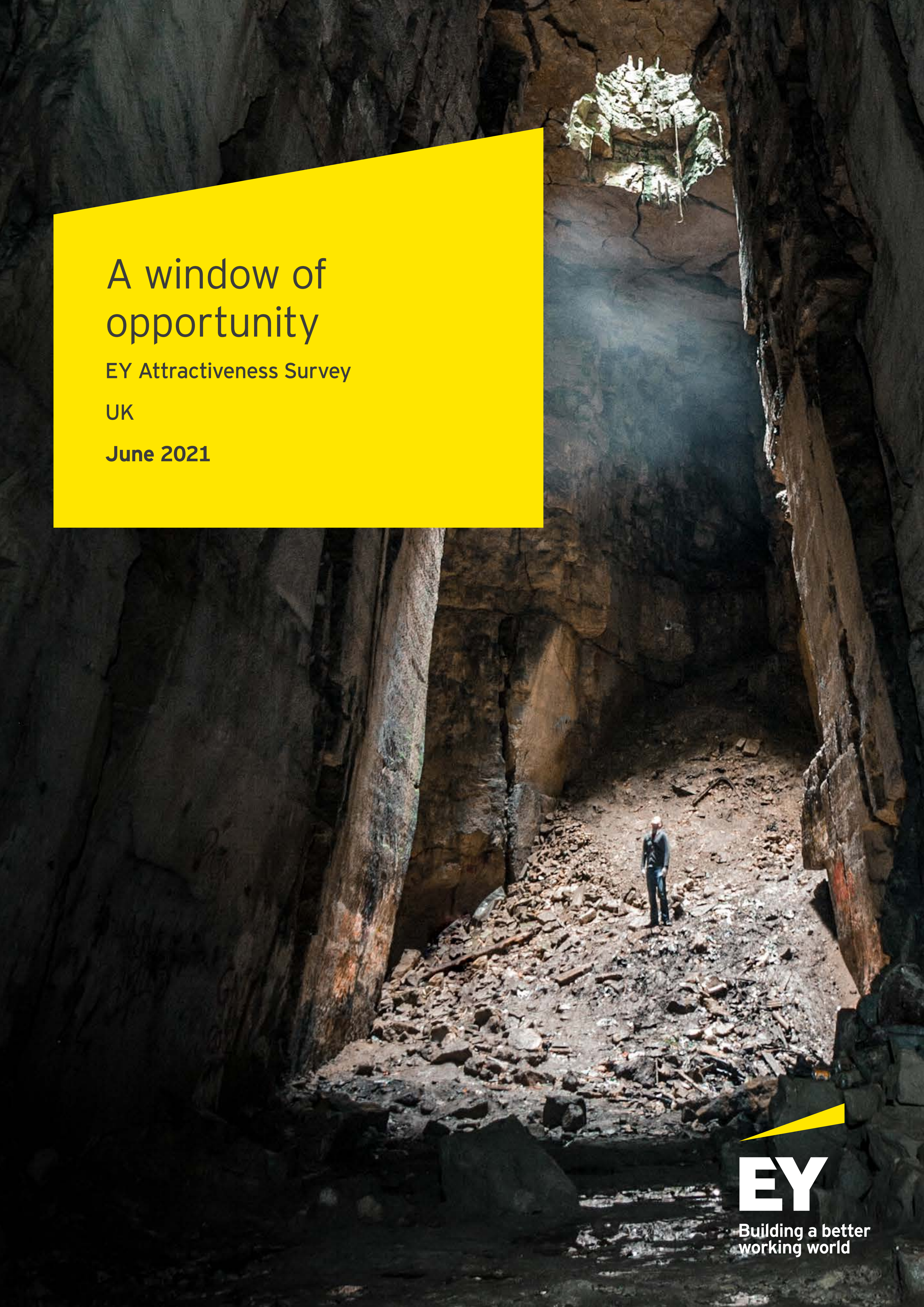


A window of opportunity

EY Attractiveness Survey

UK

June 2021

Building a better working world

Contents

Foreword

EY's 2021 UK Attractiveness Survey

Welcome to EY's *2021 UK Attractiveness Survey*, which examines the performance and perceptions of the UK as a destination for foreign direct investment (FDI). This report reflects our desire to encourage an open exchange of information and insight between business leaders, investors and policymakers on how to enhance the UK's economic performance. Never has this been more important than today as we begin to plan how to build back better after the shock of the last 18 months.

Alison Kay
UK&I Managing Partner
for Client Service,
Ernst & Young LLP (UK)
linkedin.com/in/alison-kay

Peter Arnold
UK&I Partner,
Economic Advisory,
Ernst & Young LLP (UK)

The UK fared better than we expected in attracting FDI in 2020. Project numbers were down 12%, slightly less than the overall fall in the European market but significantly better than the 30% fall suggested by the investors we surveyed in the autumn. The UK's continuing advance in securing research and development (R&D) projects, retaining first place in Europe for new projects achieved, and strong growth in life sciences, logistics and food were further signs of a dynamic, adaptable economy. While London's difficult year is a concern, the 2020 results suggest that the message on 'levelling up' is beginning to land. There has been a solid performance elsewhere around the UK and a strengthening in investor perceptions of the attractiveness of the UK's nations and regions beyond London and the South East.

The UK's attractiveness has proven to be resilient throughout the pandemic and short-term investment intentions are the highest ever recorded in our survey, suggesting a surge from pent-up demand. Medium-term perceptions of the UK are back to levels not seen since before the Brexit referendum. The UK is now ranked as the most attractive destination in Europe and as having the most appealing COVID-19 recovery plan. With London regaining its status as the most attractive city in Europe for FDI, the outlook is positive.

Investors were planning significant investment in the UK in 2020 before the pandemic struck and they remain convinced of the UK's resilience and future potential. The sectors cited as 'high potential opportunity' over the long term for investors were digital and health and wellbeing however they were keen to see more on the UK's plans for cleantech. With COVID-19 having added to the momentum for change in supply chains, reshoring offers opportunities to strengthen the UK's manufacturing base.

Notwithstanding the difficulties of the year, the UK now has a window of opportunity to build on its proven strengths by implementing responses aimed at securing its long-term attractiveness to FDI. In this report, we suggest a set of policy steps to help to achieve this, as the UK develops its new post-EU, post-pandemic economic identity. We at EY look forward to supporting and participating in that renewal.

Executive summary

A better than expected performance ...

In any normal year, the 12% fall in the number of FDI projects attracted to the UK in 2020 compared to the previous year would be a major cause for concern. However, viewed against a fall of 13% in the European market and investor surveys in the autumn indicating that 30% of planned investments in the UK were likely to be either cancelled or paused in 2020, the actual outturn was significantly better than expected. With 975 projects, the UK attracted only 10 fewer projects than the European market leader, France, a much smaller gap than the difference of 88 projects in 2019.

UK		France
1,109	2019	1,197
975	2020	985

inward investment projects

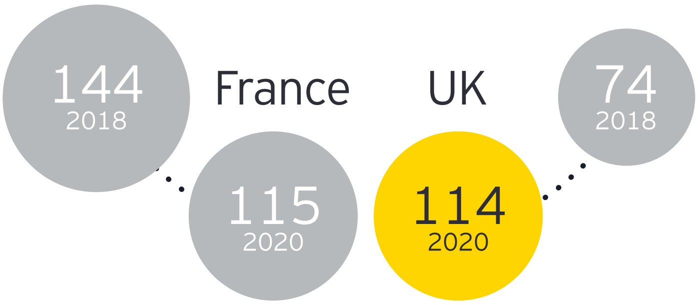
... with the UK demonstrating its underlying resilience ...

In a difficult year, the UK's regions and nations demonstrated the underlying strength of their offer to investors. Despite a 12% fall in projects overall, London and the South East were the only regions to suffer a double-digit fall in volume, with Northern Ireland, Scotland, the East of England, the North East, the North West and the South West all bettering their previous year's performance in 2020.

In a difficult year, the UK's regions and nations demonstrated the underlying strength of their offer to investors

… and its dynamism …

Faced with such a challenging environment, both the strong performance of the life sciences, transportation and logistics, and food sectors, and the UK's retention of its lead in attracting new projects, a sign of dynamism, demonstrated the country's ability to adapt to circumstances. However, the most striking illustration of the UK's shift towards higher value projects was provided by the 114 R&D investments achieved, only one behind the European leader, France, representing huge progress from the situation in 2018 when France attracted 144 projects, close to double the 74 achieved by the UK that year.



R&D projects

… though there were challenges

Unsurprisingly, the UK did not emerge unscathed from the impact of COVID-19. While the UK retained its leadership position for digital investment in Europe, project numbers fell by 25%, almost double the fall in the market, with London and the South East accounting for the whole of the decline in UK project numbers. And while overall, the UK's share grew for the second year running following three years of decline after the Brexit vote, financial services, manufacturing and HQ activity levels remain way below their peak levels.

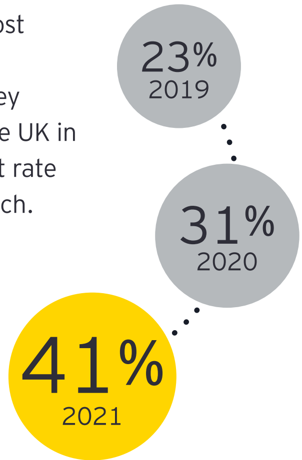
Our optimism over the emergence of new origins for investment into the UK was also quashed in 2020. Volumes of projects fell from 9 of the 10 fastest-growing new sources of FDI into the UK compared to 2019 – only China with a slight increase from 32 to 34 projects bucked the trend. Inflows from the EU and the USA accounted for 67% of all UK FDI projects in 2020, up from 64% in 2019. Investment from Japan continued its decline and was less than half its peak share of almost 30% in 2010.

The UK has weathered the storm …

Investor confidence fell in 2020 as the UK battled to deal with the impact of COVID-19. In our survey in autumn 2020, the UK was ranked behind Germany and France for its post-pandemic attractiveness, and intentions to invest in the coming year had fallen by 20% from the spring.

The mood has now changed:

- The UK is now viewed as the most attractive destination in Europe for investment and 41% of survey respondents plan to invest in the UK in the next 12 months, the highest rate ever in the history of our research.
- Further support for the upturn in sentiment comes from the net positive 30% of investors expecting the UK's attractiveness to improve over the next three years, a major improvement on the net negative 29% in 2020.

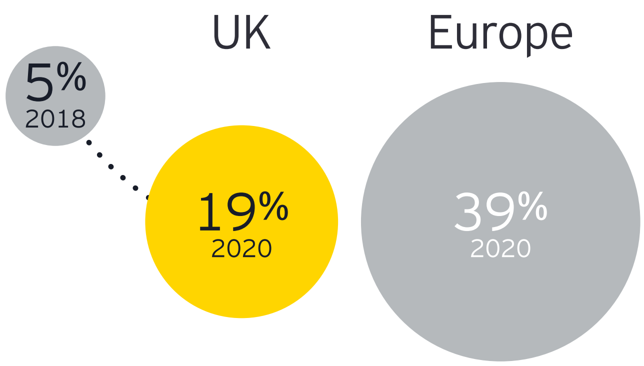


Even allowing for the need to be cautious in interpreting survey responses in what remains an uncertain and volatile environment, these are very encouraging findings. The UK's successful vaccination program appears to have played a major part in the improved confidence: investors now view the UK as having the best COVID-19 recovery plan in Europe.

… and is well-positioned for future opportunities …

The improved sentiment towards the UK provides a strong platform for recovery. The challenge now is to take advantage of the emerging opportunities. We surveyed investors globally to identify future growth opportunities – the responses offer real hope for the UK. 54% of respondents identified digital and 34% health and wellbeing as the main drivers of UK growth in future. With the country being the European leader in the former and second to France in the latter in 2020, the UK is well-positioned for growth. This view is reinforced by investor sentiment towards digital at 51% and health and wellbeing at 27% for Europe, lagging behind the UK rankings.

Despite 19% of investors identifying cleantech as a growth opportunity, a near fourfold improvement since 2018, there is more of a challenge for the UK in this sector as the equivalent score in Europe is 39%. With 85% of investors supporting the view that Europe is a leader in this sector, the UK will need to continue to work to improve its offer. Indeed, cleantech is important not just as a sector in its own right but in terms of how it shapes investor perceptions towards the country as a whole – 60% of investors identify strong sustainability policies as important in the selection of investment destinations.

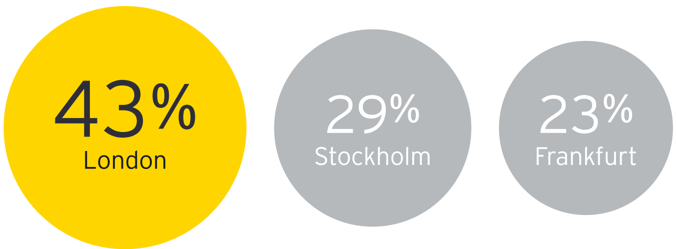


Percentage of investors identifying cleantech as a main driver of UK growth

Cleantech is important not just as a sector in its own right but in terms of how it shapes investor perceptions towards the country as a whole

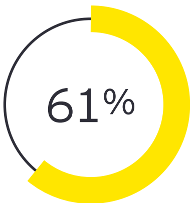
... across the whole of the country

With 43% of investors across Europe ranking London as the most attractive city for investment, up from 28% last year when it lagged the 31% achieved by Paris, the city's poor performance in 2020 appears to be a one-off. Nevertheless, there does appear to be a welcome shift in the balance of attractiveness across the UK. While London remained the most attractive UK destination with 25% of investors citing it, this was nearly half the 46% seeing London in this way in 2019. By contrast, 15% of investors, more than double the share in 2019, identified Scotland as their preferred location and nearly every region in England improved their performance over that of two years ago, the last time we asked the question.



Cities identified as the most attractive for FDI over the next three years

It does appear the 'levelling up' message has landed with investors. 61% of respondents were aware of the policy, a significantly greater cut through than the 'geographic rebalancing' ambition ever achieved. There is scope to build on the opportunity – 45% of investors are planning to change their supply chains in future with 20% considering reshoring to the UK. With the likely manufacturing and logistics opportunities created likely to fall outside of London and major cities, this may be a one-off opportunity to reshape the UK's economic geography.



61% of investors are aware of the UK Government's levelling up policy

But this is a competitive and demanding market

With the UK, France and Germany all being the closest they have been for a decade in terms of projects attracted in 2020, and investors telling us they expect lower levels of FDI activity for the foreseeable future, competition for projects will be intense. Since 2016, the UK's attractiveness to investors on a range of criteria, such as political stability, labor skills and quality of infrastructure, fell by around one quarter on average. There is no room for complacency — the UK must continue to improve its offer.

There is no room for complacency — the UK must continue to improve its offer

Investment policy proposals – seizing the opportunity

Our investor research provides a clear guide to the policy priorities. The quality of the health system, sustainability and climate change, and the impact of technology are the three themes identified as most important in shaping investment strategy, and the identification of infrastructure investment, R&D funding and supporting the shift to net zero as three of the top five investor policy priorities are consistent with these. In addition, the increase in respondents asking for greater support for foreign investors and reductions in corporate taxation levels reflect both the financial challenges investors face after the pandemic and their nervousness about how governments will seek to manage public finances in future.

Entrepreneurial leadership is required to shape and communicate the UK offer to investors

A consistent theme in our research is that investors are going to be more demanding of governments in future than was previously the case. The provision of high-quality infrastructure, promoting sustainability, encouraging digital adoption, offering investors government support, helping build supply chain and support networks, and improving skills, all feature high on the list of investor priorities. And it is not just in the traditional areas that FDI policy has sought to influence. Since the pandemic, the quality of healthcare and crisis management are potentially major sources of differentiation between countries, while investors are alert to the possibility that corporate taxation levels will be raised to help repair public finances.

Attractiveness is also becoming a wider concept. Future investors in sectors such as technology and green growth will take a more holistic approach with a greater focus on lifestyle, diversity and tolerance. Our research demonstrates that investors have moved from having one or two priority policy areas, such as the quality of infrastructure and skills, to requiring a consistent offer across a range of factors identified above. The UK must articulate both its vision and how policy can deliver on this, ensuring integration across the whole of government.

To illustrate the issue, let us consider the fiscal environment. With an ongoing debate about corporate taxation globally as well as recent UK tax policy shifts, the importance which investors attach to corporate taxation levels has increased in our survey. Alongside this, investors are aware of the public support that has been announced for recovery in the US and EU. As such, they will want to understand the mix of incentives and taxes they may be subject to and how this may develop over time. A clear articulation of the UK's position is required. Regular engagement with investors will enable both consultation on policy proposals and communication of decisions. The higher awareness of 'levelling up' in 2021 compared to 'rebalancing' in 2016 illustrates how beneficial this approach can be.

Having established a clear framework to communicate policy, there is an opportunity to develop targeted initiatives to attract FDI in the priority areas that form the core of the UK's Building Back Better strategy. We identify three areas below where policy can help bring Global Britain to bear on FDI opportunities.

Supported by tailored strategies

Within the overall framework, there are a number of priority areas that require tailored approaches: R&D, innovation and digital; cleantech; levelling up; and financial services. We outline our thoughts on the first three below, with financial services being covered in detail in our *2021 UK Attractiveness Survey for Financial Services* analysis.

1

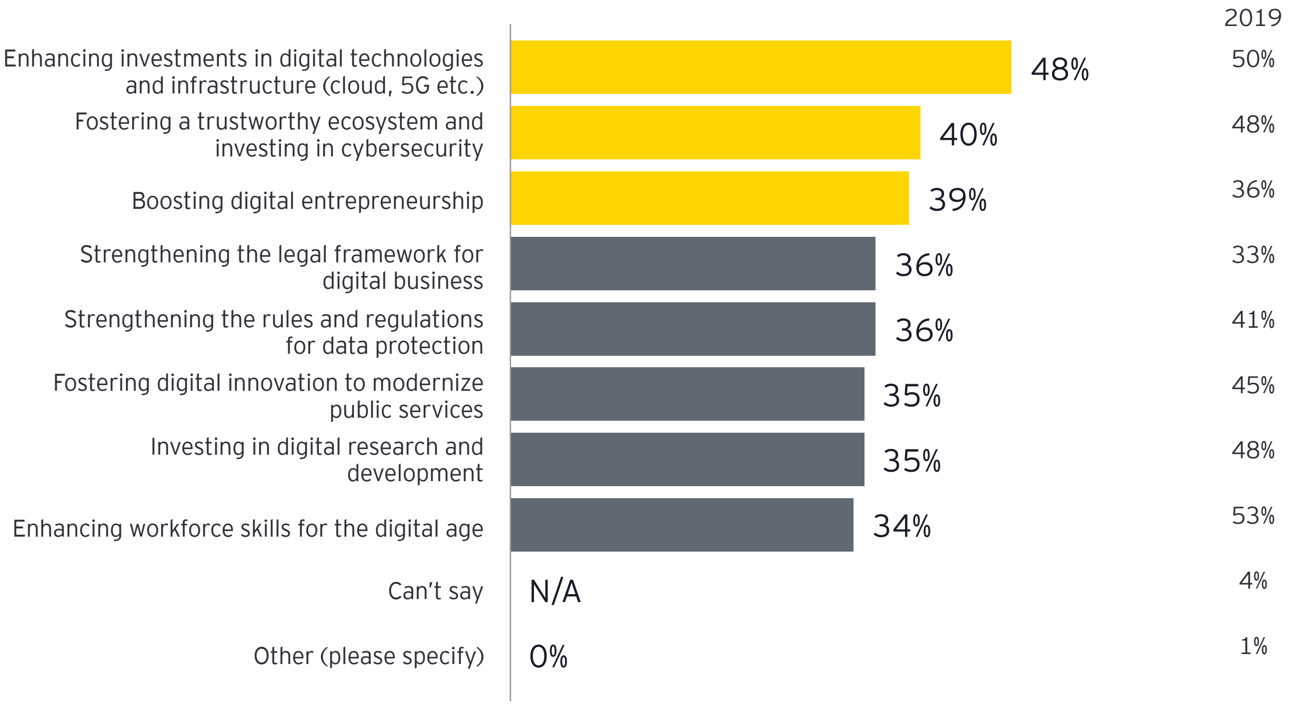
R&D, innovation, research and digital

The UK's success in attracting 62% more life sciences projects and increasing R&D inflows by 12% confirm that the UK has made significant progress in strengthening its offer around innovation in recent years. While 2020 was a concerning year for the digital sector, the signs are that both the sector and its main destination, London, will remain attractive to investors in future.

Unsurprisingly, skills matter to investors in knowledge-intensive sectors such as life sciences and digital technology but there is less concern than might be expected about levels of R&D funding. In terms of where the UK should focus to best support its transformation to a digital economy, investors send some further clear messages regarding specific sectors. Digital infrastructure emerges as the top priority followed by cybersecurity, again mirroring increased concerns over risks. The next three priorities are centered around entrepreneurship, protecting intellectual property (IP) and data protection – all of which reflect specific industry features that could be used to differentiate the UK in the European and global battle to attract FDI.

All of this represents a quite significant shift in priorities since 2019, when we last asked the question, with skills declining in importance and digital infrastructure rising strongly to top the ranking. Investors in our study also believe that strengthening the legal framework for digital business has also more become more of a priority for the UK over the intervening two years.

Figure 1: Digital transformation is creating opportunities for UK business. In your view, where should the UK Government concentrate its efforts to best support the UK's transformation to a digital economy?



