020, several projects secured during the year brought major benefits in terms of employment. The largest single jobs boost from an FDI project was announced by Thermo Fisher, which expanded its Perth-based pharmaceutical facility creating 520 additional posts.

Altogether there were seven Scottish FDI projects announced during the year that created 250 or more jobs. Of these, five projects were from the US, and only one was a new investment, with the remainder being expansions of existing facilities. Interestingly, these seven largest job-generating projects came from a diverse range of six different sectors. However there were two projects from the transportation and logistics sector, continuing the recent trend of logistics projects driving some of the largest investments into the UK.

Next

Perceptions of Scotland as an FDI location in 2021



2

With its number of projects and market share of overall investments into the UK FDI both increasing, there's no question that Scotland's FDI performance in 2020 gives grounds for optimism over the country's future project flows. This positive view is further strengthened by our annual study of overseas investors' perceptions of the UK and its various constituent parts.

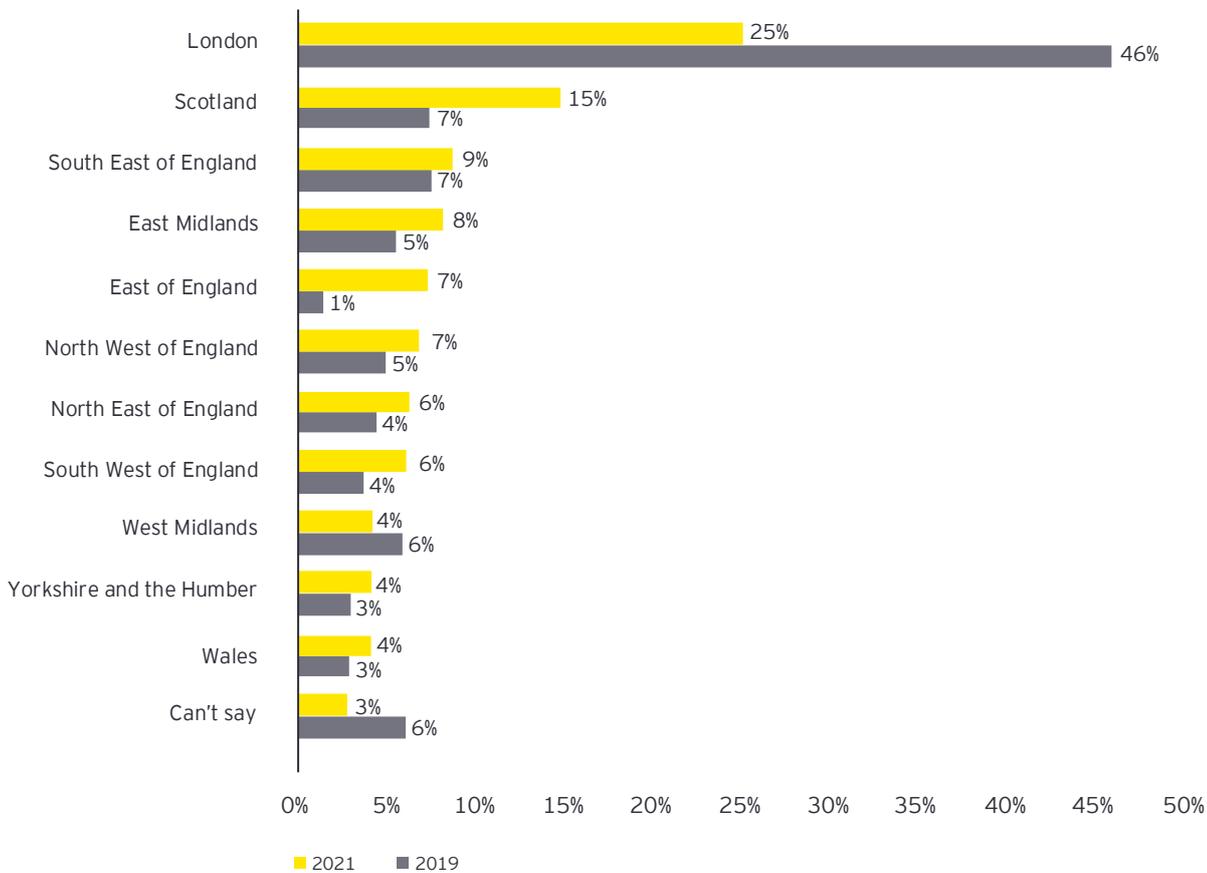
Our 2021 perception study draws on a comprehensive set of data. It's based on the views of almost 2,000 respondents spread across the EY European Attractiveness Survey, a comparison of common questions in the country surveys, and 570 respondents to EY's UK Attractiveness Survey. While the uncertainty and volatility experienced throughout the

pandemic means some survey responses have proven to be less reliable this year, the depth and scope of the research have allowed us to develop a detailed view of the UK's and Scotland's future appeal.

