National Audit Office

REPORT

Supporting investment into the UK

Department for International Trade

SESSION 2022-23
27 JANUARY 2023
HC 1080

Key facts

1,174

number of Foreign Direct Investment (FDI) projects the Department for International Trade (DIT) supported in 2021-22, a decrease of 19% on 2019-20. This represents 74% of all 2021-22 UK FDI projects (by number of projects, not by value of investment)

£7bn

estimated Gross Value Added (GVA – a measure of economic output) of FDI projects supported by DIT in 2021-22, an increase of 128% on 2019-20

£80.5mn

DIT's estimated expenditure on supporting investment into the UK in 2021-22. DIT estimated that 634 DIT staff (full-time equivalent) directly supported inward investment

$27.6 billion	value of all FDI investment that flowed into the UK in 2021, including investments not supported by DIT
50%	decrease in the value of all FDI flowing into the UK between 2012 and 2021 (not adjusted for inflation)
£135 million	estimated increase in economic benefits DIT expects to deliver as a result of its investment transformation programme, over five years between 2022-23 and 2026-27 (15% increase from the pre-transformation baseline of £927 million to £1,062 million)
57%	of FDI projects that DIT supported in the UK were outside London and the South East (excluding projects with multiple UK sites) in 2021-22, compared with 46% in 2016-17
89%	proportion of investors surveyed by DIT in 2020-21 who reported satisfaction with the information and advice provided by DIT
74%	proportion of investors surveyed by DIT in 2021-22 who reported that they 'definitely or probably' would have invested in the UK without DIT's support

Summary

1 Inward investment involves an overseas entity either investing in or purchasing assets in the UK, thereby introducing foreign money into the UK economy. It can bring economic benefits by creating new jobs and developing new infrastructure and can boost productivity through the sharing of new technologies and skills. There may be potential risks associated with inward investment such as over-dependence on overseas companies in a particular industry sector. In some cases, inward investment may have a negative impact on local economies if small local businesses lack the capacity to compete with large overseas investors.

2 The government sees inward investment as important for supporting economic growth and for generating investment to support its priorities, which include transitioning to a low-carbon economy, reducing inequalities between regions of the UK, and becoming a science and technology superpower through innovation. Factors that may attract investors to the UK include growth opportunities, consumer demand, ease of setting up a business and an established rule of law. While the UK is an attractive destination for inward investment, it competes with other countries, many of which offer direct financial incentives to overseas investors. Ultimately investors will make investment decisions based on whether they judge they can make a return, but the government aims to develop relationships with investors and to persuade them that the UK is the best destination for their investment.

3 The Department for International Trade (DIT) aims to encourage economic growth and a green industrial revolution across all parts of the UK through attracting and retaining inward investment.[1] In 2021-22, DIT spent an estimated £80.5 million on supporting investment with an estimated 634 staff directly supporting investment. DIT teams in the UK and overseas identify opportunities for investment in the UK, promote these opportunities to potential investors, and seek to attract and retain high-value investors. They do this by providing a range of support to investors throughout investment projects, including advice on, for example, suitable locations, UK regulations, or finding local staff with the right skills. In 2021-22, DIT was involved in 74% of all new UK Foreign Direct Investment (FDI) projects although it is not possible to say how many of these investments would have been made without DIT's support.[2] FDI is defined as an investment reflecting a lasting interest from a foreign investor or enterprise in a UK enterprise where the overseas investor owns 10% or more of the enterprise and aims to have an 'effective voice' in its management.[3]

1 These are the Department for International Trade's (DIT's) current priorities. DIT has updated them since it published its *2021-22 Outcome Delivery Plan* in July 2021.
2 DIT also supports capital investments where an overseas investor invests funds into a company, enterprise, or project for the purposes of furthering commercial objectives and expanding growth.
3 DIT defines investments with a lasting interest as those where business activities supported by the investment are expected to last for at least three years.

4 DIT shares responsibility for supporting inward investment with other government departments. It works closely with the Department for Business, Energy & Industrial Strategy (BEIS), which is responsible for the government's overall industrial strategy, as well as policy on specific sectors. DIT also needs to work in an integrated way with other departments which are responsible for policy in specific sectors or hold policy levers that can support inward investment, such as tax, regulation and visa requirements. In 2020, DIT established the Office for Investment (OFI), jointly reporting to DIT and the Prime Minister's Office, to improve its service for high-value investors where more effective cross-government working could help secure foreign investment.[4] DIT also works with local government and the devolved administrations to identify potential opportunities for investors.[5] In 2021, DIT established trade and investment hubs in Edinburgh, Cardiff and Belfast to support businesses across the UK and overseas investors.