Source: *EY Attractiveness Survey UK*, June 2021 (total respondents: 570)

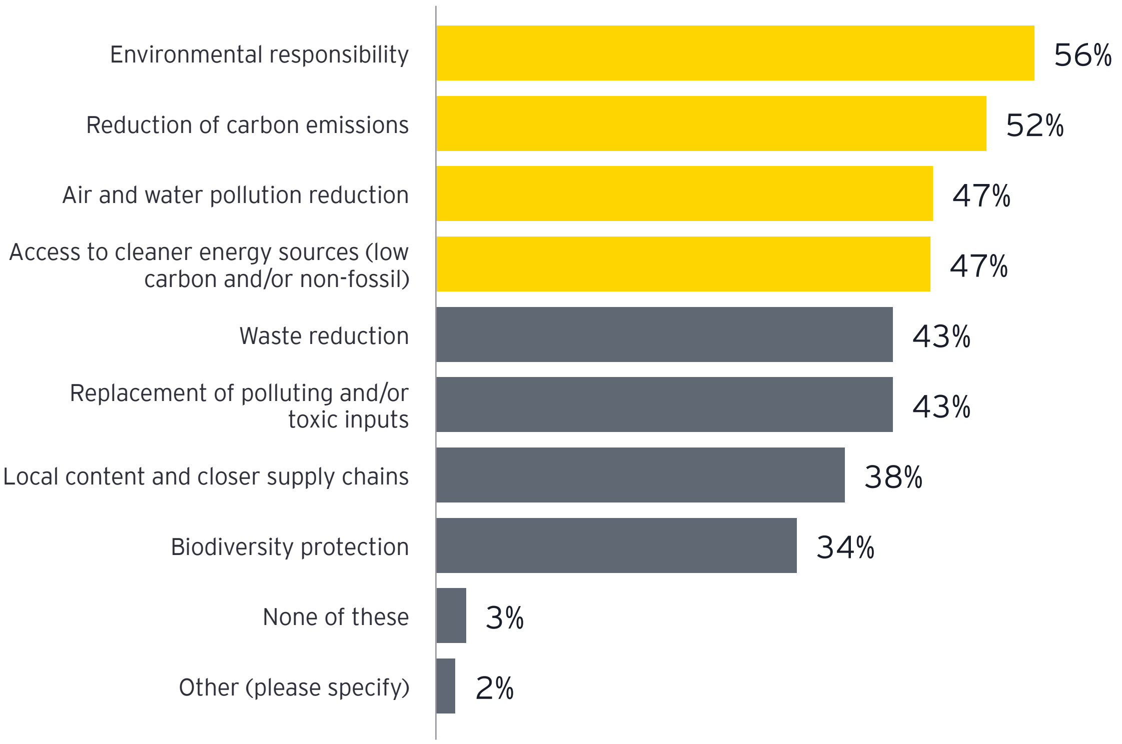
2

Cleantech

While the UK's appeal to cleantech investors is growing, Europe is perceived as a global leader and as being some way ahead. More policy certainty is required for investors in this sector as investment horizons are very long term. In addition, as the investor responses to our European survey demonstrate, there are areas where governments can shape policy to align with efforts which investors plan to take to include sustainability in their activities. Once again, investor engagement will be crucial.

More policy certainty is required for investors in the cleantech sector

Figure 2: Will you increase your focus to include sustainability in your future investment projects, and if so, in which areas?



Source: *EY Attractiveness Survey Europe*, June 2021 (total respondents: 550)

3

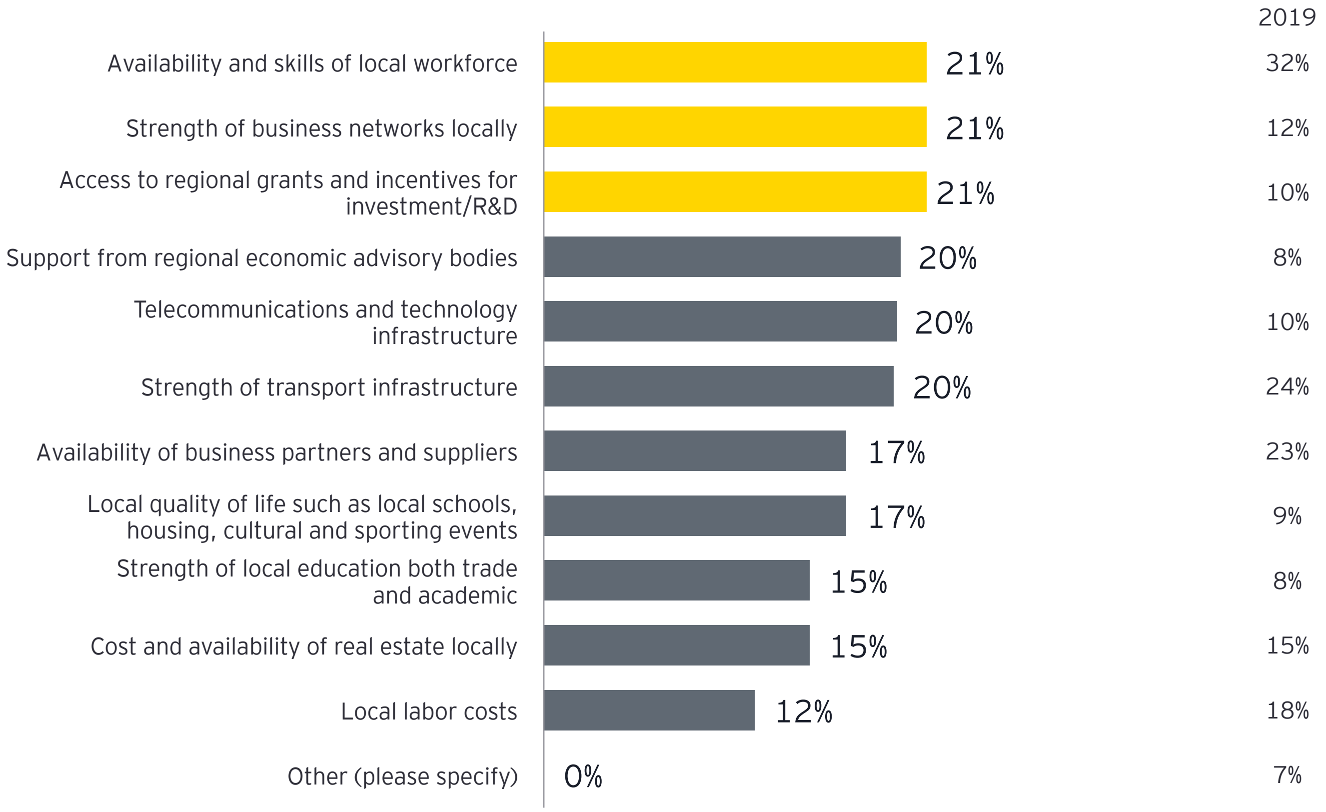
Levelling up

Our finding on investor awareness of 'levelling up' and the shift in perceptions of the relative attractiveness of London and the rest of the UK are signs of the first 'green shoots' in the attempt to reshape the UK's economic geography. There is still much to do and, just as at the national level, investors have a detailed list of requirements when they consider where in a country to invest. When investing in UK regions outside of London, the list is topped by the strength of infrastructure (taking the technology and transport categories together) and skills. However, local business networks and regional grants and incentives are also highly influential.

A comparison with 2019 shows that business networks and support from regional economic advisory bodies have both increased strongly in importance. This could potentially reflect investors' awareness of the UK Government's 'levelling up' agenda, which may boost the support available to inward investors looking to locate projects in regions outside London.

In addition, with 45% of investors indicating plans to reshape their supply chains, especially companies in the manufacturing sectors, there is a need to target potential investors and reshoring activity. Support for investment beyond the recently introduced enhanced capital allowances and work to develop supply chain strategies could generate significant returns as the world prepares for life after COVID-19.

Figure 3: What are your investment criteria when considering investing in the regional locations outside of London in the UK?



Source: *EY Attractiveness Survey UK*, June 2021 (total respondents: 570)

Better than expected: the UK's FDI performance in 2020

A total of

975

FDI projects were announced in 2020, just 10 projects behind European leader, France

UK's European market share of new projects increased to

19.6%

– the country's best performance since 2015

The UK's shift towards higher value projects was provided by the

114

R&D investments achieved, just one project behind European leader, France

Weathering the storm

A resilient performance ...

After a year blighted by the COVID-19 pandemic and beset by ongoing uncertainty over the risk of a no-deal Brexit, the UK put in a resilient performance. While FDI projects into the UK fell by 12% to 975 from 1,109 in 2019, this was slightly less than the 13% decline to 5,578 projects, down from 6,412, in Europe. The smaller decline registered by the UK resulted in a slight increase in its market share of all projects coming into Europe, from 17.3% in 2019 to 17.5% in 2020.

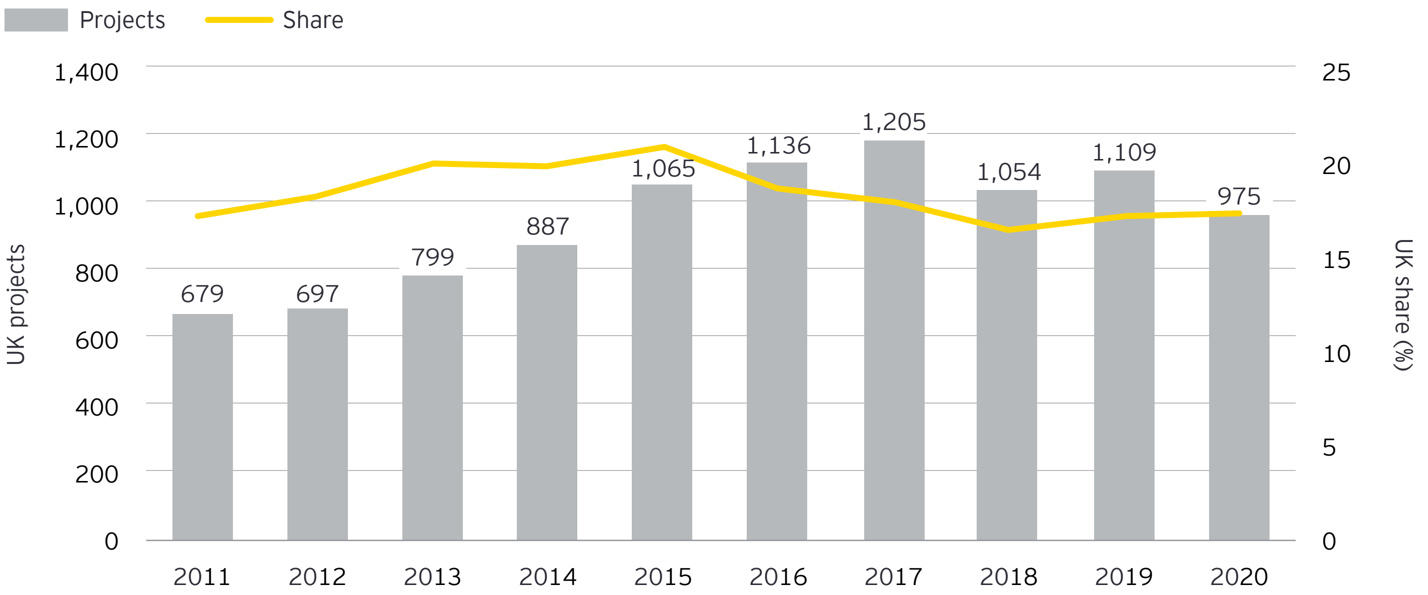
A decline in FDI was perhaps unsurprising given the impact of COVID-19 on the world economy and the pandemic's effects on international travel. It may be significant that Germany and Portugal — which both had lower case numbers in the first wave of infections than the average across the EU — suffered a smaller decline in projects than Europe did as a whole, while harder-hit countries such as Spain and Belgium fared worse in terms of project numbers.

That said, the overall fall in inward investments was less severe than we had feared. In our European survey of investors in autumn 2020, 32% of respondents said they had paused projects in Europe. Also, the fall in projects in 2020 was only the third decline experienced by Europe in the past decade — and despite the reduction, the number of projects still exceeded the level achieved in 2015 and the preceding years.

The UK's resilient performance during 2020 saw it close the gap with France — which took first place in European projects for the first time in 2019 — to almost nothing. Meanwhile, Germany saw an improvement, probably due to its success in handling the first wave of the pandemic better than Europe's other large recipients of FDI. However, it would be unwise to try and draw strong conclusions from the project flows in 2020 as it was such an unusual year. Instead, we will mainly look to assess how the longer-term FDI trends may have been impacted.

These successive annual increases suggest the overall position of the UK has now stabilized, after a run of three year-on-year declines in its European FDI market share between 2016 and 2018. These falls followed the high point for the decade of a 21% share in 2015, and the 2016 referendum on EU membership. However, despite the UK recording a smaller decline in 2020 than Europe as a whole, the absolute number of projects secured was still the UK's lowest total since 2014, when it recorded 887 projects.

Figure 4: Total UK projects and European market share, 2011–20



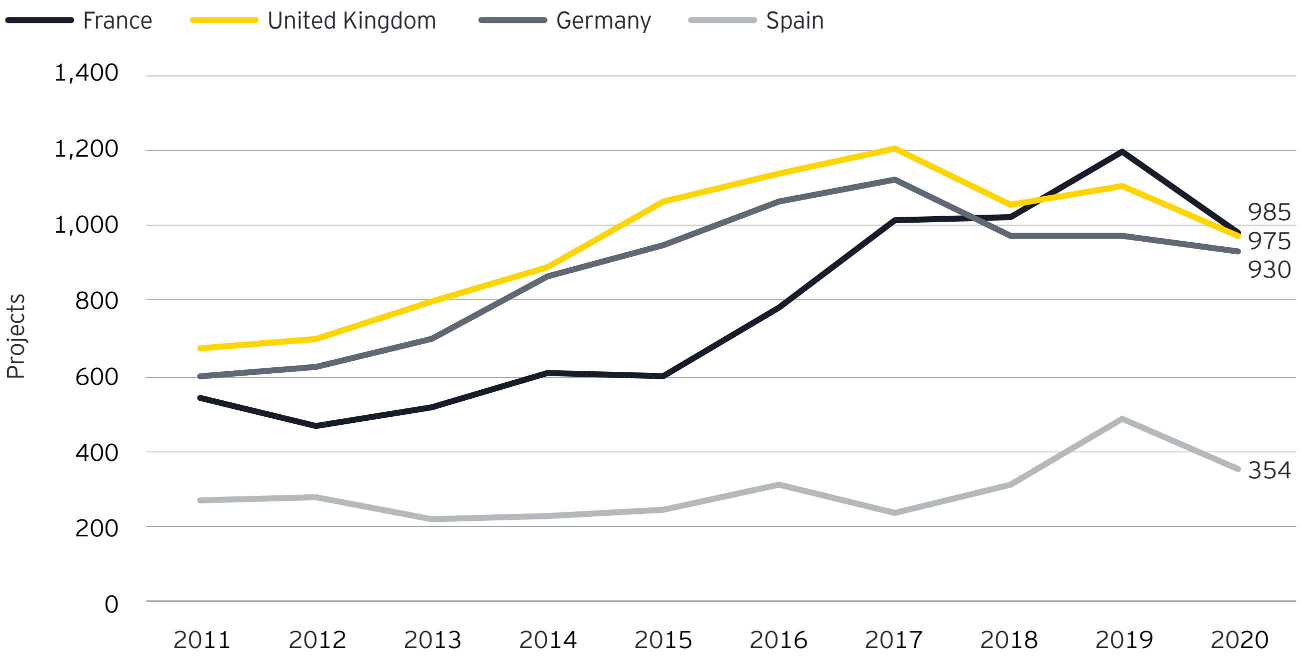
Source: *EY European Investment Monitor (EIM)*, 2011–20

... in an increasingly competitive market ...

In terms of the proportion of European FDI projects going to different countries, the UK lost its leading position for the first time in 2019 when it was overtaken by France. In 2020, France held on to its position as Europe's number one FDI destination, securing 985 projects compared to the UK's total of 975. This gave France a lead of just 1% over the UK, much narrower than the 8% gap recorded in 2019.

Although projects into Germany declined for the third year in succession, albeit at a much slower rate than in the rest of Europe, with German project numbers falling by just 4.2% in 2020, the range between first-place France and third-placed Germany in Europe narrowed to just 45 projects, the smallest for over a decade. While it is dangerous to draw too many conclusions from such an unprecedented year, it does seem likely that the UK's formerly long-standing dominance has ended and that the European FDI market is now much more competitive, with three relatively equal players – France, the UK and Germany – way ahead of Europe's fourth-largest recipient of FDI, Spain.

Figure 5: Total projects secured by Europe's four largest recipients, 2011–20



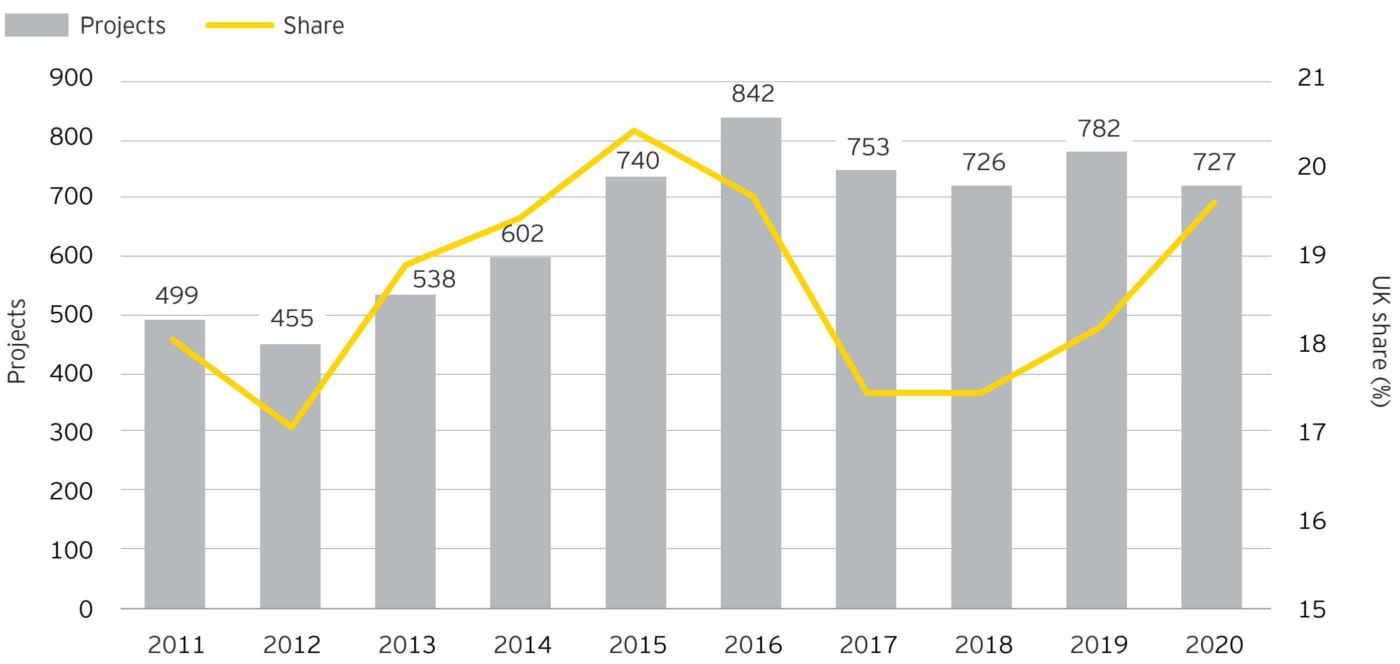
Source: *EY European Investment Monitor (EIM)*, 2011–20

... with positive signs

The UK's performance in attracting 'new' projects – rather than expansions of existing assets was encouraging. These consisted of projects originating from first-time investors in the UK, as opposed to reinvestments by companies with an existing presence.

Given the obvious difficulties experienced during 2020 in travelling and making new investments in overseas markets, it was perhaps surprising that the UK had a relatively good year in terms of securing 'new' projects, as opposed to expansion of existing activities. In our experience, new investment is evidence that a country is continuing to refresh its offer to remain competitive and attract new capital. With 727 new projects secured, a decline of just 7% from 782 in 2019, the UK comfortably outperformed the 12% fall in the overall market. As a result, the UK's European market share of new projects rose from 18.2% in 2019 to 19.6% in 2020. This was the UK's best performance since 2015 – immediately before the EU referendum – when it secured 20.4% of all new FDI projects in Europe.

Figure 6: New projects in the UK and European market share, 2011-20



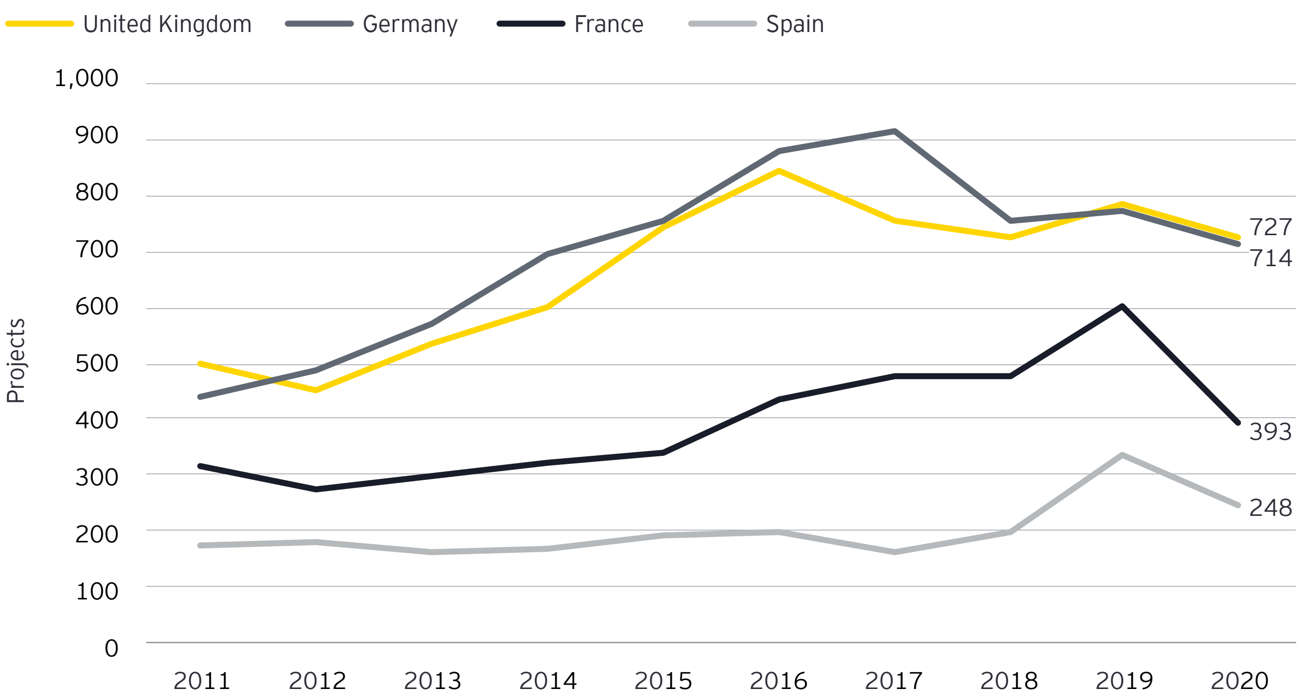
Source: *EY European Investment Monitor (EIM)*, 2011-20

The strength of the UK's performance in attracting new projects in 2020 is further underlined by a comparison between Europe's four largest recipients of new projects during the year. The UK's 727 new projects put it in first place, 13 ahead of second-placed Germany's 714, marking only the third time in the past decade that the UK has been the leading recipient of new projects. Meanwhile, France recorded a sharp decline, securing just 393 new projects in 2020, a fall of 34.5% from 2019. France's generally creditable FDI performance was heavily reliant on reinvestments to sustain its flow of FDI projects during the year.