Scotland's highest ever attractiveness ranking within the UK ...

What did the respondents tell us? From Scotland's point of view, one the most heartening findings is around respondents' views on which UK region is most attractive in which to establish operations. While London continues to lead, many other areas of the UK – most notably Scotland – have narrowed the gap significantly. Indeed, the 15% score achieved by Scotland is its highest ever ranking in our survey.

Which region in the UK do you see as the most attractive to establish operations?



Source: EY's UK Attractiveness Survey 2021 (570 C-suite interviews)

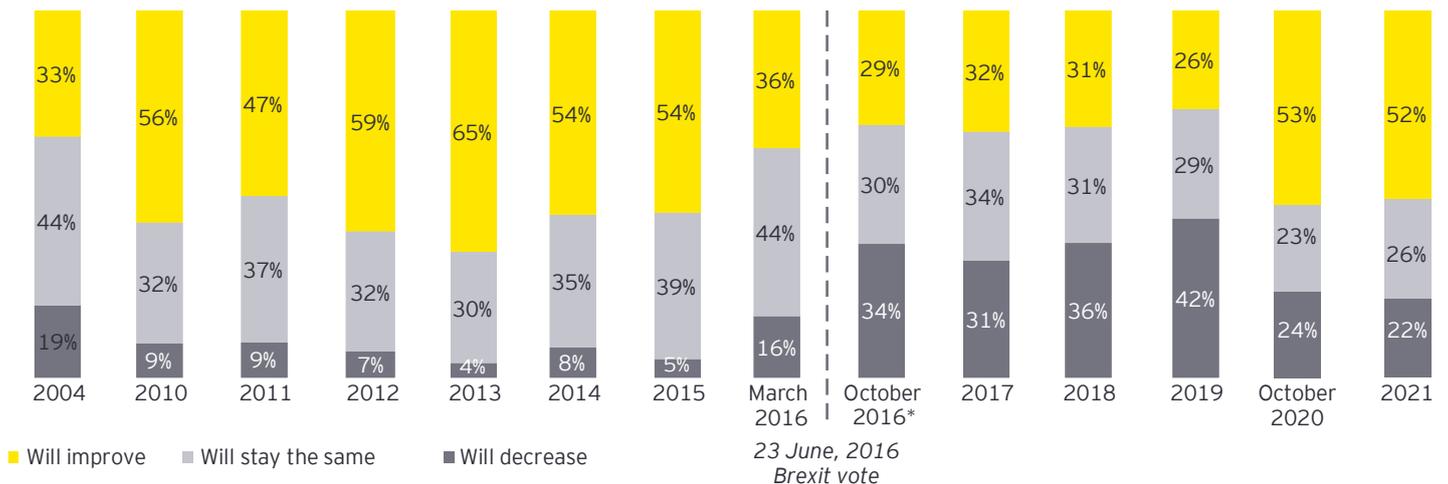


The scale of the shift that's occurred since 2019 is illustrated by the fact that London's vote as most attractive region has almost halved in the intervening two years, while Scotland's has more than doubled from 7%. The effect is that as well as being firmly established as the UK's second biggest recipient of FDI projects behind London, Scotland is now also in clear second place in terms of attractiveness, well ahead of third-placed South-East England.

... as the UK as a whole overtakes Germany in attractiveness

The positive tone for Scotland is further heightened by investors' perceptions of the attractiveness of the UK as a whole over the next three years. A net +30% of investors say the COVID-19 pandemic will make the UK more attractive, reversing a net -29% the previous year. A comparison with the responses to this question over the past decade confirms that the 2021 findings represent a strong result by historical standards. The outcome this year also reverses a three-year trend of rising expectations that the UK's attractiveness was set to deteriorate – a worsening of sentiment that started after the Brexit referendum vote but is now in retreat.

To what degree do you think the UK's attractiveness will evolve over the next three years?



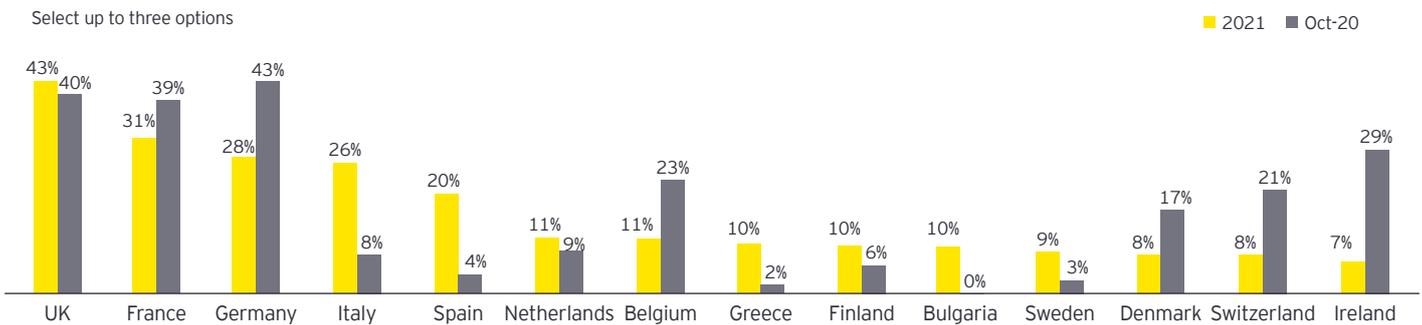
2004 to 2016 : How do you think the UK's attractiveness for Foreign Direct Investment will evolve over the next three years?
 * CSA - EY UK Post-Brexit Attractiveness Survey - sample quite different, trend should be interpreted with care