Scope of this report

5 This report examines whether DIT is well-positioned to secure an impact from its support for inward investment. We assess whether DIT:

- has a clear and coherent strategy for supporting inward investment which reflects the government's economic and wider priorities and is understood across the organisation;
- has a robust plan for implementing this strategy, including the resources, processes and effective networks across government it needs to deliver; and
- is able to demonstrate that its activities are having an impact on investment into the UK.

6 The report examines DIT's support for both FDI and capital investment. DIT is the focus of our work, including how it works with other departments and local partners to support inward investment. We also present contextual data on all UK inward investment, including investment not supported by DIT. We do not cover the support that the government offers to UK firms who wish to invest overseas. There are broader related issues such as how the government strikes a balance between attracting inward investment and over-reliance on overseas investment, which may lead to the UK being more vulnerable to global market fluctuations. These are outside the scope of this report. Our methodology is set out in Appendix One.

4 In this document, where we refer to DIT, we mean both DIT and the OFI unless otherwise stated.

5 While devolved administrations (DAs) are responsible for economic development in their nations and may have their own investment promotion agencies, DIT has a UK-wide remit and operates for the benefit of the whole UK. For example, DIT's overseas posts and sector teams provide support to DAs.

Key findings

DIT's strategy and approach to supporting investment

7 **The UK is an attractive destination for inward investment, but the global investment environment is affected by many factors.** In 2021, the UK held the second highest levels of FDI stock in the world ($2.6 trillion). Factors that have affected FDI flowing into the UK include company mergers, acquisitions or consolidations, competition from other investment promotion agencies, restructuring following EU Exit and the impact of the COVID-19 pandemic. Over the past decade, the value of FDI flowing into the UK peaked in 2016, primarily because of higher merger and acquisition activity. In 2021, UK FDI inflows were $27.6 billion (including investments not supported by DIT), 50% below 2012 levels (not adjusted for inflation). Net global FDI flows declined in 2020 but had recovered to 8% above 2012 levels by 2021 (paragraphs 1.6, 1.7 and Figure 4).[6]

8 **DIT has successfully changed its approach to prioritise high-value investments**. In 2020, DIT began to develop a new investment strategy to focus on high-value, high-impact investments that support government's wider objectives on levelling up, net zero and innovation. Previously, it had aimed to support as many investments as possible and did not strongly differentiate the support it offered by project value. In reviewing its investor services, DIT identified issues such as a limited ability to build a pipeline, duplication of functions across DIT, inefficient processes and a weaker online service than similar investment agencies. We found that DIT's new strategy was clearly understood across the organisation. DIT is developing a new operating model to support its strategy and is developing performance measures and targets that reflect its aims (paragraphs 2.13 to 2.15).

9 **DIT has strengthened how it works with other government departments to present a more coherent UK offer to investors, but there are opportunities to develop this further.** DIT is responsible for attracting inward investment, but other departments, including BEIS and the Department for Levelling Up, Housing & Communities (DLUHC), are responsible for key policy levers that support inward investment. This means that DIT needs to work in an integrated way with departments and local bodies to help remove obstacles to investment. DIT established the OFI to focus on high-value investments where more effective cross-government working could make a difference. Since it was established, the OFI has helped secure commitments for investment worth more than £11.75 billion. Collaboration between DIT and BEIS has strengthened over time, and the model of a minister for investment jointly at DIT and BEIS helped align strategic priorities and promote joint working. However, following government changes in 2022, the current minister for investment represents DIT only (paragraphs 1.8 to 1.10, 2.2 to 2.5 and Figure 6).

6 The analysis is based on United Nations Conference on Trade and Development (UNCTAD) world investment data. UNCTAD reports values of FDI inflows in US dollars.

10 **DIT does not have a clear overview of the relative strengths of local areas across the UK in different industry sectors to help it identify the most suitable projects for investors.** DIT aims to support more investments outside London and the South East as part of the levelling up agenda, but does not otherwise favour particular areas of the UK. Instead, it works with investors to help them secure the most suitable opportunities and to avoid the UK losing out to overseas competitors. To build a picture of opportunities, DIT has published an 'investment atlas' of potential investments, sector teams have developed strategic plans, and teams in the English regions have identified priority sectors. However, DIT has not developed a UK-wide overview of local strengths, including skills, infrastructure and supply chain opportunities, and how it will market these. Devolved administrations and trade associations we consulted consider that it would be helpful for DIT staff engaging with investors to have a greater understanding of the relative strengths and competitive advantages of the nations and regions of the UK. Devolved administrations also told us there was scope for DIT to clarify how its UK-wide trade and investment hubs will support investment across the UK (paragraphs 2.6 to 2.8).