727

new projects puts the UK in first place in Europe for new projects

Figure 7: New projects secured by Europe's four largest recipients, 2011–20



Source: *EY European Investment Monitor (EIM)*, 2011–20

A shifting landscape

Looking beyond the pandemic

2020 was a truly unprecedented year and as such, and, just as in the wider economy, the response to the outbreak of COVID-19 both created a one-off shock and exacerbated a number of trends that were already in motion prior to the pandemic. With the UK also spending the year finalizing a trade deal with the EU, it is important to avoid rushing to conclusions as to what we can learn from the UK's FDI performance in such a tumultuous 12 months.

We have therefore sought to understand the drivers of the UK's FDI activity across sectors, project types, origins of investment and by place, for both 2020 and in the context of trends over the last decade. The results of this analysis, presented below, provide the basis for using the results of our international investor survey to identify how we expect the UK's FDI performance to evolve over time.

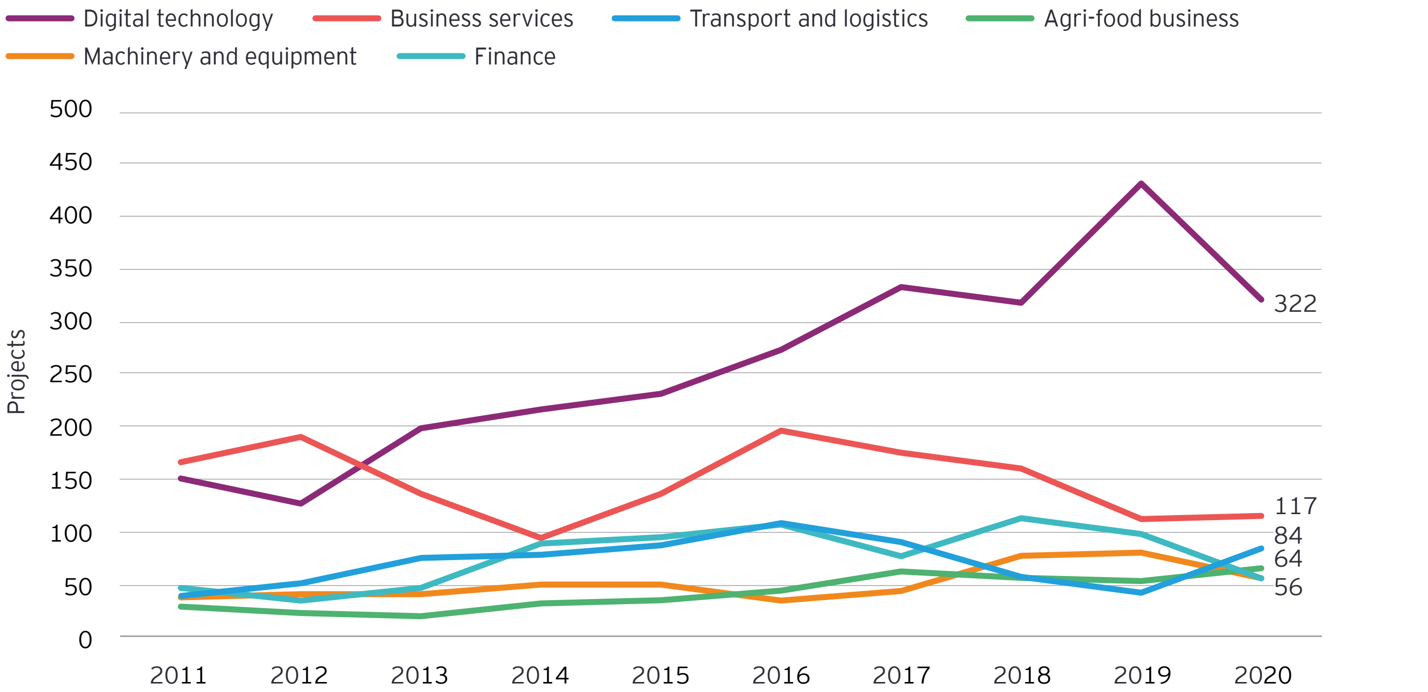
Significant variations across sectors …

Digital technology is also the sector that has accounted for the largest number of projects in the UK in every year since 2013. And 2020 was no exception, with digital technology accounting for 322 of the projects secured by the UK during the year, 33% of all investments. However, this represented a 25% decline in projects, compared to the 431 digital projects secured in 2019.

Two of the UK's other leading FDI sectors saw declines from 2019 in terms of project numbers. Financial services projects fell by 42.9% to 56 projects, and machinery and equipment projects fell by 29.1%, also to 56 projects.

There was better news in the performance of the UK's three other largest sectors. Business services was the UK's second-biggest sector with 117 projects, up by 3.5% from the previous year. Agri-food also had a strong year with 64 projects secured, a 16.4% increase on 2019. However, transportation and logistics was the standout performer with 84 projects, representing a 95% rise from 43 in 2019.

Figure 8: The six sectors generating the most UK projects, 2011–20



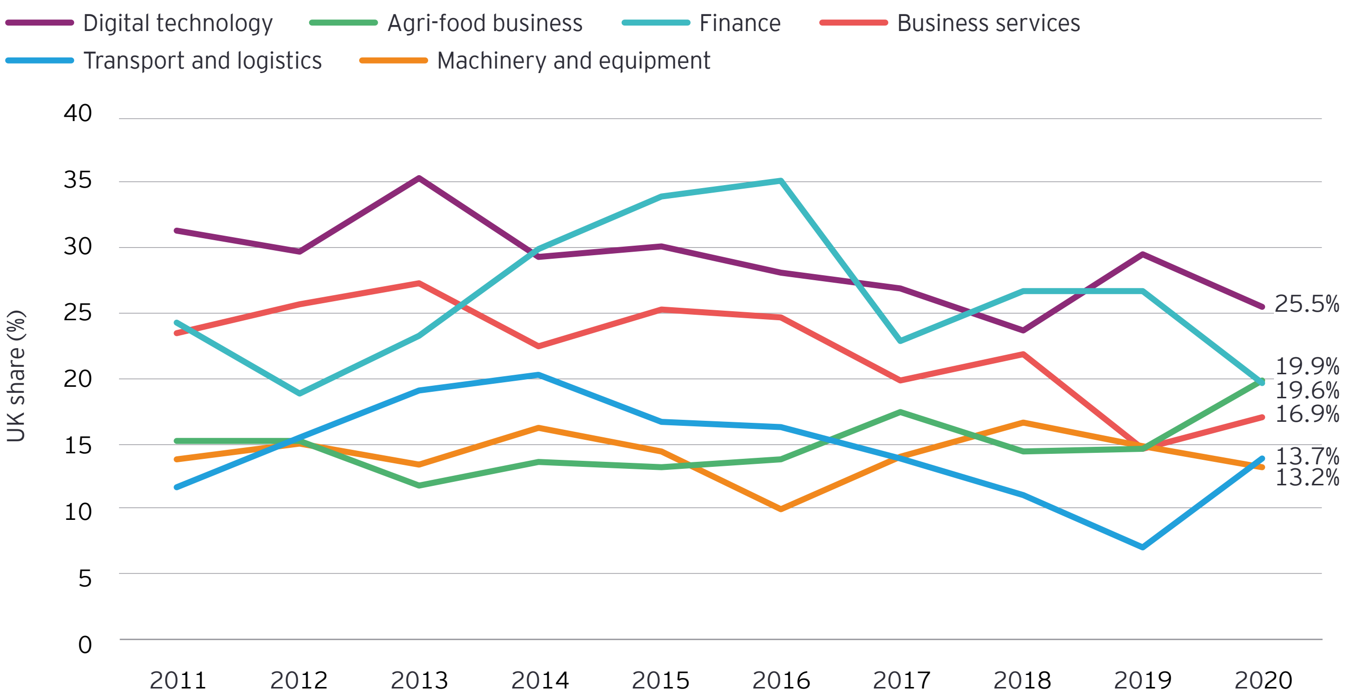
Source: *EY European Investment Monitor (EIM)*, 2011–20

Among the six largest UK sectors, the three that experienced activity declines in 2020 underperformed the European average. The fall of 25% in the UK's digital technology projects in 2020 was nearly double the European fall of 13%; at 42.9%, UK financial services projects declined by almost double the 22% fall across Europe; and machinery and equipment's fall of 29% was significantly more than the 21% reverse in the market.

As a result, all three sectors experienced a loss of market share. In 2020 the UK secured 25.5% of all digital technology projects recorded across Europe, down from 29.6% in 2019. This share in 2020 was also below the UK's 10-year average of 29%. The UK's share of European financial services projects in 2020 was 19.6%, down from 26.9% in 2019 and 26.6% in 2018. Machinery and equipment's market share fell from 14.7% to 13.2%.

By contrast, other sectors improved their competitive performance. Agri-food's share jumped from 14.6% in 2019 to 19.9% in 2020. This was five percentage points above the decade-long trend, and in line with some commentators' predictions that tighter regulations impacting food and drink post-Brexit could drive inbound investment in the sector. Similarly, the UK's share of transport and logistics projects more than doubled in 2020 to 13.7% from 6.5% in 2019, and business services advanced from 14.6% to 16.9% of the European market.

Figure 9: The UK's long-term European market share for the six sectors generating the most UK projects in 2020 (2011–20)



Source: *EY European Investment Monitor (EIM)*, 2011–20

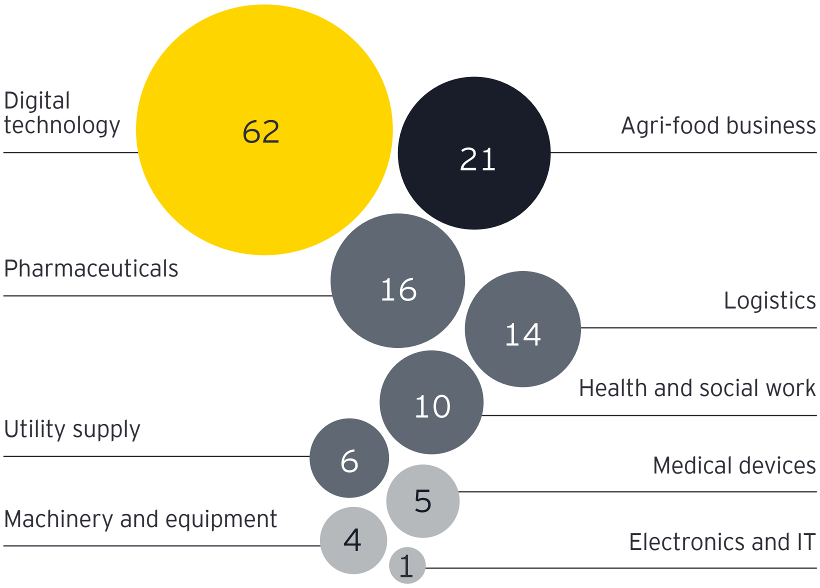
Following the shifts in 2019, of the UK's six biggest sectors for FDI projects in 2020, the UK was the leading destination in Europe for three of them – financial services, digital technology and agri-food. In financial services, the UK secured 56 projects, while France was second with 49 projects. In digital technology, the UK recorded 322 projects, well ahead of Germany on 187. In agri-food, the UK recorded 64 projects, with France in second place with 53 projects. Meanwhile, in business services, Germany secured 138 projects and France 133 compared to the UK's 117. In machinery and equipment, Germany recorded 99 projects ahead of the UK on 56 projects and France on 49. In logistics and transport, Germany led Europe with 128 projects, with the UK recording 84, just behind France's 89.

… while exacerbating longer-term trends

On closer examination of the UK's FDI performance and profile over the past decade, the shifts in the economy become clearer. The move towards a knowledge and online economy has boosted the digital technology, logistics and pharmaceuticals sectors, while a greater focus on health and wellbeing has fostered expansion in health and food. Conversely, the FDI sectors in retreat for the UK in 2020 were led by business services, which was down by 32 projects compared to its 10-year average, though this may largely reflect a shift to digital delivery. Declines elsewhere appear to reflect the impact of Brexit on sectors whose regulation or supply chains are integrated with Europe. These include financial services (down by 20 projects), transportation manufacturers (down 19), and chemicals (down 15), with knock-on effects on other input sectors.

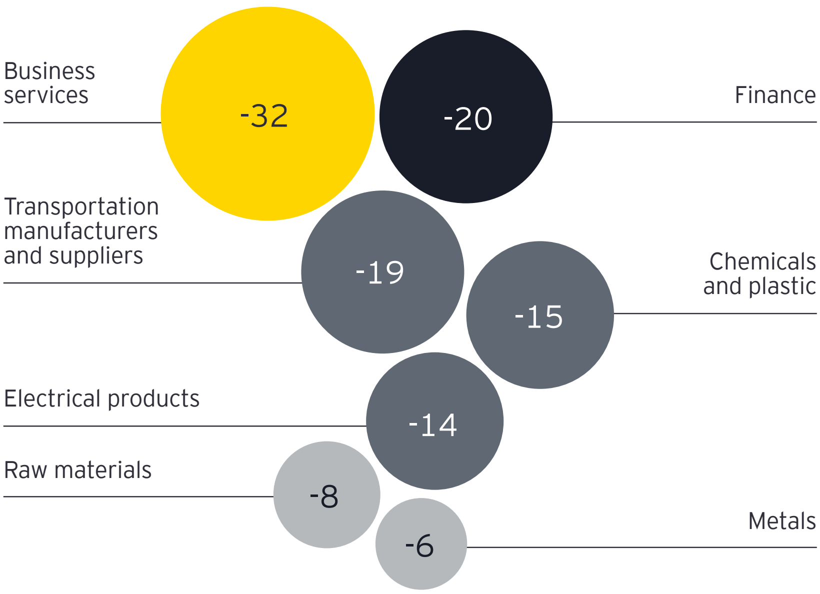
When we compare the UK's project flows by sector in 2020 to each sector's 10-year average, three sectors exhibit strong increases – most notably agri-food, with a 48.8% rise over its average for the decade. Digital is 23.8% higher and machinery and equipment is 7.7% higher. Two sectors recorded project numbers at a lower level than their 10-year averages in 2020, with business services recording a 21.5% decrease and financial services a 26.9% decline.

Figure 10: UK FDI sectors seeing the strongest growth in projects in 2020 compared to their 10-year average



Source: *EY European Investment Monitor (EIM)*, 2011-20

Figure 11: UK FDI sectors seeing the biggest declines in projects in 2020 compared to their 10-year average



Source: *EY European Investment Monitor (EIM)*, 2011-20

FDI projects by activity: a similar story of change

An analysis of UK FDI project inflows in 2020 by the type of activity being undertaken reveals some significant variations. The UK's move towards becoming a knowledge and online economy is reflected by its strong performance in securing R&D and logistics investments. Headquarters (HQ) projects reverted to trend after a degree of catching-up in 2019, and back-office projects were hit by specific challenges around social distancing.

In terms of the split by activity of UK FDI in 2020, sales, marketing and services made up the majority at 55% of projects, continuing the trend seen in previous years. The second most common activity in 2020 was R&D at 12% of all UK projects, up from 9% in 2019. Manufacturing investments made up 11% of the UK's total in 2020, compared to 12% in 2019 and an average of 15% over the past decade.

We have consistently commented on the large share of UK projects accounted for by sales and marketing offices, recognizing that this is a large category made up of a range of different types of activity. For the first time in 2020, we have been able to analyze the projects in more detail. Of the 535 projects, 237 were what we have termed business services offices — more than a simple sales office but not quite an HQ. It is likely that these facilities have a greater economic value than pure sales offices, placing the overall category of sales and marketing in a more positive light.

Figure 12: Leading activities for UK FDI projects, 2020

Activity	2019	2020	Change in UK (%)	Change in Europe (%)
Sales, marketing and services	555	535	-4	-12
HQ	164	94	-43	-26
Manufacturing	132	112	-15	-22
R&D	102	114	+12	+4
Logistics	66	94	+42	+11
Back office	90	26	-71	-55

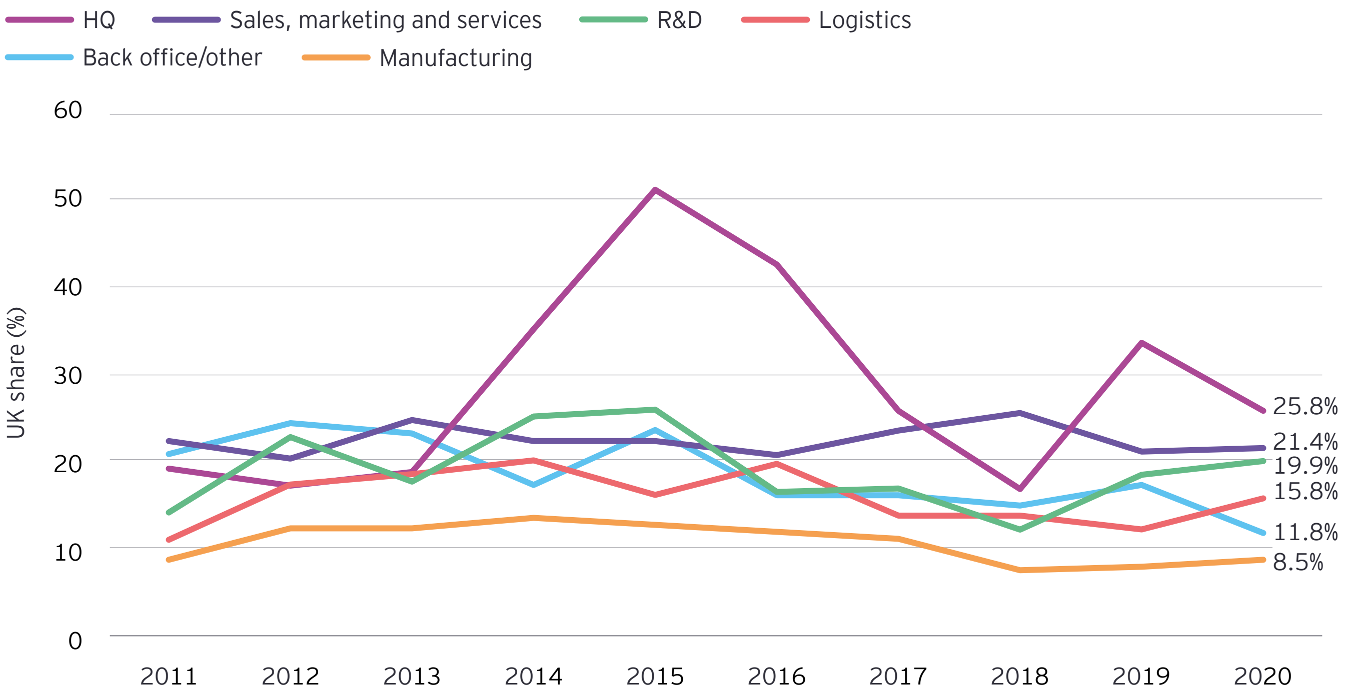
Source: *EY European Investment Monitor (EIM)*, 2019–20

With HQs and back-office projects declining faster than the European average fall, the UK lost market share in these two activities. Nevertheless, HQ projects achieved a 25.8% share of the European market, the strongest performance of any UK activity, although this was a lower share than in 2019. It was also some way below the UK's high point in terms of its share of HQ projects that occurred in 2015, prior to the Brexit referendum, when it secured 51% of all European HQ investments.

The UK has also lost a significant amount of ground in manufacturing projects since 2015 when it achieved a 12.65% share, its highest for over a decade. Since the Brexit referendum, the UK's share of the European market fell up to 2018, reaching a low point of 7.5% in that year. While its recovery to 8.5% is welcome, this is still only two-thirds of the peak in the last 10 years.

The UK's move towards becoming a knowledge and online economy is reflected by its strong performance in securing R&D and logistics investments

Figure 13: UK's share of European FDI projects by activity, 2011-20



Source: *EY European Investment Monitor (EIM)*, 2011-20

Comparing the UK's performance in attracting activities in 2020 with average annual projects secured over the past decade, R&D emerges as a clear UK success story – in 2020 the UK with 114 projects almost drew level with France at 115 projects, well ahead of Germany on 63. By comparison, in 2018 the UK secured just 74 R&D projects, France 144 and Germany 64. So the 2020 performance underlines a major shift forward for the UK.

The strong growth in logistics serves to underline the changing structure of the economy as consumers have shifted to online purchasing, and supply chains have continued to evolve. By contrast, the challenges facing manufacturing and back-office services are evident, even allowing for the fact that 2020 was an extreme year.