Source: EY's UK Attractiveness Surveys 2004-2021

Equally positively, our 2021 research across Europe finds that the UK has leapfrogged Germany and pulled away from France to become the most attractive FDI location in Europe by a significant margin. This is another sign of the improving

relative attractiveness of the UK after having been ranked third in Europe in 2018 and 2019 and then second behind Germany in 2020.

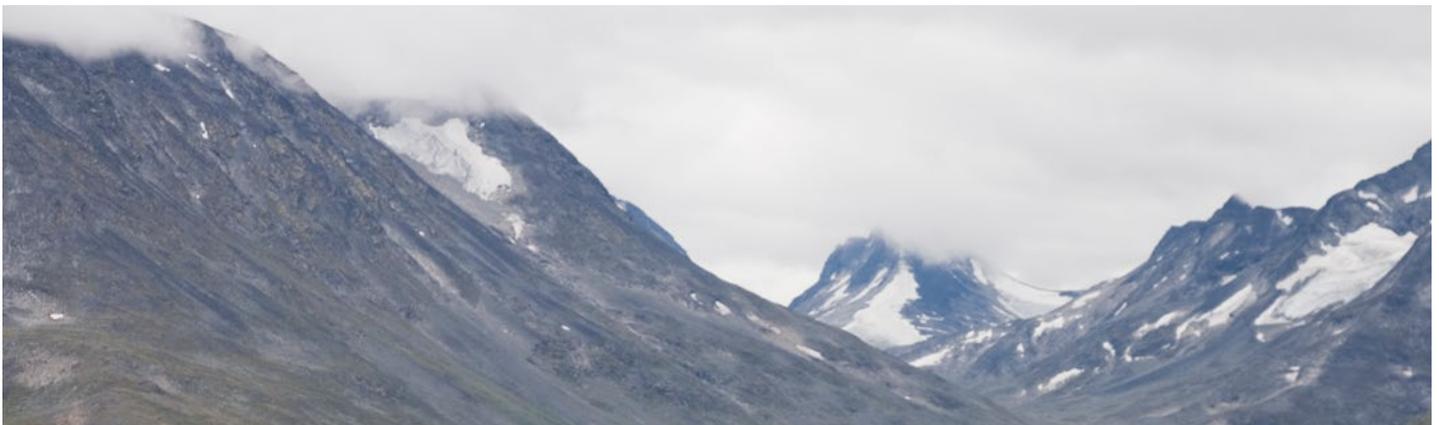
Which European countries do you believe will be the most attractive for foreign investment in 2021?



A resilient pipeline of UK projects – with Scotland well-placed to capitalise

These perception findings – with Scotland’s attractiveness ranked as second only to London within the UK, Europe’s most attractive country for FDI – puts Scotland in a strong position to capitalise on what promises to be a full pipeline of

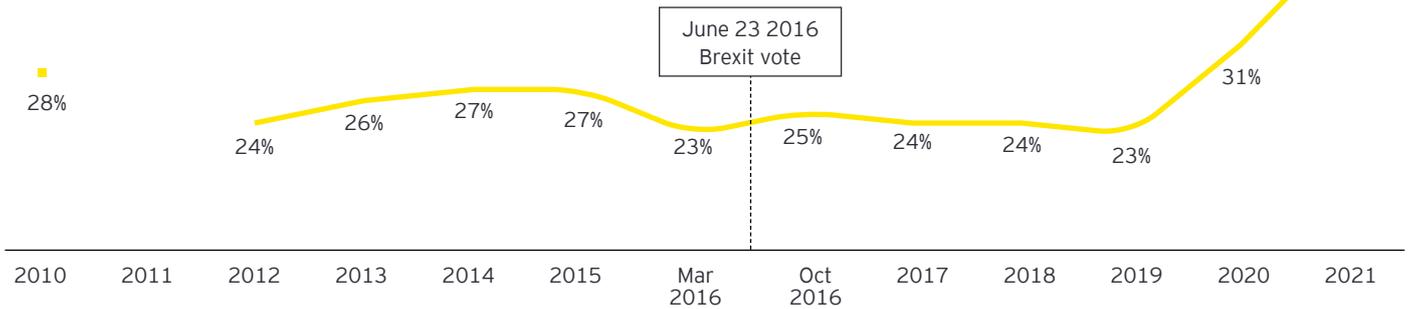
projects coming into the UK in the coming months and years. Despite the decline in actual UK project numbers in 2020, our findings on investors’ future intention to invest in the UK are very encouraging. Some 41% of investors in our UK survey are planning to invest in the UK in 2021 – the highest figure ever recorded in this research, up from pre COVID-19 levels of 31% in 2020 and 23% in 2019.