11 **DIT's processes for reducing the risk of government involvement with controversial companies are not joined up.** To help it secure long-term investments that deliver economic benefits, DIT has developed effective client management processes and the OFI has set out criteria for which projects to support. DIT provides input to BEIS on whether acquisitions which are notified to, or identified by, the government under the National Security and Investment Act pose a risk to national security (a process led by BEIS).[7] It has also developed screening processes for checking whether the investors it plans to support have been involved in illegal activities and, following the Russian invasion of Ukraine, has developed a tool to identify whether investors it supports are subject to UK sanctions.[8] However, DIT's current approach to due diligence is disjointed and the level of screening varies across teams. It is currently reviewing its sanctions screening process and considering how it should record issues and share them across DIT (paragraphs 2.9 to 2.12).

7 The Investment Security Unit in BEIS was established to identify, address and mitigate national security risks to the UK arising when a person gains control of a qualifying asset or qualifying entity, as laid out in the 2021 National Security and Investment Act. The Act gives the government powers to scrutinise and intervene in business transactions, such as takeovers, to protect national security. It requires certain acquisitions of control of entities operating within particular sensitive areas of the UK's economy to be notified and approved by the government before they are completed.

8 The UK Sanctions List details the individuals, entities or ships that the UK currently has sanctions against. Reasons for imposing sanctions can include global human rights abuses, links to terrorist activities and to support the UK's foreign policy aims. The Foreign, Commonwealth & Development Office is responsible for the use of sanctions.

Investment performance and impact

12 **DIT publishes a range of data on the number and value of investments it supports but this does not provide a clear view on its performance.** To track its progress in supporting investment, DIT sets internal performance targets such as the number of high-value projects it supports. It also publishes metrics on FDI and capital investments it has supported (**Figure 1**). In common with three out of four other investment promotion agencies we reviewed, DIT does not publish targets for its investment performance measures. This is because there are many wider economic factors that influence levels of investment. Similarly, it is not possible to determine to what extent trends in investment data can be directly attributed to DIT's activities or are influenced by other factors, such as the impact of the COVID-19 pandemic and EU Exit on the wider economic climate. DIT publishes forecasts of the potential economic benefits at the outset of investment projects, but it does not routinely monitor what outcomes have been achieved, whether they are higher or lower than forecast, or whether investments have led to any economic disbenefits (paragraphs 3.2, 3.3, 3.7, 3.13 and 3.14).

Figure 1
The Department for International Trade (DIT) published performance data between 2019-20 and 2021-22

DIT's investment performance improved against all published measures except the number of projects and safeguarded jobs between 2019-20 and 2021-22

Type of investment	Performance			Increase/decrease in performance 2019-20 to 2021-22	
	2019-20	2020-21	2021-22		
Foreign Direct Investment (FDI)					
Number of FDI projects supported by DIT	1,449	1,131	1,174	↓	-19%
Gross Value Added	£3,091mn	£3,875mn	£7,034mn	↑	128%
Number of new jobs	44,830	47,784	72,906	↑	63%
Number of safeguarded jobs	7,815	16,174	6,665	↓	-15%
Capital investment					
Large capital	£4,023mn	£3,821mn	£4,683mn	↑	16%
Venture capital	£672mn	£773mn	£960mn	↑	43%

Notes

1 The above analysis is based on the available data published by DIT and does not include all types of investment.

2 All figures are for FDI and capital investment projects supported by DIT.

3 FDI projects supported by DIT are counted at the point when DIT has confirmed at least some of the planned investment in the UK has been made.

4 New and safeguarded jobs are jobs expected to be created or retained over the following three years as a result of investment from FDI projects supported by DIT.

5 Gross Value Added figures are estimates of the economic output of FDI projects supported by DIT over the following three years.

Source: National Audit Office analysis of the Department for International Trade Inward Investment Results from 2019-20 to 2021-22

13 **Since 2019-20, DIT has supported fewer FDI projects, but the forecast economic benefits of projects it supported has risen.** The number of DIT-supported FDI projects has fallen by 37% since 2016-17, and by 19% since 2019-20, to 1,174 projects in 2021-22 (Figure 1). This fall may reflect global economic trends because global levels of inward FDI also decreased over the same period. However, since 2019-20, the estimated Gross Value Added (economic impact) and new jobs associated with the FDI projects DIT supported has increased by 128% and 63% respectively. The value of venture capital and large capital projects has also risen since 2019-20 (paragraphs 3.6, 3.7, Figures 10 and 11).