R&D emerges as a clear UK success story — in 2020 the UK with

114

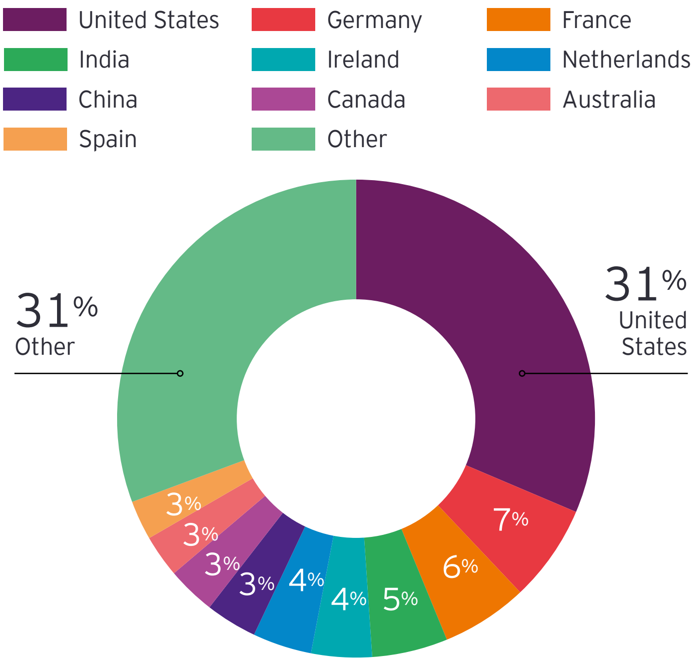
projects almost drew level with France at 115 projects

Origins of UK FDI projects: little change – despite shifts elsewhere

Despite the significant changes in the mix of projects by sector and activity, the origins of UK FDI projects did not change significantly overall. The USA remained the largest source in 2020, generating 31% of the UK's total project inflows. This was a much higher proportion than for Europe as a whole, at 22%. However, the USA's share of UK projects in 2020 was slightly lower than in 2019, when 34% of UK projects originated from the USA.

On closer inspection, the stable situation in 2020 is not unusual, as the origins of projects into the UK have remained largely stable over the past decade. A comparison between the UK's project origins in the periods 2011–15 and 2016–20 shows that all of the top 10 origins have remained the same. And for every country listed, the number of projects secured in the latter five-year period has increased.

Figure 14: Origins of FDI projects into the UK, 2020



Source: *EY European Investment Monitor (EIM)*, 2020

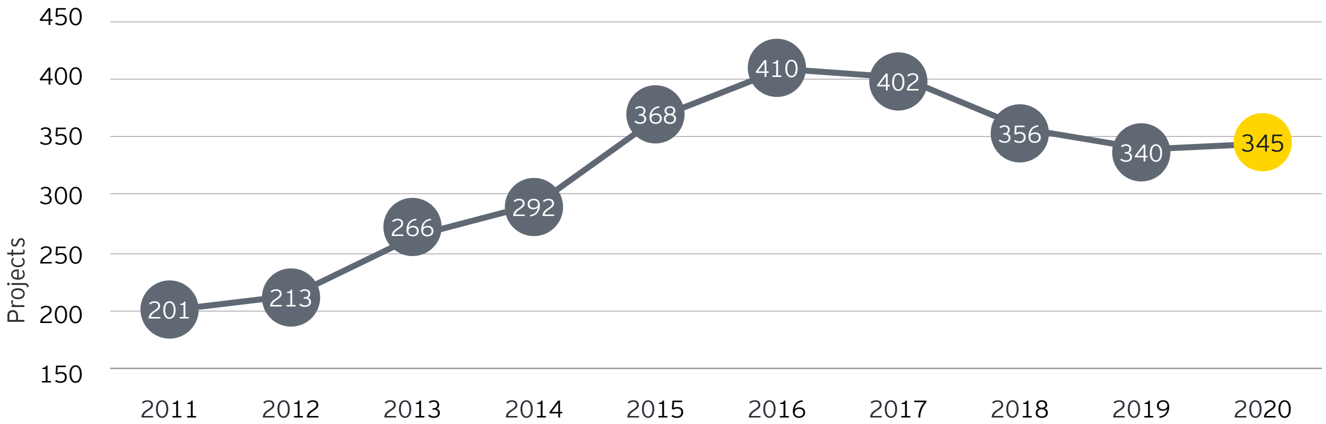
Figure 15: UK projects by origin: 2011–15 and 2016–20

	2016-20		2011-15
United States	1,648	United States	1,506
Germany	403	Germany	298
France	288	France	248
India	241	India	211
China	240	Japan	191
Japan	204	China	184
Australia	193	Ireland	119
Canada	186	Netherlands	119
Netherlands	179	Canada	115
Ireland	177	Australia	114

Source: *EY European Investment Monitor (EIM)*, 2011–20

Although the overall flow of projects has been stable across the UK's source countries, we did identify last year the decline in FDI projects into the UK originating from the EU that began in 2016. This continued until 2019, but reversed with a rise from 340 projects in 2019 to 345 in 2020. Again, it seems the UK's position is stabilizing albeit at a lower level.

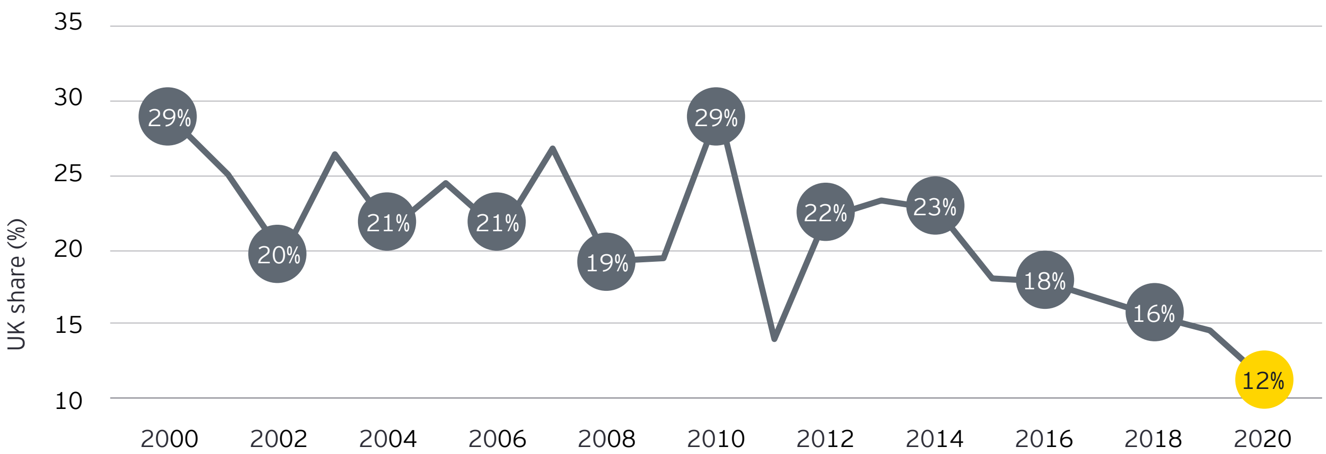
Figure 16: Annual number of UK projects originating from the EU, 2011–20



Source: *EY European Investment Monitor (EIM)*, 2011–20

One notable long-term trend in the UK's attraction of FDI has been its diminishing performance in securing Japanese investment. The Japanese investments of the 1980s and 1990s perhaps symbolized changing trends in global investment. But over the past 20 years, the UK's share of Japanese FDI projects into Europe has declined from high points of 29% in 2000 and 2010 to just 12% in 2020. Significantly, 2020 represented the seventh straight year of decline in the UK's market share of Japanese projects into Europe.

Figure 17: UK's share of Japanese investment into Europe, 2000–20



Source: *EY European Investment Monitor (EIM)*, 2000–20

Looking forward, the evidence suggests it will be difficult for the UK post-Brexit to replace the lost share of European and Japanese projects in a stable market. Projects from the USA grew after 2016 to help to an extent, with the USA being one of the 10 fastest-growing UK origins in 2019. But projects from the USA declined from 375 to 306 in 2020, a shift which was in keeping with the general trend in the market — project numbers from 9 of the UK's top 10 fastest-growing markets in 2019 were lower in 2020.

Further evidence of the challenges the UK faces growing its FDI in what is likely to be a more competitive market, can be found by looking at the UK's competitive position. Across the top 20 origins of FDI projects into Europe as a whole in 2020, the UK was the leading recipient of investment from just six of them. The UK's strong performance in the competitive markets of Ireland, France and the USA suggests it will be difficult to achieve any further significant share growth. Growing trade with the Commonwealth has been advanced as an opportunity for the UK post-Brexit. However, in terms of FDI this appears likely to be challenging — the UK's close relationship with India, Ireland and Australia means the UK is already the leading and dominant recipient of investment from those countries. In each case, the UK secures more than 50% of the projects they generate in Europe.

Figure 18: Countries in top 20 European FDI origins with UK having largest market share, 2020

	Lead country	UK rank	UK share of investment projects
Australia	UK	#1	62%
India	UK	#1	56%
Ireland	UK	#1	53%
Canada	UK	#1	30%
US	UK	#1	25%
France	UK	#1	19%

Source: *EY European Investment Monitor (EIM)*, 2020

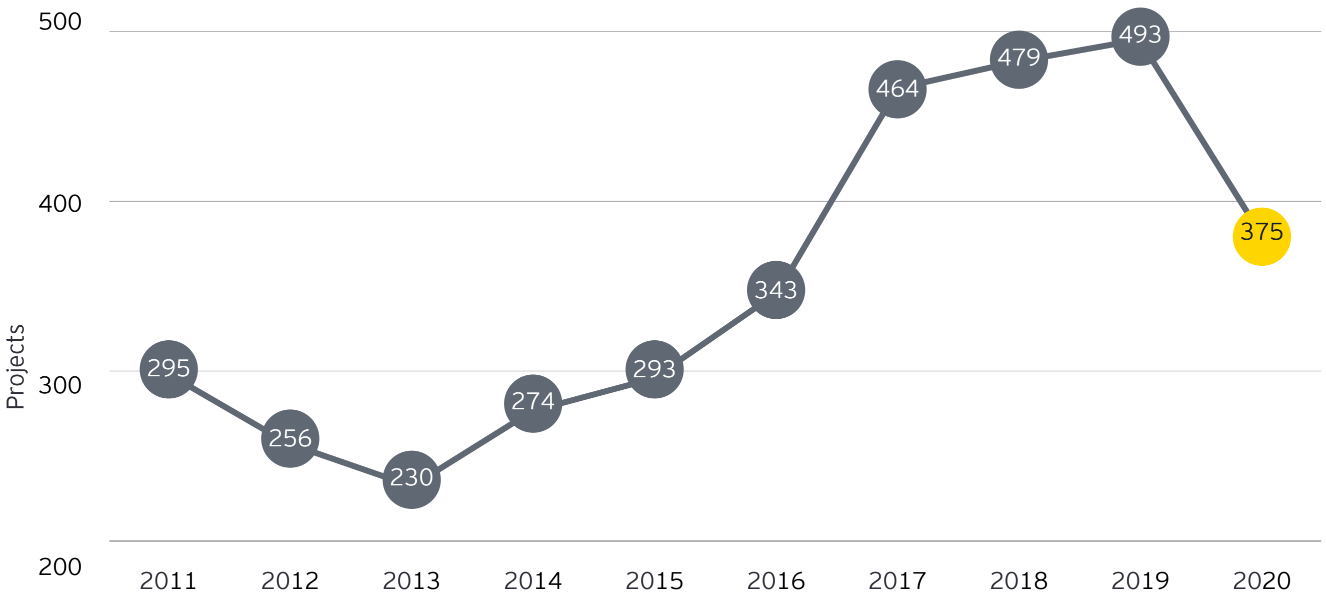
UK outbound investment into Europe falls back

The UK is the third-largest origin of investment projects into Europe. But while outbound investment from the UK into Europe had been increasing year-on-year since 2013, reaching a decade-long high of 493 projects in 2019, in 2020 UK projects into Europe fell back by 31%. This sharp decline in UK outbound investment into Europe was steeper than the overall fall in European FDI projects as a whole, perhaps suggesting that Brexit-related outbound investment since the 2016 referendum has reached its peak. The profile of UK outbound investments in 2020 mirrored the largest European country recipients overall, with France (61 UK outbound projects), Germany (58 projects) and Spain (36 projects), securing the largest shares.

31%

fall in UK outbound investments into Europe in 2020

Figure 19: UK outbound investments into Europe, 2011–20



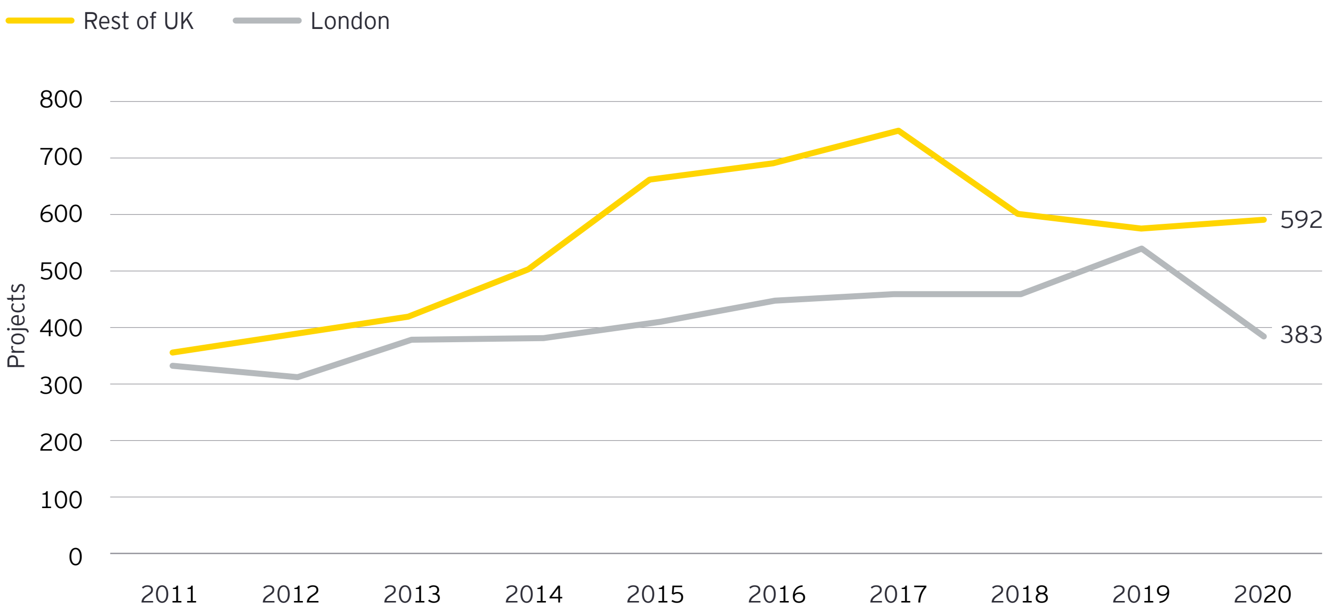
Source: *EY European Investment Monitor (EIM)*, 2011–20

UK regional FDI performance: levelling down?

Throughout the last two decades, one of the most striking features of the regional profile of UK FDI projects has been the rise of Greater London in dominating UK investment inflows, reaching 48.5% of all projects in 2019. 2020 saw a significant shift in this well-established trend – with the most dramatic development being a fall in projects into London of 29%, more than double the decline seen across the UK overall. The fall in FDI projects into London was driven by a 36% decline in digital projects, offset to an extent by a rise of eight projects in business services, an increase of 14%. The faster overall decline in FDI projects into London in 2020 than into the UK as a whole meant that London's share of all UK projects also fell almost 10 points to 39.2% in 2020.

Despite the major decline in London's FDI projects and UK market share in 2020, the region remained well ahead of other UK investment locations. The 383 projects that London secured in 2020 was more than three times the number recorded by second-placed Scotland, at 107 projects. Nevertheless, 2020 was a good year for Scotland, with a 5.9% rise in inflows continuing the trend of Scotland being the largest recipient of UK FDI projects in regions and devolved administrations in every year since 2015. Elsewhere, the North West overtook the South East in 2020 as the UK's second-biggest FDI location outside of London.

Figure 20: London versus the rest of the UK, 2011-20



Source: *EY European Investment Monitor (EIM)*, 2011–20

Apart from the dramatic changes in London, the overall picture across the English regions was relatively stable in 2020, with only the South East, North West and East of England seeing double-digit percentage changes in projects. The transport and logistics and life sciences sectors were the main drivers of growth in projects in the North West, while digital technology, food and business services drove the increase in the East of England. The South East, meanwhile, lost ground in digital technology projects, suffering a 33% fall in line with London. London and the South East together accounted for all of the decline in digital projects into the UK in 2020.

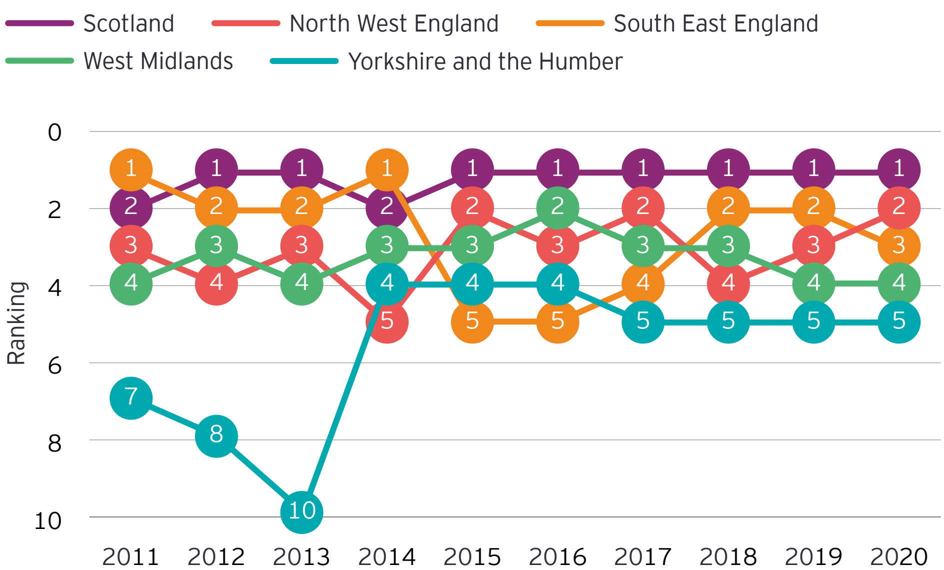
A ranking of the leading regions outside London over the past decade shows that Scotland was the top recipient of FDI projects in all but two years – being overtaken on each occasion by the South East – and has led the way for all of the past five. Elsewhere, Yorkshire and the Humber has significantly improved its performance over the decade in securing FDI projects. Prior to 2014, the region was ranked relatively poorly, but it has been in the top five regional recipients ever since.

Figure 21: FDI projects into the UK regions, 2019-20

Projects	Number of projects 2019	Number of projects 2020	Percentage change
Greater London	535	383	-28%
Scotland	101	107	+6%
North West England	73	85	+16%
South East England	83	72	-13%
West Midlands	64	61	-5%
Yorkshire and the Humber	59	55	-7%
East of England	40	54	+35%
East Midlands	39	38	-3%
Northern Ireland	28	33	+18%
North East England	30	32	+7%
South West England	30	32	+7%
Wales	24	23	-4%

Source: *EY European Investment Monitor (EIM)*, 2019-20

Figure 22: Ranking of the five leading UK regions outside London in 2020, through the decade 2011-20



Source: *EY European Investment Monitor (EIM)*, 2011-20

Leading UK cities for FDI: shifts at the top — but stable overall

For the first time since 2014, our 2020 figures show that Manchester was not the leading city recipient of UK FDI projects outside of London. Manchester secured 35 projects during the year — up from 34 projects in 2019 and higher than its average over the decade. Despite this solid performance, Manchester was overtaken by Edinburgh, which secured 36 projects, significantly above its average of 22.7 for the decade. Edinburgh was one of three Scottish cities in the top 10 city locations for UK FDI, along with Glasgow (23 projects) and Aberdeen (13 projects). The third-highest ranked UK city outside London was Birmingham, down from second place in 2019.

The continuing shift that we have identified in previous reports in FDI moving towards larger places, is underlined by the fact that all of the UK's top 20 FDI cities or towns outside London secured more projects in 2020 than their 10-year average. (London's 383 projects were only slightly down on its annual average of 409 across the decade even after a large fall in 2020.) Meanwhile, London remains the city location that is driving the UK's success in digital technology, securing 57.8% of all digital technology FDI recorded in the UK in 2020, or 66.5% when London and the South East are combined. Although this share has declined from 2019, when it was 75%, there is a clear challenge for levelling up economically with such dominance of the UK's largest sector.

There were however hints of green shoots. In contrast to the 35% decline in projects flowing to London, our grouping of significant cities[1] achieved an increase of 20 projects, from 196 to 216, between 2019 and 2020, representing 10.2% growth. Even more encouragingly, project numbers in the places outside of London and the cities we identified grew by 14.6% from 328 to 376 projects. One year does not make a trend and there is much still to do, but increased awareness of the potential of places outside of the UK's major urban areas does appear to be starting to have an impact.

Figure 23: Leading UK city/town recipients of FDI projects outside London, 2020

Rank	City	2020 total projects	2011-20 average projects
1	Edinburgh	36	22.7
2	Manchester	35	30.6
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
=8	Cambridge	12	9.1
10	Newcastle upon Tyne	11	7.3
=11	Coventry	10	8.3
=11	Nottingham	10	4.0
=11	Peterborough	10	3.5
=14	Northampton	9	3.0
=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)*, 2011-20

Edinburgh was the leading city recipient of UK FDI projects outside of London in 2020, securing 36 projects — significantly above its average of 22.7 for the decade

1 Our grouping is the UK's core cities group (Belfast, Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield) plus Edinburgh.

A one-off shock or a permanent shift?

Unsurprisingly, with the impact of COVID-19, the changes caused by Brexit and longer-term trends all impacting the FDI market across Europe and within the UK, 2020 is a difficult year to analyze. More than ever, our research into investor perceptions will be important in helping us identify the likely direction of change in future as the world economy emerges from the pandemic.