Are you intending to establish or expand operations in the UK in the coming 12 months?

This is an increase from only 23% in 2019, and a 10-year high

Plan to establish or expand operations over the coming year in UK, prior to COVID-19

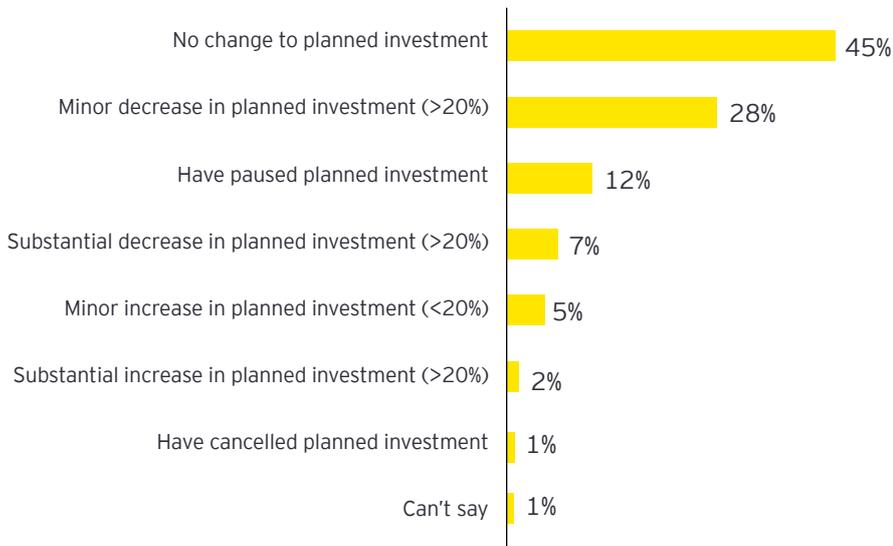


Source: EY's UK Attractiveness Survey 2021 (570 C-suite interviews)

The UK's score in 2021 is also marginally higher than the proportion intending to invest in Europe as a whole, at 40%, but narrowly behind France (44%) and Italy (48%). Provided Europe's vaccination programs – including the UK's – continue to progress, it is likely that international businesses will be investing heavily across Europe to make up for last year's

project delays, with the UK set to benefit. Further positive sentiment for the UK is provided by the declining share of respondents changing their plans. In the Autumn of 2020 some 57% of respondents to our UK survey said they had cancelled, decreased or paused investments in the UK. This has now fallen to 48%, underlining the upturn in mood.

Have you changed your plans for investment in the UK as a result of the COVID-19 pandemic?



Source: EY's UK Attractiveness Survey 2021 (570 C-suite interviews)