A consideration of the performance of sectors prior to and since the Brexit referendum, suggests that several sectors have been impacted by the decision to leave the EU and the process to implement that decision. The most significant negative impact on FDI has been in sectors with a significant level of integration with Europe in areas such as regulation, and trade and customs arrangements, most obviously financial services and manufacturing.

The UK's 19.6% of European financial services FDI in 2020 was the lowest since the 18.9% secured in 2012, significantly below the pre-Brexit peak, when the UK secured 35% of all projects recorded across Europe, and below the UK's decade average of 26%. In another sign of the impact of Brexit on the sector, outbound financial services investment from the UK between 2017 and 2020 was double the annual average level between 2013 and 2015.

Several manufacturing sectors experienced falls in their market share between 2016 and 2019. The most significant shifts were a fall in the UK's share of transportation manufacturing FDI from a peak of nearly 18% in 2015 to 13.1% in 2020; a more than halving of the UK's share of European FDI in chemicals and plastics from 12.3% to 5.9% since 2015; and a decline of the UK's share in electronics from 14.2% to 11.6% in the five years to 2020. On a positive note, investment in the agri-food sector has increased consistently since the Brexit vote.

Further shifts suggesting an economy changing in response to Brexit include the fallback in HQ investments in 2020, and the continuing lower share compared to the pre-Brexit peak and the higher level of outbound UK FDI to Europe — the 375 projects in 2020, while lower than the 495 in 2019, were still 50% higher than the annual average pre-referendum. It also seems likely that the revival in the UK's market share of Japanese FDI in Europe between 2013 and 2015 is a thing of the past, with 2020's 11% share the lowest in two decades.

A rise of more than

60%

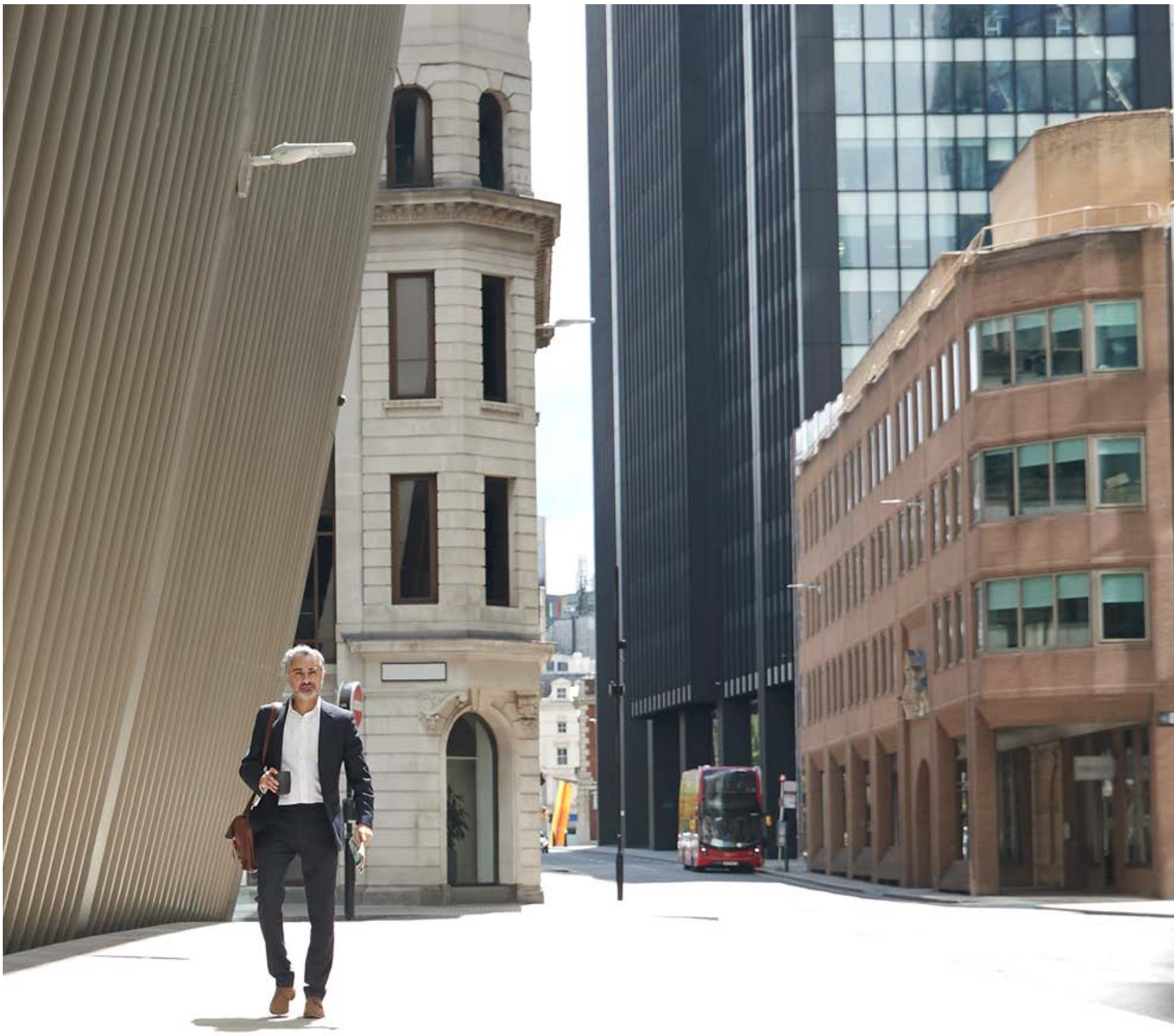
in UK life sciences projects, increasing from 29 to 47

Signs of the impacts of the pandemic are also evident in the 2020 FDI figures, with UK life sciences projects increasing from 29 to 47, a rise of more than 60% which mirrored the European market overall. Similarly, the strong performance of transportation and logistics in the UK in 2020 in part reflects the acceleration of the shift to online purchasing during 2020, a trend the UK has been at the forefront of for several years.

While the growth in the UK's share and volume of R&D and logistics projects and the surge in pharma were amplified by the response to COVID-19, these are areas where the UK has steadily been gaining ground. The growth in R&D to within one project of long-term market leader France is testament to the strength of the UK's offer in this field. Similarly, a combination of the response to Brexit and growing concerns over sustainability have contributed to the UK's strong performance in agri-food over the last five years.

In light of the successful adoption of technology to enable more online shopping and remote working during the pandemic, the fall in the UK's share and volume of digital technology projects in 2020 was a shock. As identified above, this reflects a fall in activity in London and the South East equivalent to the total fall in projects coming to the UK. Understanding what may have driven this effect — and hence how the sector is likely to perform in future — is something we turn our attention to in the next section as we analyze the responses to our investor survey.

The fall in the UK's share and volume of digital technology projects in 2020 was a shock



Investor perceptions: a new era?

41%

of investors are planning to invest in the UK in 2021

#1

Investors rank UK in first place as most attractive location in Europe

Investors now view the UK as having the most appealing COVID-19 recovery plan in Europe

2

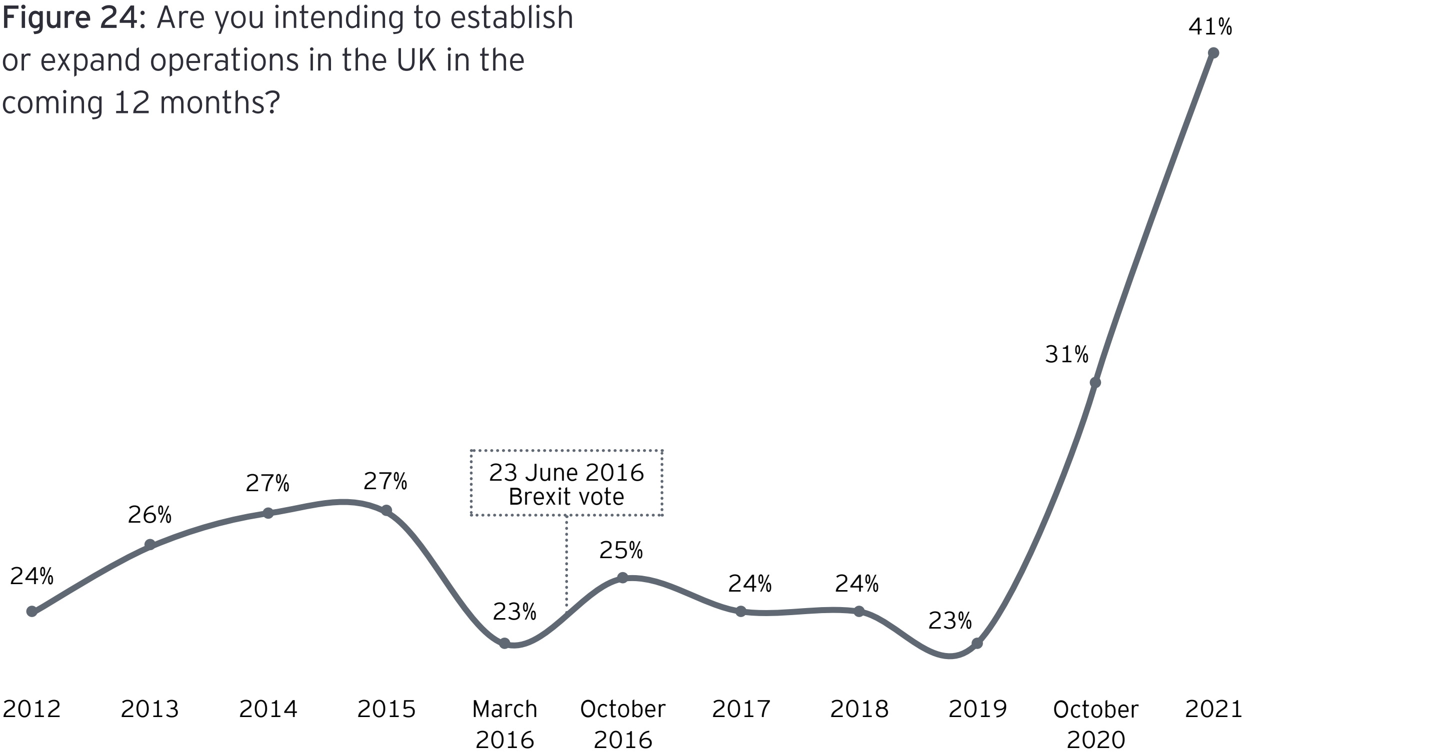
After such a challenging year in 2020, understanding the mood of investors is more important than ever. We have a comprehensive set of data to draw on — our 2021 perception study of the UK's attractiveness to overseas investors is based on the views of almost 2,000 respondents. These are spread across the EY European Attractiveness Survey, a comparison of common questions in the country surveys, and 570 respondents to the EY UK Attractiveness Survey, allowing us to develop a detailed view of the UK's future appeal.

Comprehensive as our research is, there is a caveat — the high levels of volatility and uncertainty throughout the pandemic mean that survey responses have proven to be less reliable than normal at times. That said, the numbers seem to be settling down to an extent and we have identified a number of consistent themes running through our research.

A resilient future pipeline of projects for the UK …

After a 12% fall in activity in 2020, it is very encouraging to find that the UK appears to have a resilient pipeline of deals going forward. 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.

Figure 24: Are you intending to establish or expand operations in the UK in the coming 12 months?



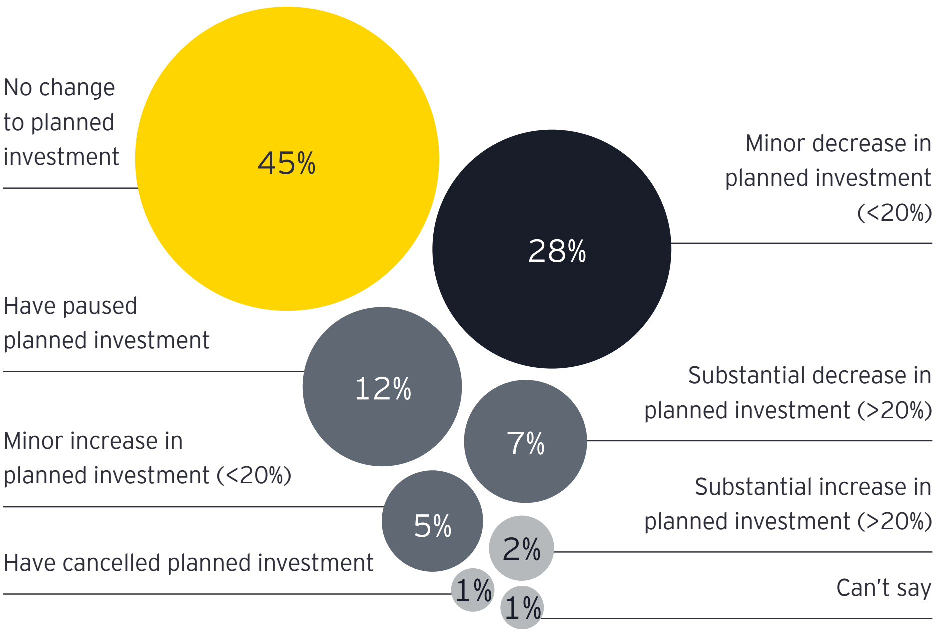
Source: *EY Attractiveness Survey UK*, 2012–21

The UK's score in 2021 is also marginally higher than the proportion intending to invest in Europe as a whole, at 40%, but behind France (44%) and Italy (48%). Provided the vaccination program continues to be successful, it is very likely that international businesses will be investing heavily across Europe to make up for last year's project delays, whether these were related to the pandemic or other uncertainties such as those around the Brexit agreement.

Looking deeper into the UK findings reveals some significant size and sector differences. For example, the respondents intending to invest in the UK in the coming 12 months include more than half – 51% – of large businesses (over €1.5 billion turnover), but only 27% of investors in the technology sector. Only 18 of the Japanese respondents plan to invest in the coming year, confirming the trend we identified of declining inflows from one of the UK's long-standing sources of significant activity.

Further positive sentiment is provided by the declining share of respondents changing their plans. In the autumn of 2020, some 57% of respondents said they had cancelled, decreased or paused investment, but this has now fallen to 48%, underlining the upturn in mood. In addition, the figure of only 13% that have cancelled or paused investment provides a further indication of a resilient pipeline. Nevertheless, with 28% still planning minor decreases in project sizes, it is possible that projects will be smaller on average compared to the recent past.

Figure 25: Have you changed your plans for investment in the UK as a result of the COVID-19 pandemic?



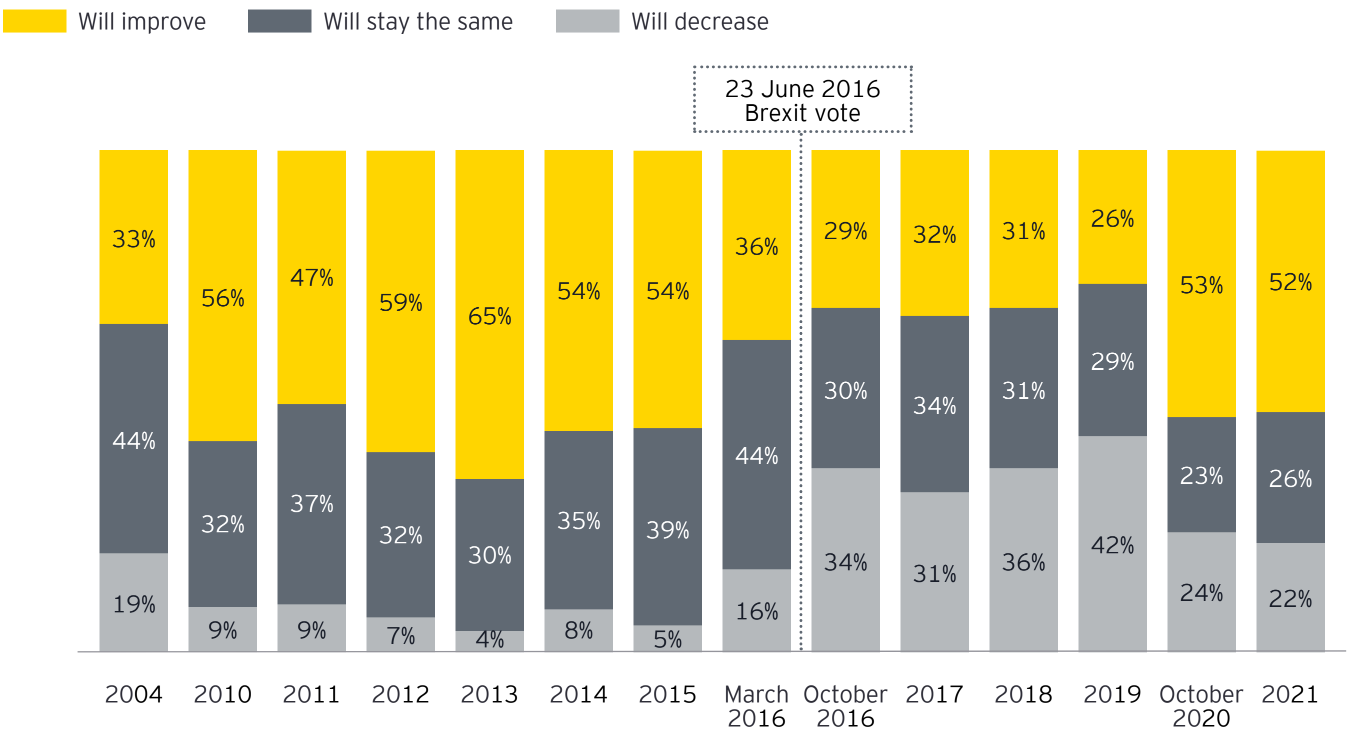
Source: *EY Attractiveness Survey UK*, June 2021 (total respondents: 570)

… and a continued strong level of attractiveness …

The positive tone for the UK is further supported by the findings on investors' perceptions of the country's attractiveness over the next three years as an FDI location. A net +30% of investors say the COVID-19 pandemic will make the UK more attractive, compared to a net −29% the previous year. Once again there are some stark contrasts between sectors: technology has a net +45% but pharmaceuticals only a net +13%, perhaps reflecting the fact that the UK is already very attractive to investors in this industry — evidenced by the 60% rise in projects in 2020. Perhaps unsurprisingly, companies already established in the UK are more positive about its future attractiveness, with a net +38% versus just +12% among those not yet established here.

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 reversal in sentiment that started after the Brexit referendum vote.

Figure 26: To what degree do you think the UK's attractiveness will evolve over the next three years?

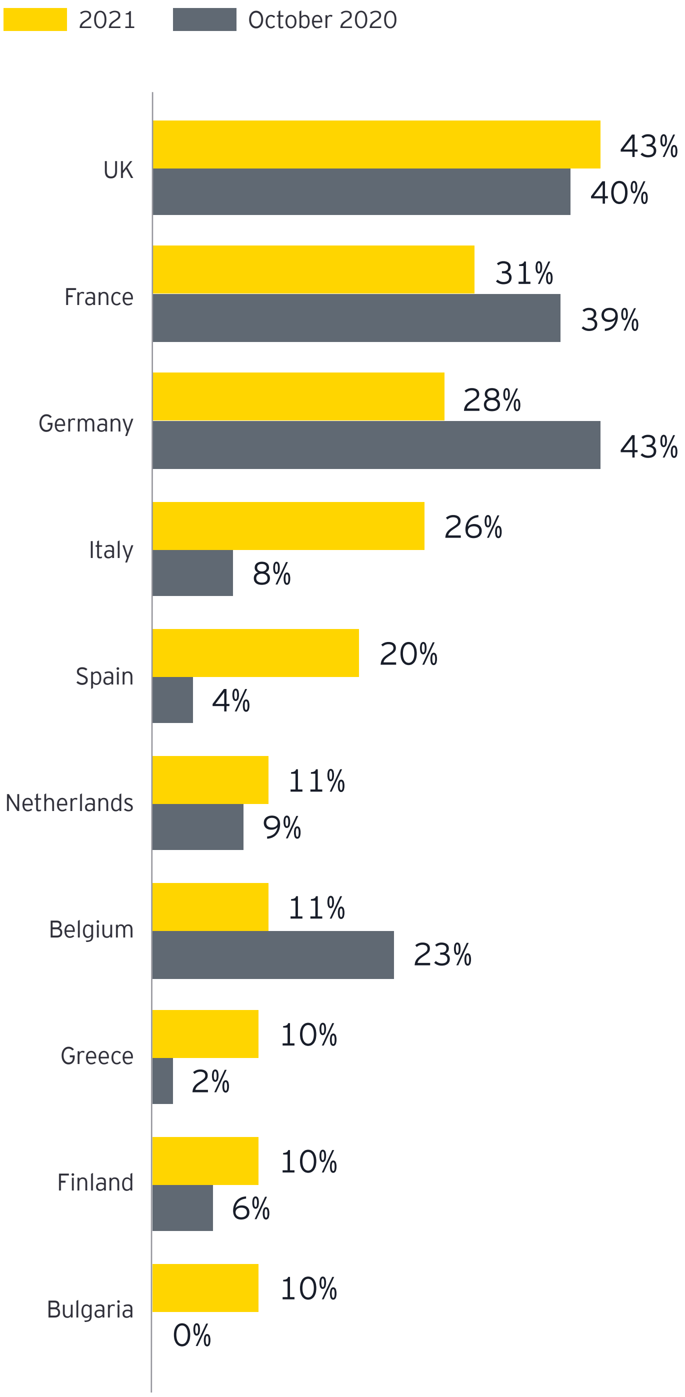


Source: *EY Attractiveness Survey UK*, 2004–21

That said, positive sentiment towards Europe as a whole is even stronger, with a net +57% thinking that Europe's attractiveness will improve over the coming three years. This may reflect the fact that the UK's speedier recovery due to its successful vaccination program had yet to become clear at the time the research was carried out.

Certainly, this view is consistent with investors ranking the UK in first place as the most attractive location in Europe. This is another sign of the improving relative attractiveness of the UK, with it having previously been ranked third in Europe in 2018 and 2019 and then second in 2020.

Figure 27: Which European countries do you believe will be the most attractive for foreign investment in 2021?



Source: *EY Attractiveness Survey Europe*, June 2021 (total respondents: 550)

… sustained by solid if not spectacular capabilities …

Digging deeper into the characteristics that are driving the UK's attractiveness to investors, we find that there has been little change in the responses since this question was last asked in 2019. The only significant shifts are some positive moves in those characteristics of the UK that are deemed attractive or strongly attractive. For example:

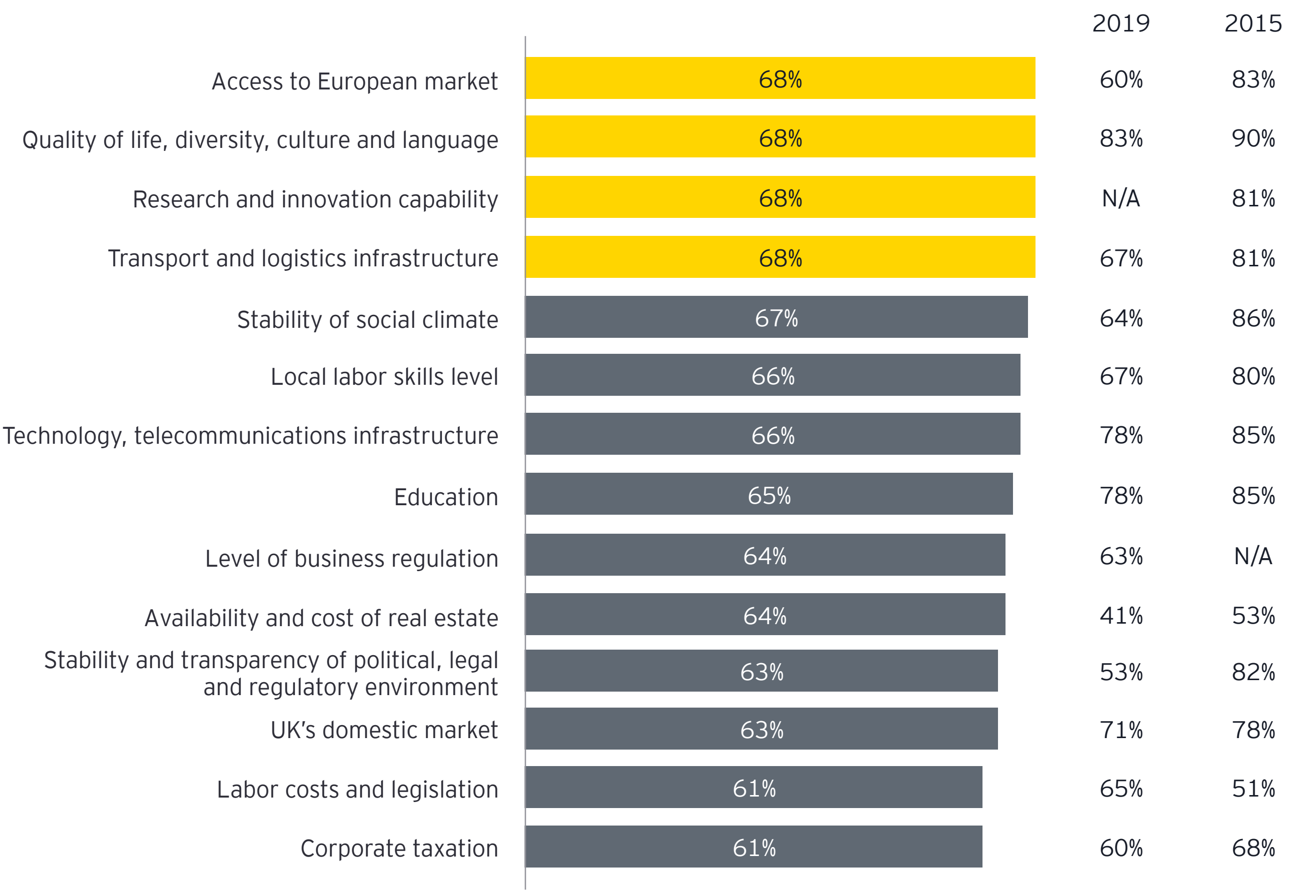
- The proportion saying the UK is attractive because of access to the European market has risen to 68% this year from 60% in 2019, probably because the Brexit deal is now done.
- Labor costs have risen in attractiveness to 62% from 51%.
- The attractiveness of the UK's transparency of politics and regulation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

That said, a few important characteristics influencing the UK's attractiveness have declined since 2019. For example:

- The proportion finding the UK attractive on the basis of quality of life had fallen to 68% from 83% in 2019.
- The attractiveness of the UK's infrastructure (across technology, telecoms, transport and logistics) is down to 67% from 78%.

Even more strikingly, compared to 2015, investors perceive the UK's offer as less attractive by a significant amount across nearly all characteristics, with the cost and availability of real estate being the only one with a higher ranking in 2021 than 2015, which may be a pandemic effect given it is an outlier.

Figure 28: For each of the following criteria, from the point of view of your company how attractive is the UK as an FDI destination?

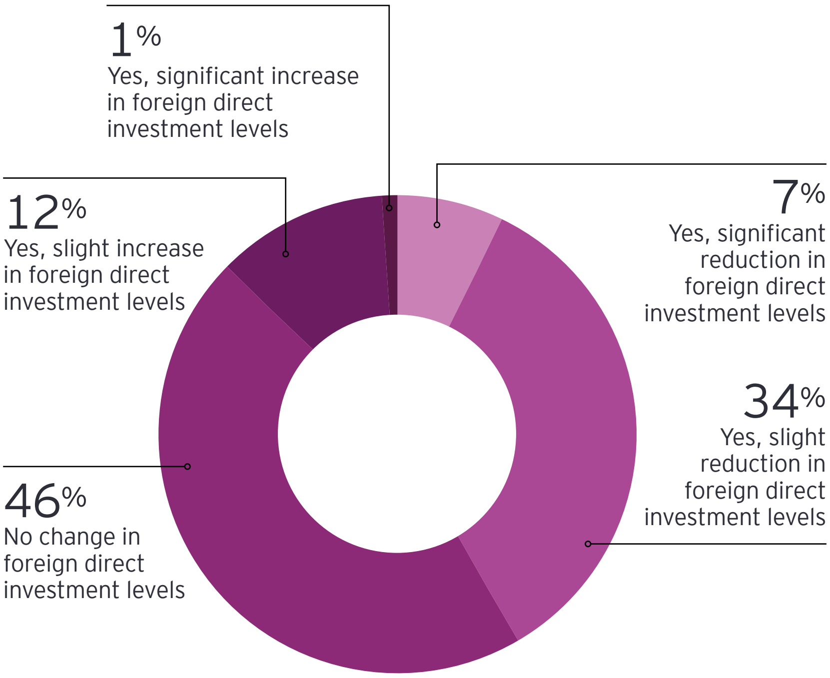


Source: *EY Attractiveness Survey UK*, June 2021 (total respondents: 570)

... suggesting a need to continue to seek to improve the UK's offer

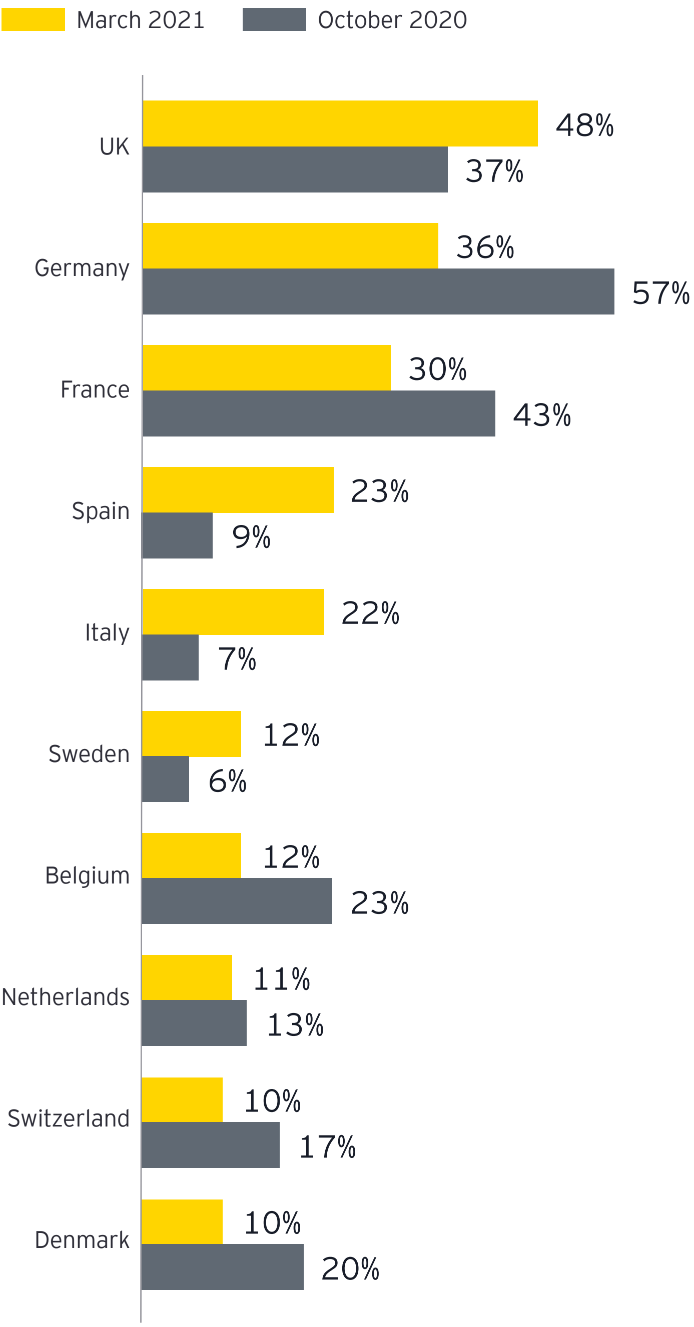
When investors are asked whether they foresee a change to their FDI levels into the UK following a period of recovery from COVID-19, their responses suggest the overall market may shrink slightly over time. Only 13% expect their FDI into the UK to increase — and just 1% expect that increase to be significant.

Figure 29: Do you foresee a change to your foreign direct investment levels into the UK following a period of recovery from the COVID-19 pandemic?



Source: *EY Attractiveness Survey UK*, June 2021 (total respondents: 570)

Figure 30: Which European countries do you believe have the most credible and investment-friendly COVID-19 recovery plans?



Source: *EY Attractiveness Survey Europe*, June 2021 (total respondents: 550)

That said, the UK is seen as having the most appealing post-COVID-19 recovery strategy in Europe, marking a huge shift since the autumn of 2020. Going forward, it is possible that the impact of the UK's apparently faster emergence from the pandemic due to its speedier vaccine roll-out may continue to bolster perceptions of the UK as an investment destination.

Our perception survey findings suggest the UK is in a much better position than we expected 12 months and even six months ago. Nevertheless, challenges remain. Investors perceive the individual elements of the UK's offer to be significantly less attractive than in 2015, competition between the three largest FDI destination countries in Europe is increasing, and the signs are that the market may be smaller in future. Identifying the most attractive opportunities and developing plans to exploit these will be vitally important. Let us turn now to consider the opportunities.

The UK is seen as having the most appealing post-COVID-19 recovery strategy in Europe

Looking to the future: the opportunity

3

54%

of investors identified digital as the main driver of UK growth

UK cleantech sector continuing to gain ground, with

19%

of respondents citing it as a UK growth driver, having scored only 5% in 2018

Almost half –

45%

– of respondents are planning to change their supply chains, with 20% considering reshoring to the UK

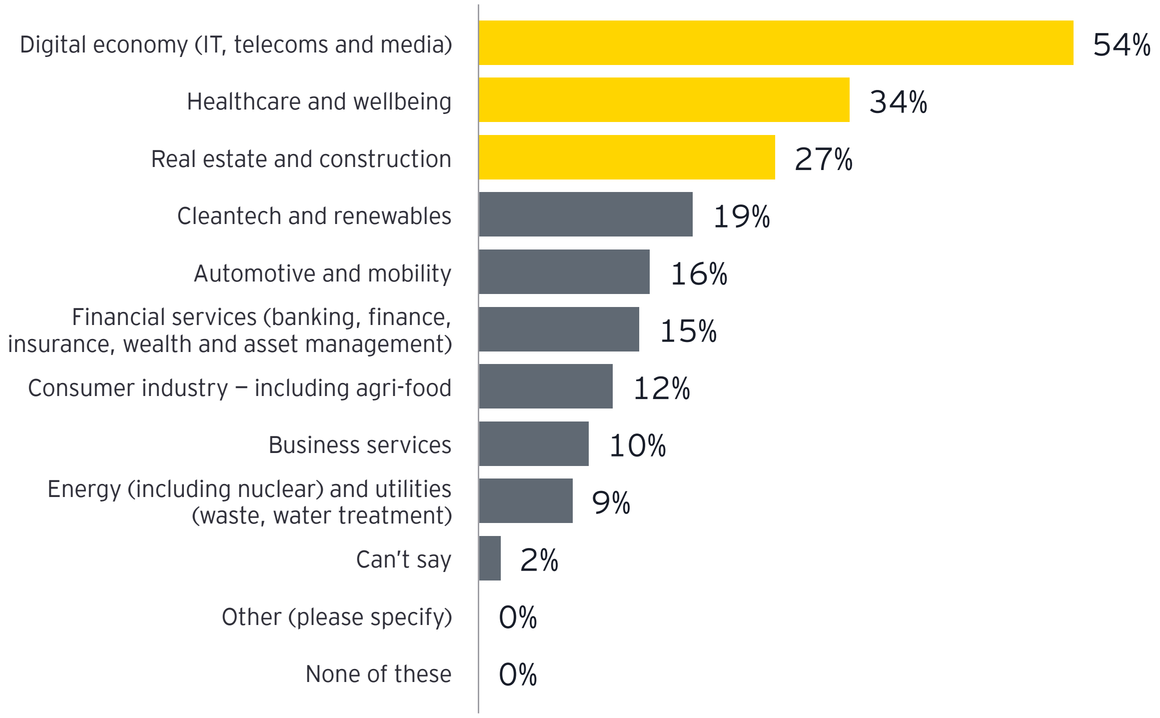
Encouraging signs on digital after a difficult year ...

The clear message from our research into investor perceptions is that the UK's attractiveness to FDI has held up remarkably well during the pandemic – and in many ways has improved relative to its competitors in continental Europe. The obvious next question is how to capitalize on this strength. In this context, our findings on investors' expectations for which sectors will drive the UK's growth in the coming years clearly highlight some priority sectors for the UK.

Looking at the ranking, it is reassuring to see the digital economy identified as the highest potential opportunity for the UK after its weak performance in 2020. The proportion of respondents citing digital technology as a UK growth driver edged up to 54% in 2021 from 51% in 2020, having been just 26% as recently as 2019. The continued strength of healthcare in second place – at 34%, down slightly from 36% in 2020 – comes as little surprise given the nation's successes with COVID-19 vaccines and the increasing focus on health more generally. As recently as 2019, healthcare's score was much lower at 15%. Real estate also holds up reasonably well this year, slipping slightly to 27% from 31% in 2020, probably reflecting planned increases in infrastructure spending. Meanwhile, reflecting the theme we identified of a market changing over time, some traditionally strong UK sectors have fallen back markedly – a case in point is business services at 10%, having been 23% in 2019.

Elsewhere in the ranking, it is gratifying to see the UK cleantech sector continuing to gain ground, having scored 5% in 2018, 13% in 2019, 12% in 2020 and now 19% in 2021.

Figure 31: In your opinion, which main business sector will drive the UK's growth in the coming years?

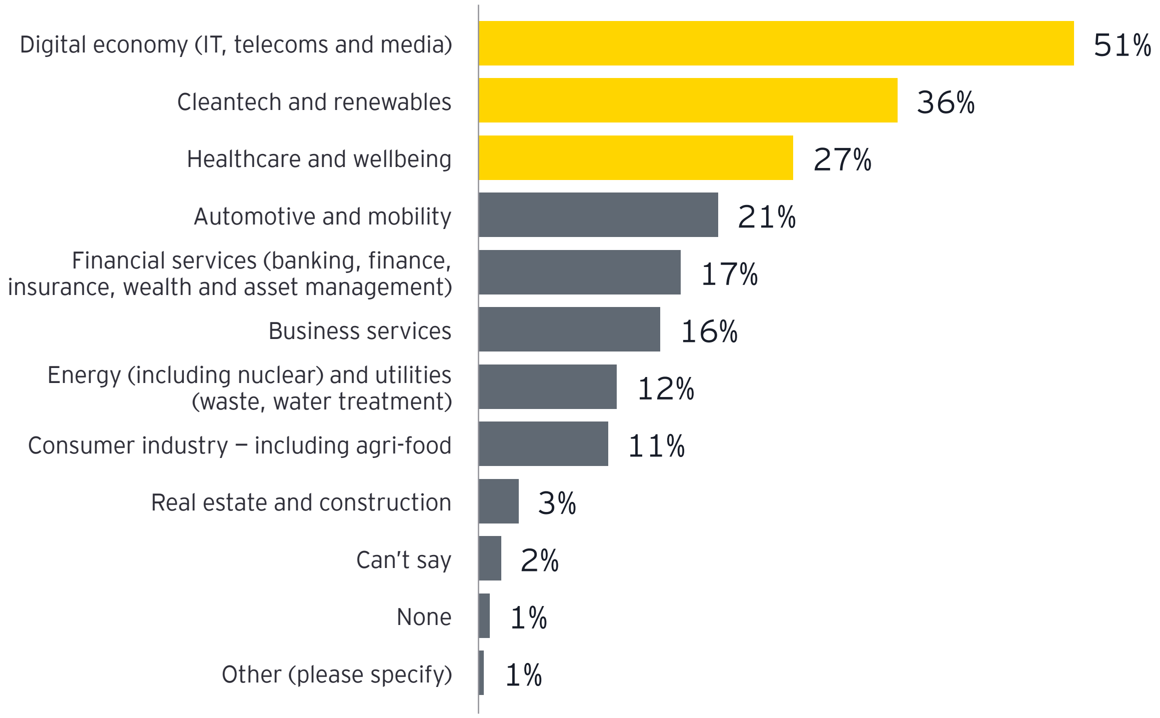


Source: *EY Attractiveness Survey UK*, June 2021 (total respondents: 570)

… but further signs of increasing competition …

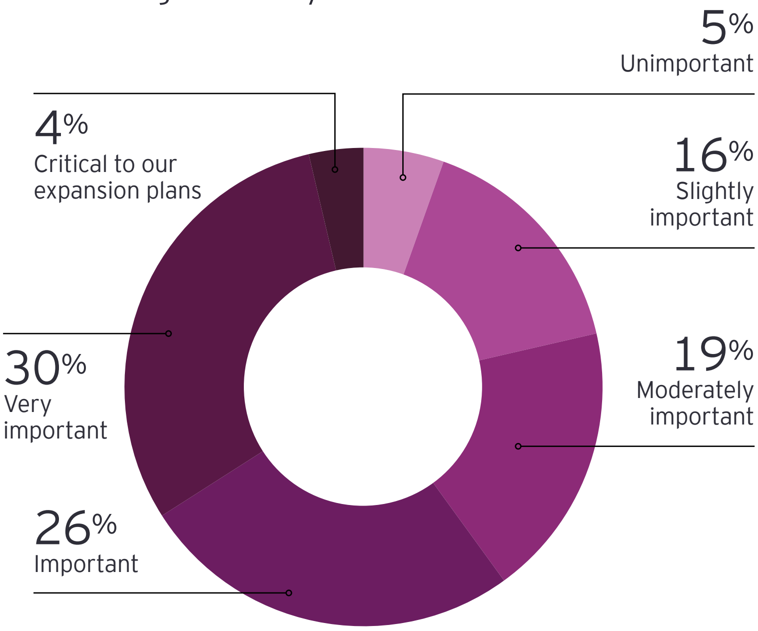
However, the results from our European survey provide further evidence of the trend towards a more competitive market. With an increase in the number of respondents identifying the digital and health sectors as opportunities for growth, Europe is becoming a stronger competitor in these industries. Investor perceptions of the European opportunity in automotive, financial services and business services have also strengthened relative to the UK, while investors are almost twice as positive — 36% versus 19% — about the European cleantech opportunity compared to the UK.

Figure 32: In your opinion, which main business sector will drive Europe's growth in the coming years?



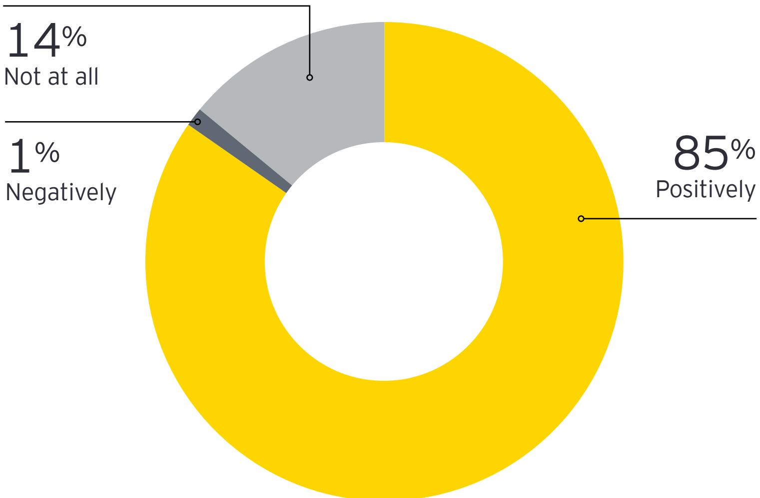
Source: *EY Attractiveness Survey Europe*, June 2021 (total respondents: 550)

Figure 33: When your company makes decisions on foreign investment, how important are strong sustainable cleantech policies in determining whether you invest in the UK?



Source: *EY Attractiveness Survey UK*, June 2021 (total respondents: 570)

Figure 34: Does the fact that Europe is a green leader influence your appetite to invest there?