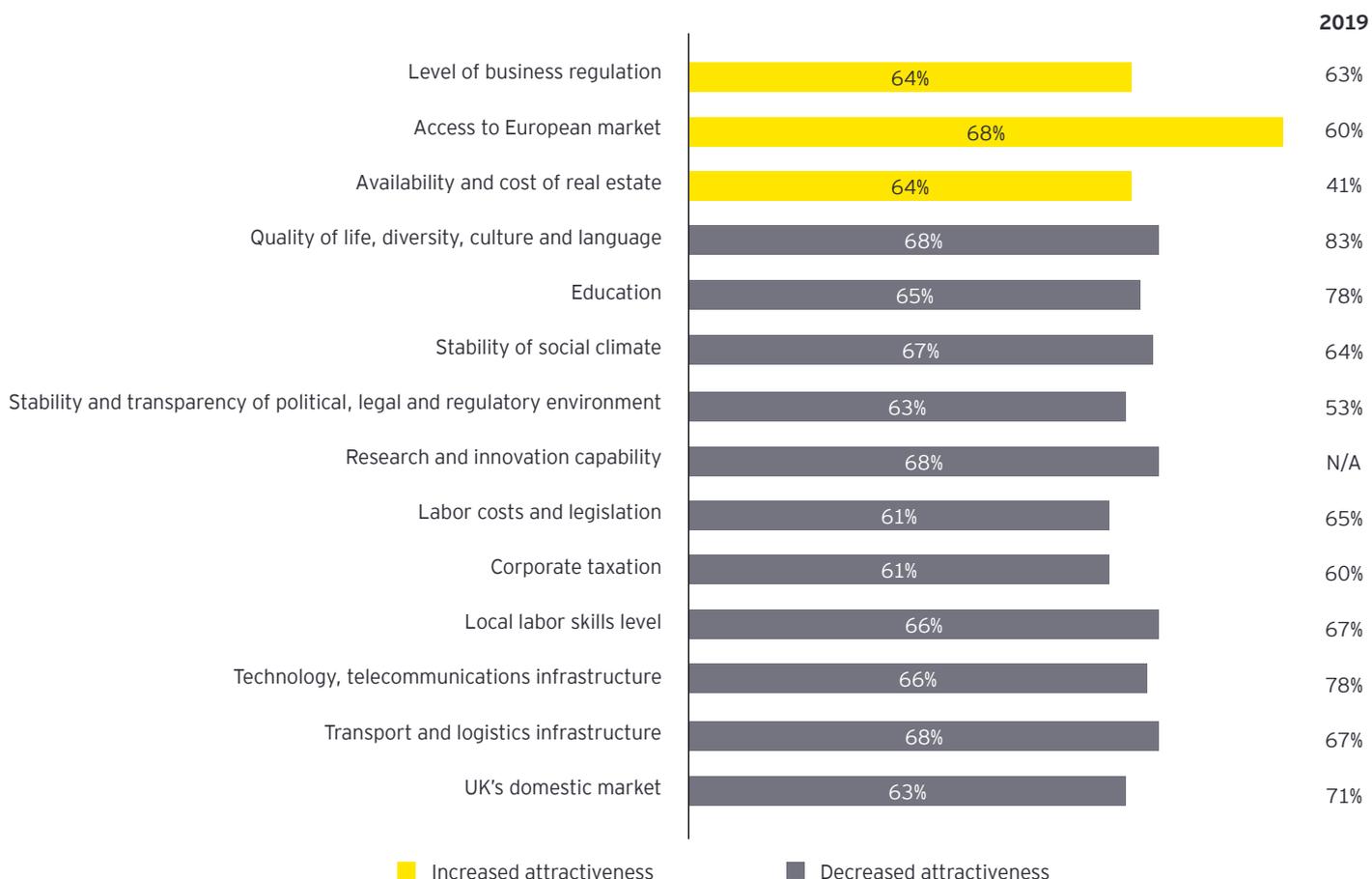
The factors influencing UK attractiveness remain largely consistent ...

The findings on the characteristics and sectors that are driving the UK’s attractiveness provide valuable insights for Scotland as it looks to increase its appeal to investors in the post-pandemic world. In terms of the UK’s most attractive characteristics, there has been little change since this we last asked this question in 2019. The only significant shifts are some positive moves in those attributes of the UK that are

deemed attractive or strongly attractive. For example:

- ▶ The proportion saying the UK is attractive because of access to the European market has risen to 68% in 2021 from 60% in 2019, probably because the Brexit deal is now done
- ▶ UK labour costs have risen in attractiveness to 62% from 51%
- ▶ The attractiveness of the UK’s transparency of politics and regulation has increased to 63% from 53%, as fears over a failure to reach a trade deal after Brexit have gone away.

For each of the following criteria, from the point of view of your company how attractive is the UK as an FDI destination?



Source: EY’s UK Attractiveness Survey 2021 (570 C-suite interviews)

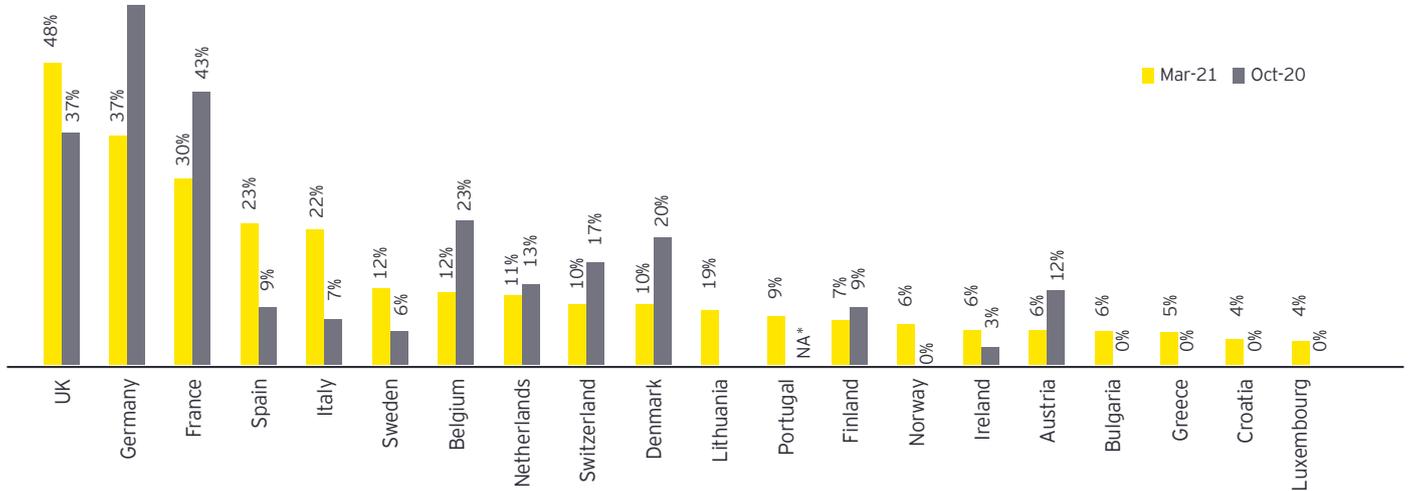
... but it's seen as having the most investor-friendly COVID-19 recovery plans ...

A further positive development is that investors perceive the UK as having the most appealing post-COVID-19 recovery

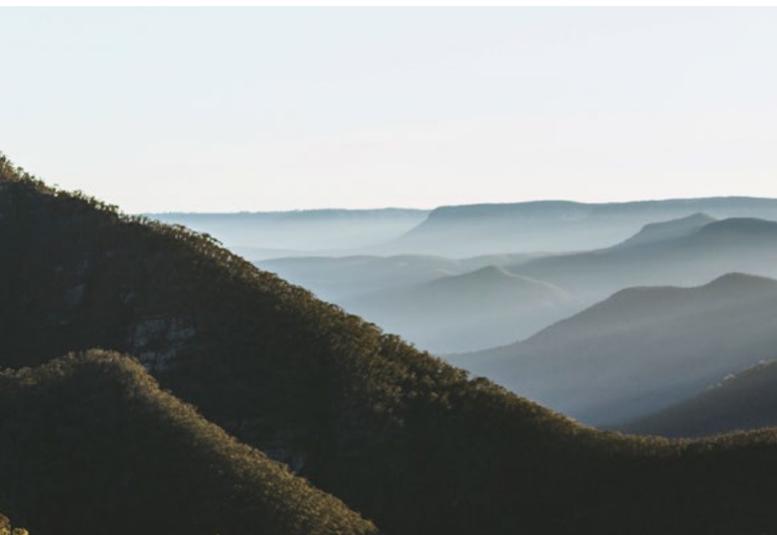
strategy in Europe, marking a big shift since the Autumn of 2020. Going forward, it's possible that the impact of the UK's apparently faster emergence from the pandemic due to its speedier vaccine to roll-out may continue to bolster perceptions of the UK as an investment destination.

Which European countries do you believe have the most credible and investment-friendly COVID-19 recovery plans?

Select up to three options



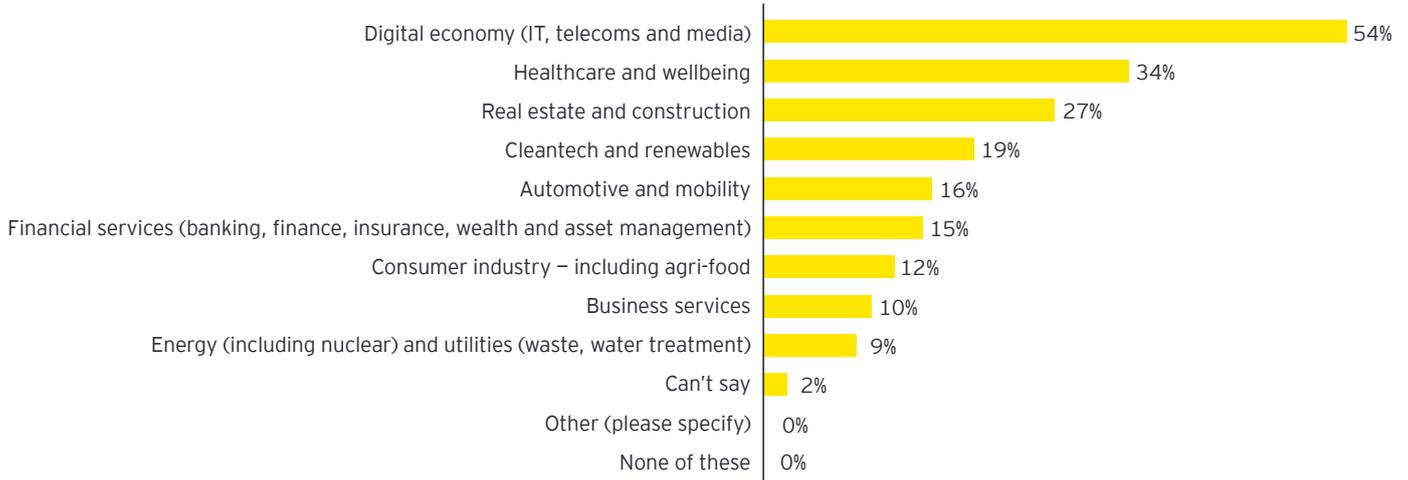
Source: EY's European Attractiveness Survey 2021 (550 C-suite interviews)