Source: *EY Attractiveness Survey Europe*, June 2021 (total respondents: 550)

In assessing the relative strength of different sectors in both the UK and Europe, it is also vital to consider their knock-on effects on wider attractiveness. For example, while cleantech is important as a sector in its own right, strong and sustainable cleantech policies also play a role in supporting the UK's appeal to investors in other sectors.

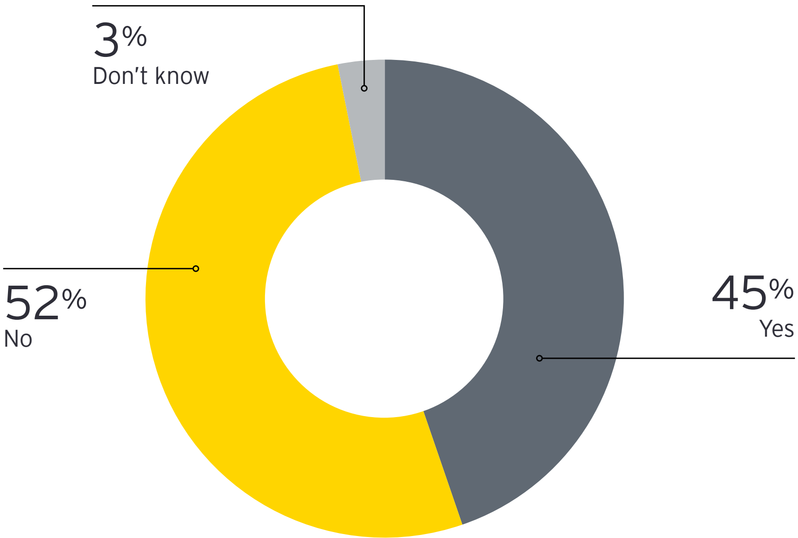
Europe clearly benefits in this respect. Its perceived position as a leader in green industries and policies is seen as a strongly attractive attribute by investors globally, with some 85% saying this encourages them to locate projects in Europe.

... as supply chains continue to evolve

A further area of opportunity for the UK springs from the shifts in supply chains highlighted by our research. Almost half – 45% – of all respondents to our UK survey are planning to change their supply chains, a figure that rises to 52% in consumer goods and 62% in the technology sector. These shifts present the UK with the potential to address some of the weaknesses identified in the manufacturing sector earlier in this report.

Asked how they expect their UK supply chain models to change in future, investors voice strong demand for reshoring to the UK, with 20% choosing this option. This is the same figure as in Europe, with 50% of European respondents also believing that more reshoring is possible in future. The sectors that are most active in considering reshoring to the UK include UK industrials at 32% and cleantech at 47%. The introduction of enhanced capital allowances and the launch of freeports are useful first steps in positioning the UK as a reshoring destination, but policymakers should continue to explore how else to exploit this emerging opportunity.

Figure 35: Do you plan to change your supply chain model in future?



Source: *EY Attractiveness Survey UK*, June 2021 (total respondents: 570)

Looking to the future: the policy response

4

35%

of investors say the success in addressing the COVID-19 crisis is their top criteria for choosing an FDI location

41%

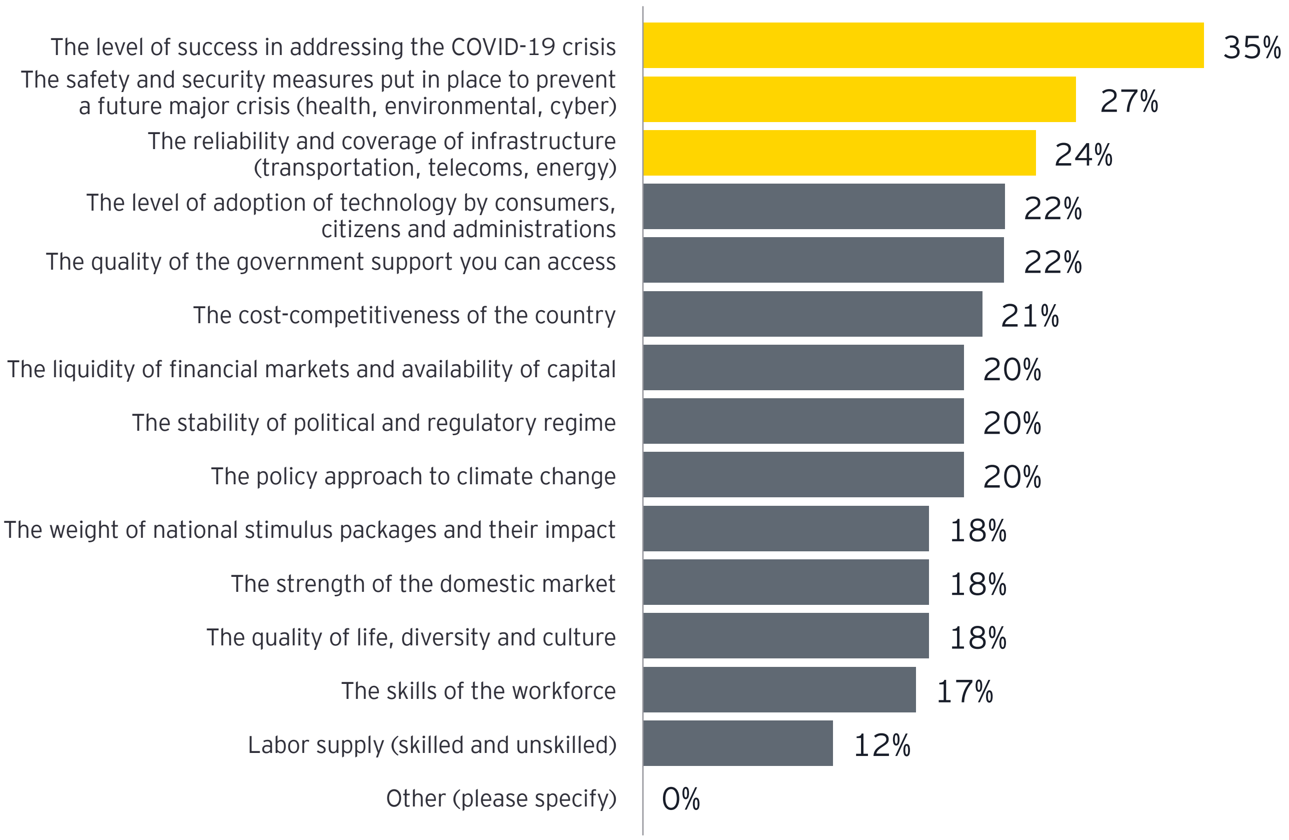
of investors say increased funding in R&D should be the top priority for UK Government

The pandemic has impacted investors' criteria for choosing FDI locations ...

At a country level, health and crisis capabilities are now critical to investors, and it does appear that the experience of the pandemic has increased investors' awareness of risk. Asked what factors will influence their future choices of countries in which to locate projects, respondents to our UK study put the success in addressing the COVID-19 crisis in first place and a country's ability to withstand future shocks close behind. With the successful vaccine roll-out, it is easy to see why the UK's appeal on this criterion has improved recently, but the key now is to keep this advantage going into the future.

After the pandemic-related and wider crisis-related criteria, respondents to our UK study cite financial liquidity, the quality of infrastructure and access to technology, and future government support for investors as important factors. Workforce skills rank lower down than in previous years, possibly reflecting the view from experience during the pandemic that technology can now be used to substitute labor to a greater extent than previously assumed. However, all the criteria are closely bunched within a narrow range, underlining the need for the UK to have an integrated, comprehensive offer to attract investors.

Figure 36: In your company's future location choices, what main factor will influence your decision to select a particular country?



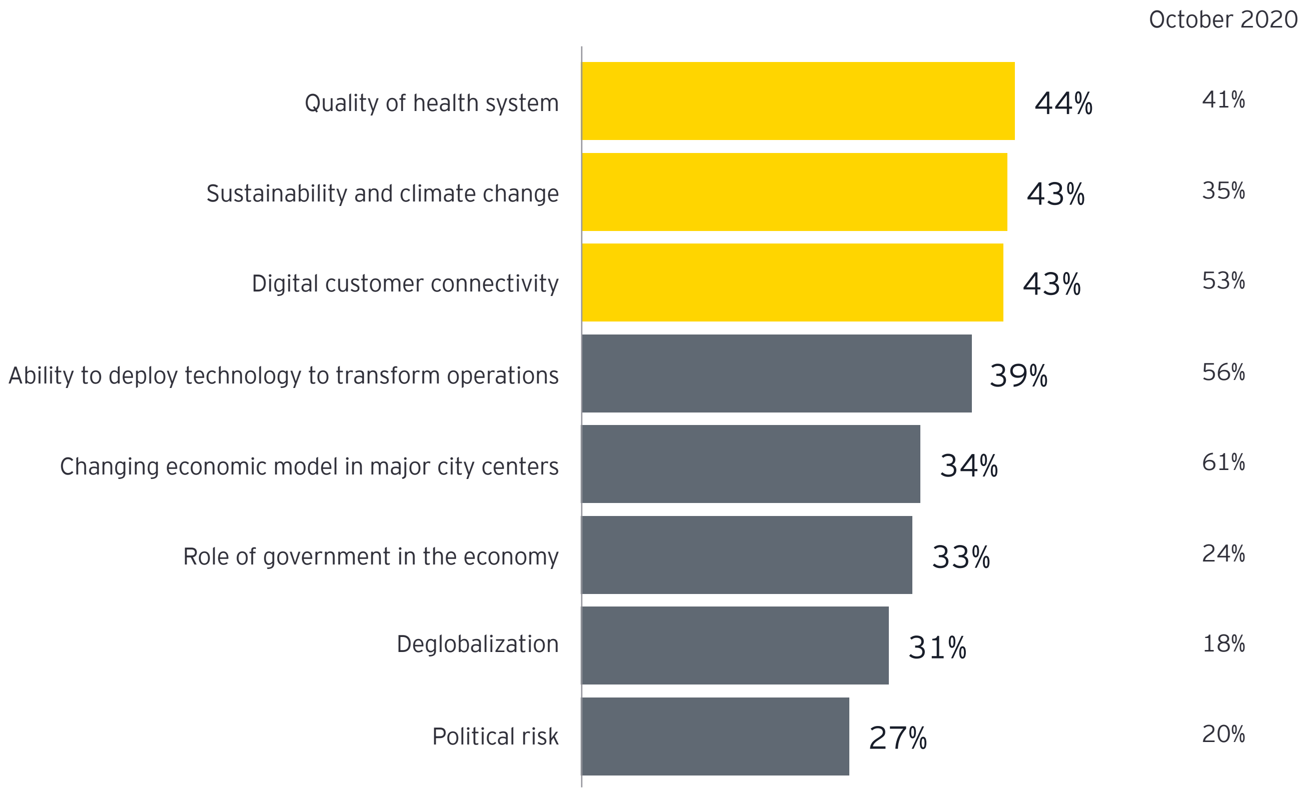
Source: *EY Attractiveness Survey UK*, June 2021 (total respondents: 570)

... and has also affected investment strategies

When our UK respondents are asked how the COVID-19 pandemic has impacted the priorities of their company's investment strategy, their replies are consistent with the themes highlighted above and throughout this report – with approaches to health, sustainability policies and digital capability occupying the top four places.

Interestingly, while the impact of the pandemic is apparent in the rankings overall, the main change since our survey in the autumn of 2020 is a decline in the importance of the changing economic model in city centers. This probably reflects the fact that companies have done more thinking on this, as they adjust to homeworking and the pressure on city center locations becomes less extreme than at the height of the pandemic.

Figure 37: Which of the following themes will be more important to your investment strategy as a result of the COVID-19 pandemic?



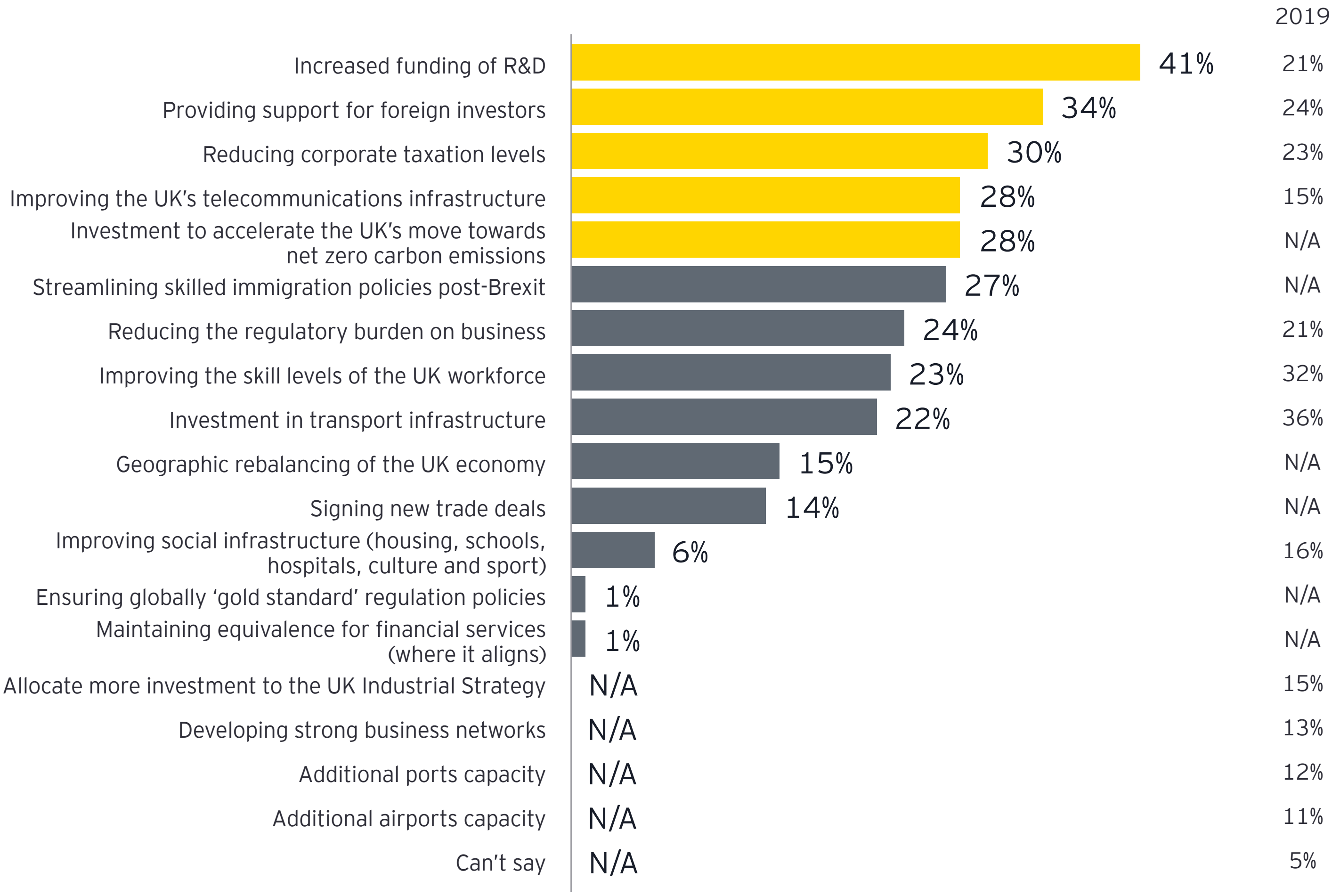
Source: *EY Attractiveness Survey UK*, June 2021 (total respondents: 570)

Policy priorities to enhance the UK's attractiveness going forward

Turning to specific policies that investors believe would improve the UK's future attractiveness, they call first for increased funding for R&D, a view that is consistent with the greater focus on technology and health that is evident across many of the other findings. The importance of sustainability and infrastructure also reflects themes seen elsewhere in the research. Meanwhile, the prominence of corporation tax levels appears to relate to the debate on tax policy that is underway in the UK and globally. Immigration and skills-linked issues also feature in investors' thinking on policy priorities for the UK.

A comparison with the findings from 2019 shows that R&D has risen in importance since then while skills have slipped down the ranking. Improving the UK's telecommunications infrastructure has also increased its score, perhaps reflecting the greater reliance on it for remote working.

Figure 38: Which of the following areas should be domestic policy priorities for the UK Government to improve the UK's attractiveness in the future?



Source: *EY Attractiveness Survey UK*, June 2021 (total respondents: 570)

UK regions, towns and cities: London slips back as other regions hold steady

5

#1

London returns to first place in ranking of most attractive cities in Europe

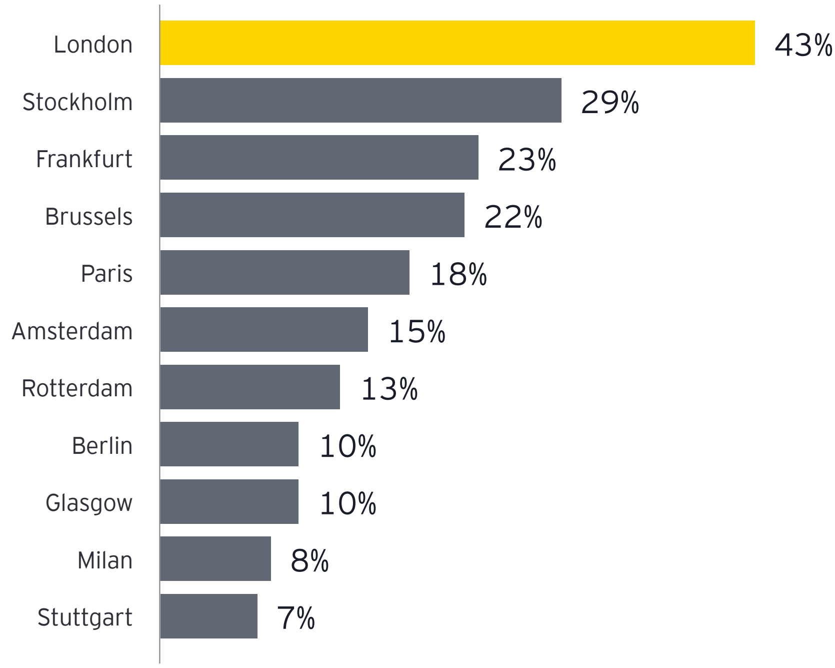
60%

of investors are aware of the UK Government's 'levelling up' policy

The capital sees projects fall but perceptions rise ...

Looking at the inflow of FDI projects in the various regions of the UK, the underlying picture that emerges in 2020 is a sharp fall of 29% in the number of projects in London, but a flat performance across most other regions. However, our research into investors' perceptions of leading European FDI cities shows that London has leapfrogged Paris in 2021 to return to first place in terms of city appeal. Together with findings showing that the changing economic model of city centers is becoming less of an issue for investors, this suggests that the big fall in projects into London in 2020 may be a temporary blip rather than a longer-term trend.

Figure 39: Which cities do you believe will be most attractive over the next three years?



Source: *EY Attractiveness Survey Europe*, June 2021 (total respondents: 550)

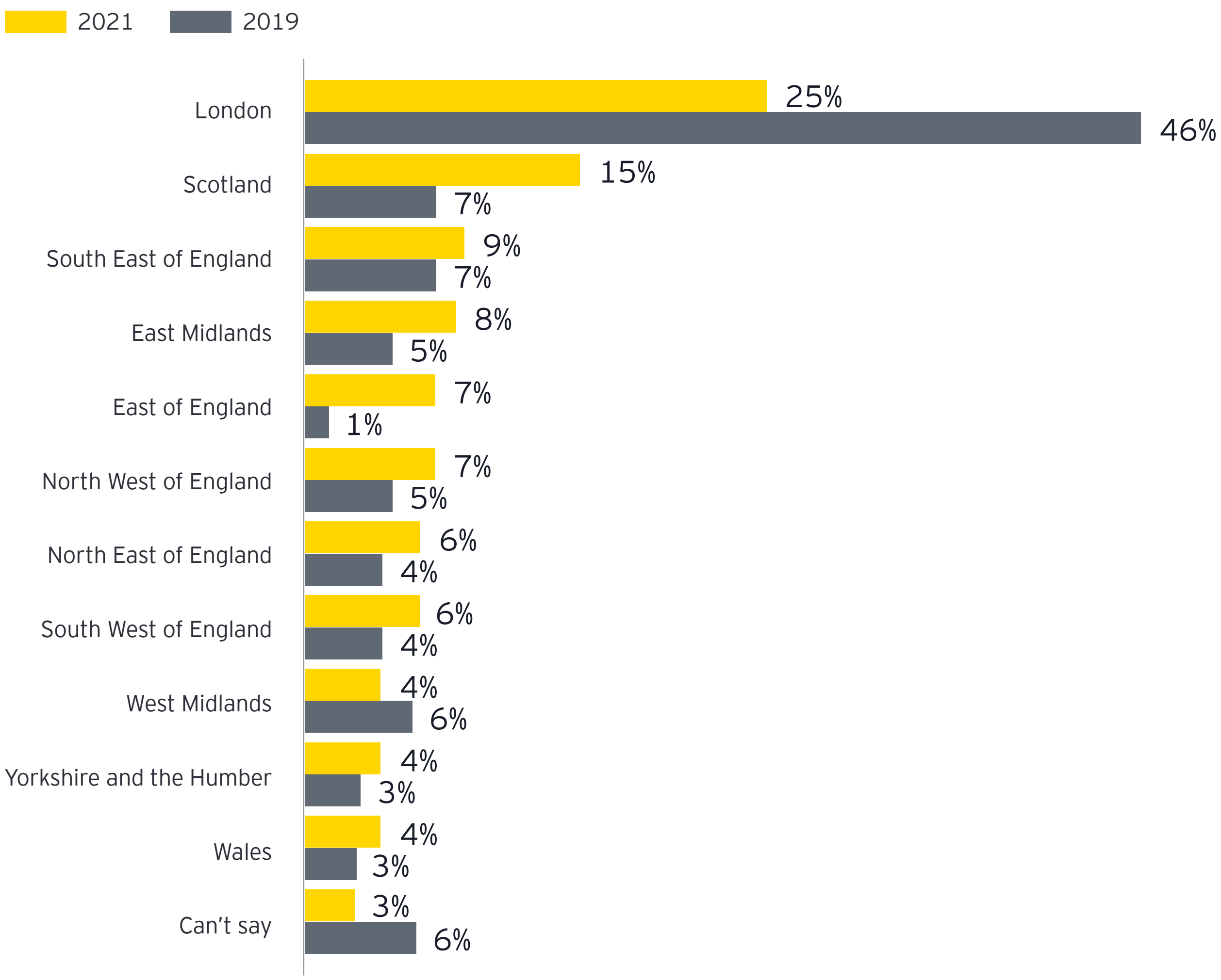
… as other UK regions narrow the perception gap

That said, our respondents' views in 2021 on which UK region is most attractive for establishing operations in does appear to point to some kind of pandemic-induced shift in appeal. While London continues to lead, many other areas of the UK – most notably Scotland – have narrowed the gap significantly. The 15% achieved by Scotland is its highest-ever ranking in our survey.

The scale of the shift that has occurred since 2019 is illustrated by the fact that the vote for London as most attractive region has almost halved in the intervening two years, while Scotland's has more than doubled. This was a nationwide effect – six of the eight English UK regions registered higher scores.

Exactly what has driven this rebalancing of perceived attractiveness is unclear, but it does appear that awareness of the Government's 'levelling up' agenda is strong among investors. 60% of respondents to our survey had heard of the policy, a significantly higher share than the 38% who had heard of the attempts to rebalance the UK when surveyed in 2016. The challenge now is to build on this awareness.

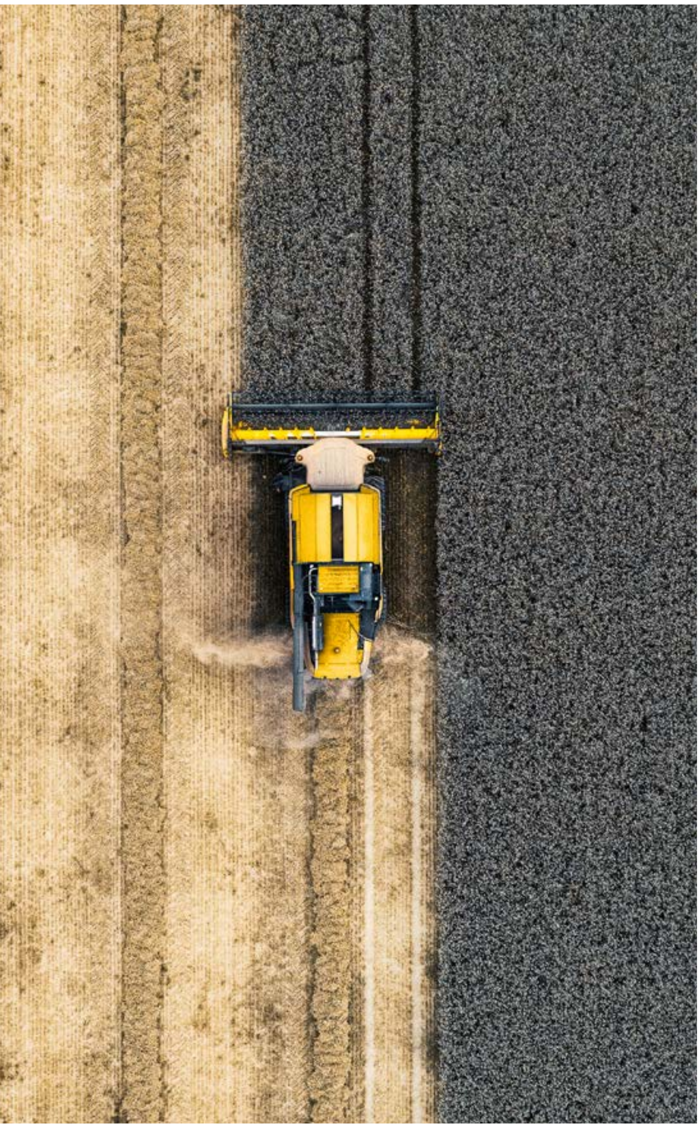
Figure 40: Which region in the UK do you see as the most attractive to establish operations in?



Source: *EY Attractiveness Survey UK*, June 2021 (total respondents: 570)

6 Investment policy proposals

That investors are going to be more demanding of governments in future than was previously the case is a consistent theme in our research. The provision of high-quality infrastructure, sustainability encouraging digital adoption, offering investors government support, helping build supply chain and support networks and improving skills, all feature high on the list of investor priorities. And it is not just in the traditional areas which FDI policy has sought to influence. Since the pandemic, the quality of healthcare and crisis management are potentially major sources of differentiation between countries, while investors are alert to the possibility that corporate taxation levels will be raised to help repair public finances.



1 Continue to prioritize UK investor communications and policy integration

In this environment, with investors having a wide range of demands on governments, clear and regular engagement with investors will be vitally important. The higher awareness of ‘levelling up’ in 2021 compared to ‘rebalancing’ in 2016 illustrates how beneficial this approach can be.

Attractiveness is becoming a wider concept. Future priority sectors such as technology and green investment will take a more holistic approach with a greater focus on lifestyle, diversity and tolerance. Our research demonstrates that investors have moved from having one or two priority policy areas, such as the quality of infrastructure and skills, to requiring a consistent offer across a range of factors identified above. Engagement with investors can both help shape policy and also ensure plans are properly understood, avoiding risks of unnecessary shocks.

Having established a clear framework to communicate policy, there is an opportunity to develop targeted initiatives to attract FDI in the priority areas from the core of the UK’s Building Back Better strategy.

2

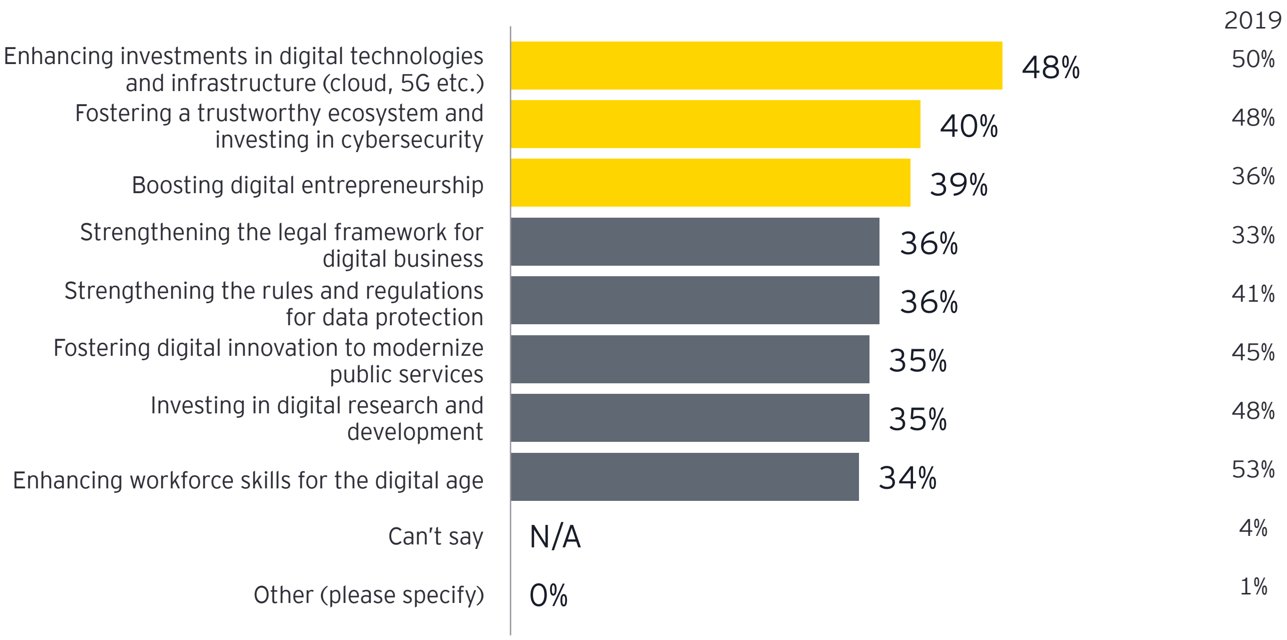
Innovation research and digital

The UK's success in attracting 62% more life sciences projects and increasing R&D inflows by 12% confirm that the UK has made significant progress in strengthening its offer around innovation in recent years. While 2020 was a concerning year for the digital sector, the signs are that both the sector and its main destination – London – remain attractive to investors.

Unsurprisingly, skills matter to investors in knowledge-intensive sectors such as life sciences and digital technology, but there is less concern than might be expected about levels of R&D funding. In terms of where the UK should focus to best support its transformation to a digital economy, investors send some further clear messages regarding specific sectors. Digital infrastructure emerges as the top priority followed by cybersecurity, again mirroring increased concerns over risks. The next three priorities are centered around entrepreneurship, protecting IP and data protection – all of which reflect specific industry features that could be used to differentiate the UK in the European and global battle to attract FDI.

All of this represents quite a significant shift in priorities since 2019, with skills declining in importance and digital infrastructure rising strongly to top the ranking. Investors in our study also believe that strengthening the legal framework for digital business has also become more of a priority for the UK over the intervening two years.

Figure 41: Digital transformation is creating opportunities for UK business. In your view, where should the UK Government concentrate its efforts to best support the UK's transformation to a digital economy?

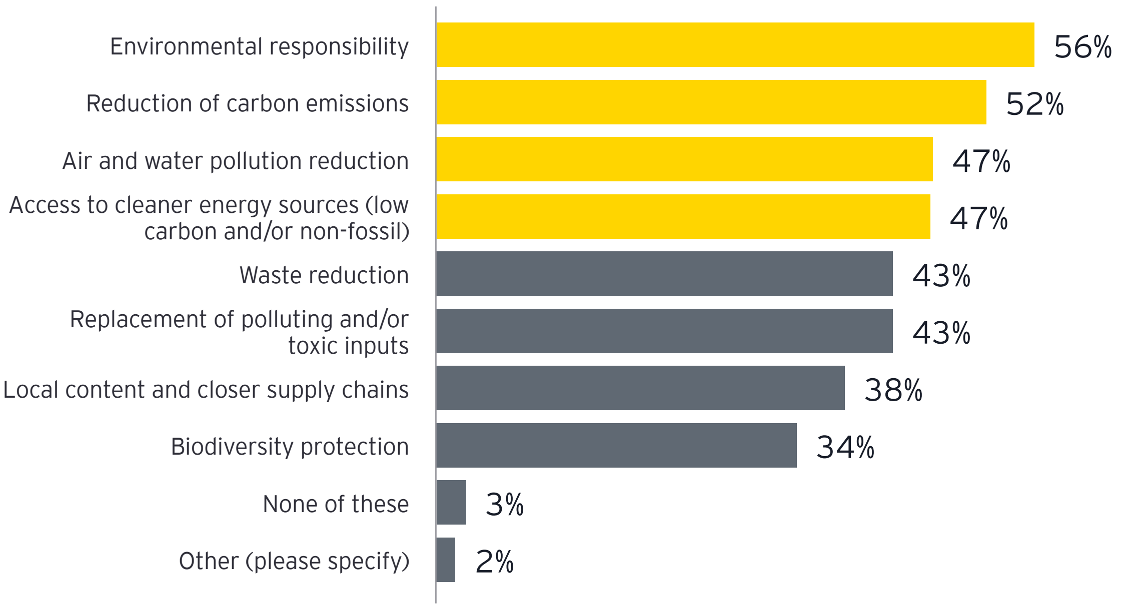


Source: *EY Attractiveness Survey UK*, June 2021 (total respondents: 570)

3 Cleantech

While the UK's appeal to cleantech investors is growing, Europe is perceived both as a global leader and as some way ahead. More policy certainty is required for investors in this sector as investment horizons are very long term. In addition, as the investor responses to our European survey demonstrate, there are areas where governments can shape policy to align with efforts which investors plan to take to include sustainability in their activities. Once again, investor engagement is key.

Figure 42: Will you increase your focus to include sustainability in your future investment projects, and if so, in which areas?



Source: *EY Attractiveness Survey Europe*, June 2021 (total respondents: 550)

4

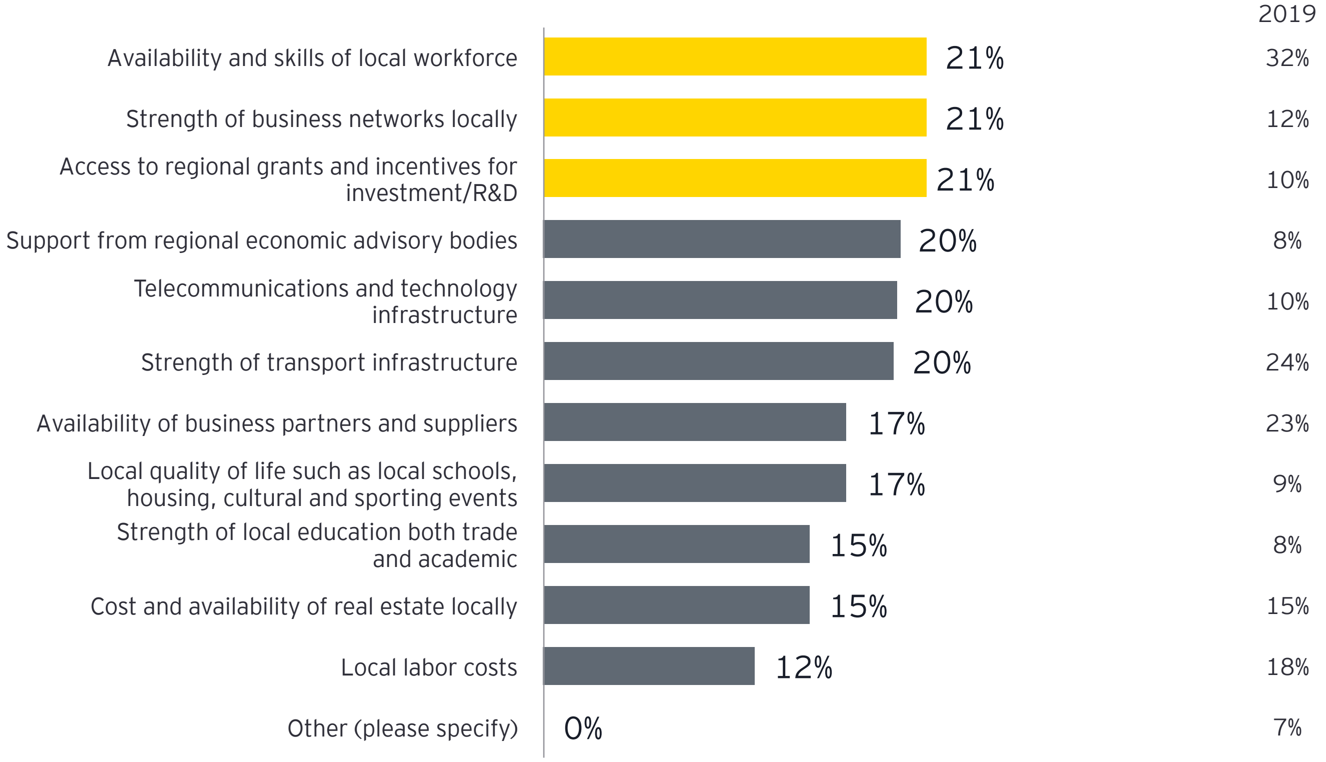
Levelling up

Our finding on investor awareness of 'levelling up' and the shift in perceptions of the relative attractiveness of London and the rest of the UK can be seen as signs of the first 'green shoots' in the attempt to reshape the UK's economic geography. There is still much to do and, just as at the national level, investors have a detailed list of requirements when they consider where in a country to invest. When investing in UK regions outside of London, the list is topped by the strength of infrastructure (taking the technology and transport categories together) and skills. However, local business networks and regional grants and incentives are also highly influential.

A comparison with 2019 shows that business networks and support from regional economic advisory bodies have both increased strongly in importance. This could potentially reflect investors' awareness of the UK Government's 'levelling up' agenda, which may boost the support available to inward investors looking to locate projects in regions outside London.

In addition, with 45% of investors indicating plans to reshape their supply chains, especially companies in the manufacturing sectors, there is a need to target potential investors and reshoring activity. Support for investment beyond the recently introduced enhanced capital allowances and work to develop supply chain strategies could generate significant returns as the world prepares for life after COVID-19.

Figure 43: What are your investment criteria when considering investing in the regional locations outside of London in the UK?



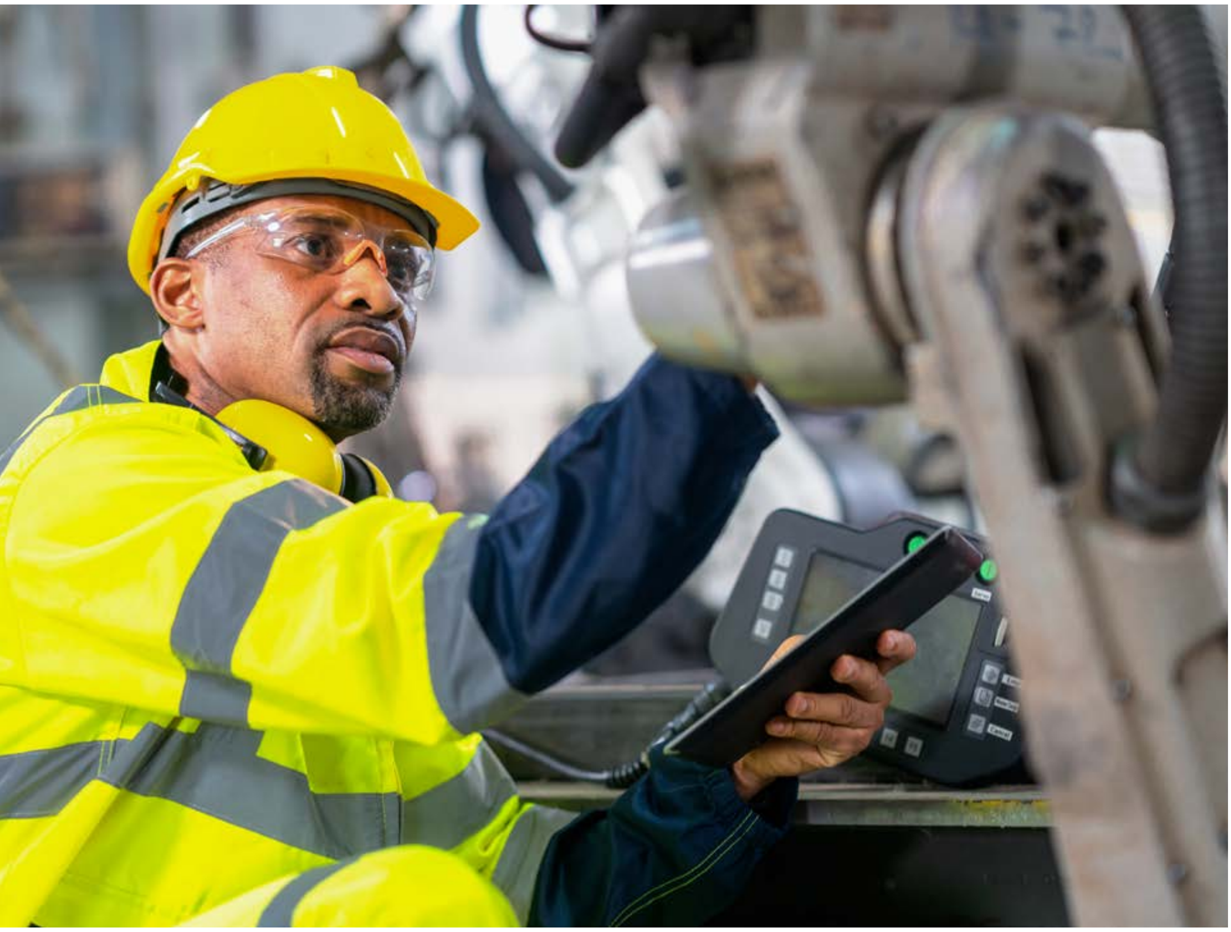
Source: *EY Attractiveness Survey UK*, June 2021 (total respondents: 570)

5

Global Britain

Of the priority policy initiatives, the most challenging according to our research is building Global Britain. There is no doubt that sectors such as manufacturing and financial services have been impacted by Brexit and the reshaping of the UK's trading arrangements with the EU. The decline in the UK's share of Japanese FDI in Europe, and lower EU investment in the UK since 2015 reflect the same challenges. While there have been signs of an upturn in investment flows from markets outside of the USA, EU and Japan, these have yet to prove sustainable and it is far from clear they will be of a scale to compensate for lower activity in the traditional base.

Foreign investors attach a lower priority to the UK signing future trade deals than might be expected, suggesting that, consistent with the changes in FDI from Japan, the appeal of the UK as an export base is much less than it was. (We certainly need to keep the performance of digital under review to assess whether this is an issue for this sector despite it requiring relatively less physical movement of goods and people than other sectors.) If the UK is to convince foreign investors of the opportunity offered, then more extensive engagement is required.



Methodology

The ‘real’ attractiveness of the UK for foreign investors

Our evaluation of the reality of FDI in the UK 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 organizations and corporations looking to identify significant trends in employment, industry, business and investment.

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

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

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

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

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

We define the attractiveness of a location as a combination of image, investors' confidence and theperception 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 analyzes both the reality and perception of FDI in the country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

The program has a 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:
ey.com/attractiveness #EYAttract

About the EY Economics for Business program

Our Economics for Business program provides knowledge, analysis and insight to help businesses understand the economic environments in which they operate. We work with both the private and public sectors, facilitating the debate between business and government, supporting economic development, growth and regeneration.

We are well-positioned to assess the implications of economic change, helping business to capitalize on the opportunities it affords, making the world work better. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

Contact:
economics@uk.ey.com

EY contacts

Peter Arnold
UK&I Partner, Economic Advisory,
Ernst & Young LLP (UK)
parnold@uk.ey.com

Shelley Marchant
UK Brand Programmes Lead,
Ernst & Young LLP (UK)
smarchant@uk.ey.com

Annabel Banks
Media Relations Manager,
Ernst & Young LLP (UK)
annabel.banks@uk.ey.com

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