... as sectors like digital and cleantech come to the fore

As Scotland looks to leverage these advantages at a UK level to help grow its attractiveness, our findings on investors' expectations for which sectors will drive the UK's growth highlight some clear priorities. It bodes well that the digital economy – the top sector FDI sector in 2020 both for Scotland and the UK overall – was identified by investors as the highest potential opportunity for the UK. The continued strength of healthcare in second place is little surprise given the UK's successes with COVID-19 vaccines and the increasing focus on health more generally. The UK cleantech and renewables sector also continues to gain ground, having scored 5% in 2018 and now 19% in 2021. These are all sectors where Scotland has a strong track record and skills base, again suggesting it's well-placed to secure future FDI projects.

In your opinion, which main business sector will drive the UK's growth in the coming years?



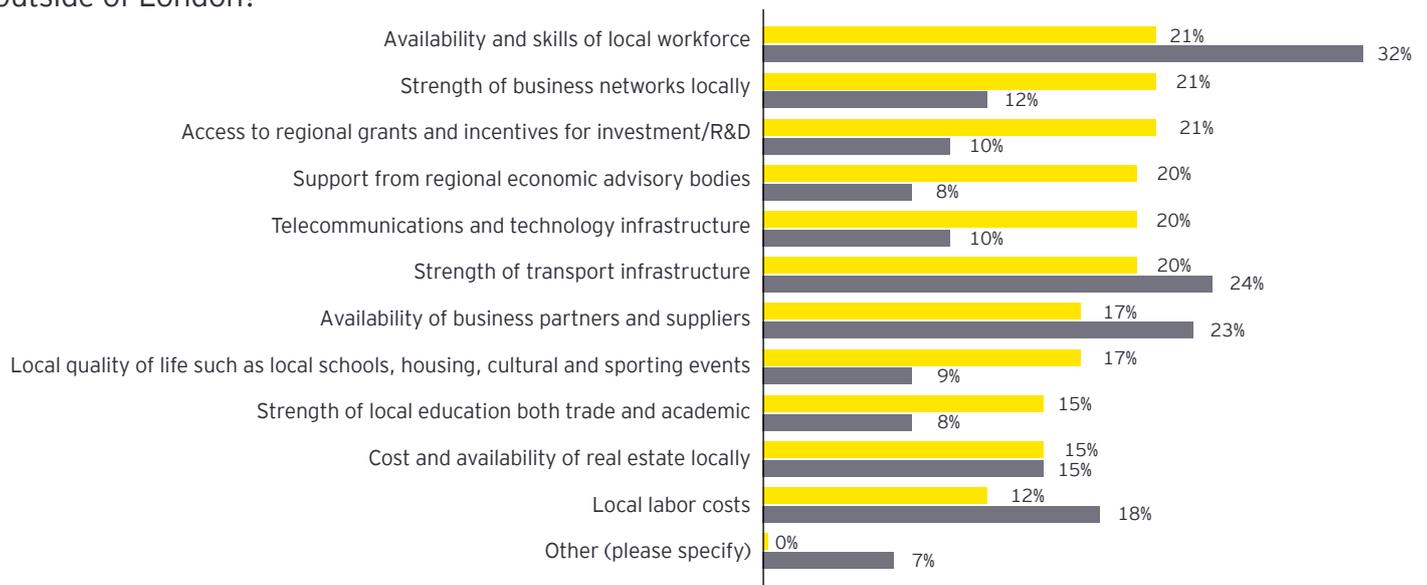
Source: EY's UK Attractiveness Survey 2021 (570 C-suite interviews)

Investors outside London are seeking infrastructure, skills and business networks

So, as investors consider where to locate their UK projects, and look increasingly outside London for locations, how can Scotland maximise its chances of securing FDI? Our findings show that investors' wish-list is topped by the strength of infrastructure (taking the technology and transport

categories together) and skills. Local business networks and regional grants and incentives are also highly influential. With other findings showing that 45% of investors indicating are planning to reshape their supply chains, there's also a major opportunity to target companies looking to reshore activities to the UK. It's all to play for – and our research shows that Scotland has a very strong hand.

What are your investment criteria when considering investing in the regional locations in the UK outside of London?



Source: EY's UK Attractiveness Survey 2021 (570 C-suite interviews)

■ 2021 ■ 2019

Beyond

The outlook for
Scottish FDI



3

Amid arguably the most challenging environment for FDI in living memory, it's clear that Scotland has put in an impressive performance over the past year. Not only did it increase its complement of projects secured in 2020, but it has also positively increased its relative attractiveness in the eyes of the investors we surveyed in 2021. Taken together, our data both on Scotland's FDI showing in the "Now" and the investors' evolving perceptions in the "Next" suggests that Scotland can look to the "Beyond" with confidence, as it seeks to sustain and grow its momentum.

Zeroing in on the findings, Scotland can draw many positives from this year's report,

including:

- ▶ An increase in project numbers and UK market share in 2020 amid a decline in UK FDI projects overall, consolidating Scotland's ranking as the UK's second most popular FDI location behind London – a position it has held since 2014.
- ▶ An especially strong rise in 'new' projects from first-time investors in the UK, which leapt by 32.6% to 61 projects – the highest total for five years.
- ▶ Scotland's highest level of perceived attractiveness ever recorded, with 15% of overseas investors citing it as the UK's most attractive FDI location.
- ▶ Going forward, a resilient pipeline of planned projects for the UK that Scotland is well-placed to capitalize on in a post-COVID-19 world.

Scotland's ability to win the battle for FDI can be strengthened by its ability to reflect investors' evolving priorities when selecting an investment location. In our 2021 investor survey, respondents highlighted the importance of infrastructure (both transport and tech/telecoms) and skills when choosing an FDI location outside London. These are acknowledged strengths for Scotland.

Also, in terms of the sectors that investors see a driving the UK's future growth, the list is headed by the digital economy and healthcare, with cleantech and renewables on the rise.

Again, these are all areas where Scotland can punch above its weight – as underlined by the country's hosting in November 2021 of the 26th UN Climate Change Conference postponed from 2020.

Building FDI attractiveness in a post-pandemic world

In light of investors' evolving priorities, the challenge facing Scotland – as in previous years – is to design, implement and clearly articulate appropriate policies and incentives to keep attracting FDI. At a country level, several of our perception findings suggest that the experience of the pandemic has increased investor's awareness of risk, making the quality of a nation's pandemic response an important consideration in their choice of location. Here both Scotland and the UK more generally will benefit from the success of the vaccine roll-out.

A further pervasive theme in our 2021 perception study is that investors are going to be more demanding of governments in the future. Many of investors' key priorities fall within the ambit of government to influence or enact – including high-quality infrastructure, commitment to sustainability, digital adoption, investment support, business networks and skills. Given this trend, clear and regular engagement by government with investors will be vital, supported by targeted initiatives in the areas that really matter to investors, such as digital infrastructure.

As we've highlighted in previous reports, the Scottish Government has already made great strides towards realizing the multifaceted opportunities on offer. The positive FDI performance and perceptions showcased this year reflect the relevance and effectiveness of those past initiatives, from establishing Innovation and Investment Hubs in several European cities to reorganizing Scottish Development International (SDI). Now it's time to up the pace by pinpointing and doubling down on investors' priorities in terms of support and sectors. As the world moves beyond the pandemic, Scotland is superbly positioned to sustain and grow the contribution of FDI to its economy – to the benefit of everyone in the country.

Methodology

How EY researched the report

The “real” attractiveness of Scotland for foreign investors

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

An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity and takes a role in its management. FDI includes equity capital, reinvested earnings and intracompany loans. However, our figures also include investments in physical assets, such as plant and equipment. And this data provides valuable insights into:

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

The EY EIM is a leading online information provider that tracks inward investment across Europe. This flagship business information tool is the most detailed source of data on cross-border investment projects and trends throughout Europe. The EY EIM is frequently used by government bodies,

private sector organisations and corporations looking to identify significant trends in employment, industry, business and investment.

The EY EIM database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 news sources.

To confirm the accuracy of the data collected, the research teams aim to directly contact more than 70% of the companies undertaking these investments. The following categories of investment projects are excluded from the EY EIM:

- ▶ M&A and joint ventures (unless these result in new facilities or new jobs being created)
- ▶ License agreements
- ▶ Retail and leisure facilities, hotels and real estate*
- ▶ Utilities (including telecommunications networks, airports, ports and other fixed infrastructure)*
- ▶ Extraction activities (ores, minerals and fuels)*
- ▶ Portfolio investments (pensions, insurance and financial funds)
- ▶ Factory and other production replacement investments (e.g., replacing old machinery without creating new employment)
- ▶ Nonprofit organizations (charitable foundations, trade associations and government bodies)

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



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

We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country's or area's ability to provide the most competitive benefits for FDI. The field research was conducted by Euromoney in March and April 2021 via online interviews, based on a representative panel of 570 international decision-makers.

About the EY Attractiveness program

EY Attractiveness Surveys are widely recognized by clients, media, governments and major public stakeholders as a key source of insight into FDI. Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses make investment decisions and governments remove barriers to growth.

A two-step methodology analyses both the reality and perception of FDI in the country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

The program has a 20-year legacy and has produced in-depth studies for Europe, a large number of European countries, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit:

www.ey.com/en_uk/attractiveness #EYAttract

The *Scotland Attractiveness Survey* is part of the EY Economics for Business program, which provides knowledge, analysis and insight to help businesses understand the economic environments in which they operate.

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