14 **DIT now supports more high-value projects and more projects outside London and the South East, but it is too soon to determine if this is a longer-term shift.** The proportion of high-value projects supported by DIT increased from 13% in 2019-20 to 41% in 2021-22, although this increase may reflect greater incentives for staff to record project value than previously (**Figure 2**).[9] The proportion of FDI projects that DIT supported in the UK outside London and the South East (excluding projects with multiple UK sites) also increased from 46% in 2019-20 to 57% in 2021-22. However, there is variation in economic impact across the UK. For example, in 2021-22, DIT estimates that investment it supported led to 3.1 new jobs per 1,000 people aged 16 to 65 in the North East, compared with 0.5 jobs in the South West. The proportion of DIT-supported projects with a research and development focus remained constant between 2019-20 and 2021-22. DIT has just started to record the number of projects with a climate focus. It is too early to determine any trends, given the long-term nature of investments in these sectors (paragraphs 3.9, 3.10, Figures 13 and 14).

15 **While many investors choose to invest in the UK without DIT's involvement, investors value the support from DIT and the OFI**. It is difficult to determine whether investments would have happened without government involvement. DIT works to understand the impact of its activities, including through an investor survey, and is developing an approach to analysing the relative costs and benefits of its support services. In 2020-21, 89% of surveyed investors reported satisfaction with DIT's information and advice, and 76% said DIT had helped them make useful contacts, which they rated the most valuable DIT service.[10,11] In 2021-22, 74% of investors surveyed by DIT said they 'definitely or probably' would have invested in the UK without DIT's support.[12] Ultimately investors will invest because it makes commercial sense but the OFI considers it can play a key role in 'getting deals over the line' by building strong relationships across government (paragraphs 3.12, 3.13, 3.15, 3.16 and Figure 15).

9 High-value projects refer to projects DIT has assigned to its top two value bands. Each year DIT calculates value bands by sector using data on the value of projects it supported over the past three financial years. Projects assigned to the top two bands are in the top 25% of projects supported by DIT.

10 Department for International Trade, *UK Inward Investment Client Insight Survey 2020/21*, unpublished. DIT's client survey covers investors supported by DIT whose investment project has started in the UK. It does not cover investors who choose not to invest in the UK. The data are unlikely to be representative of all investors as only 18% of eligible investors responded to the survey in 2020-21 and 11% of eligible investors responded to the subsequent survey in 2021-22.

11 Data are not available on these measures for 2021-22 because DIT did not ask these questions in its 2021-22 survey. Between 2020-21 and 2021-22, DIT changed many questions, removed existing questions and added new questions, with the aim of improving how it measures investor satisfaction and efficacy of its different investment services.

12 A similar proportion (75%) of surveyed investors in 2020-21 stated that it was extreme likely, very likely or likely that their investment would have gone ahead without DIT's support and advice. The question wording varied between 2020-21 and 2021-22.

Figure 2

Number of Foreign Direct Investment (FDI) projects supported by the Department for International Trade (DIT) in its strategic priority areas, 2019-20 to 2021-22

The number of high-value projects DIT supported more than doubled from 192 (13% of the total DIT supported) in 2019-20 to 484 (41%) in 2021-22

Strategic priority	Metric	Number of FDI projects supported by DIT			Proportion of all FDI projects supported by DIT		
		2019-20	2020-21	2021-22	2019-20 (%)	2020-21 (%)	2021-22 (%)
High-value projects	Number of FDI projects in top two value bands (top 25% of past FDI projects by value)	192	315	484	13	28	41
Innovation	Number of research and development-focused FDI projects	357	280	297	25	25	25
Levelling up	Number of FDI projects outside London and the South East	728	616	676	50	54	58
Net zero/ reducing emissions	Number of FDI projects aligned to the Ten Point Plan	–	–	86	–	–	7

Notes

1 FDI projects supported by DIT are counted at the point when DIT has confirmed at least some of the planned investment in the UK has been made.

2 The Ten Point Plan refers to priorities set out in the government's *Ten point plan for a green industrial revolution*, these include: offshore wind; low-carbon hydrogen; nuclear power; zero emissions vehicles; green public transport; green ships; green buildings; carbon capture, use and storage; protecting the environment; and green finance. DIT began recording investment projects aligned with these criteria part-way through 2020-21 and so data are not available for 2019-20 or 2020-21.

3 Data for research and development-focused projects and high-value projects should be treated with caution due to issues with data quality and changing incentives to record these data.

4 High-value projects refer to projects DIT has assigned to its top two value bands. Each year DIT calculates value bands by sector using data on the value of projects it supported over the past three financial years. Projects in the top two value bands are in the top 25% of projects supported by DIT.

Source: National Audit Office analysis of Department for International Trade performance data

DIT's investment transformation programme

16 **DIT aims to deliver additional economic benefits of £135 million through its investment transformation programme.** To deliver its strategy, DIT identified that it needed to focus resources on priority investments and make better use of new technology. The OFI aims to support more high-value investments, and DIT plans to remove duplication, reduce staff time spent on supporting low-value investments, and make more use of digital tools for responding to simpler requests for support. The programme is forecast to cost around £26 million until March 2025, and DIT estimates that focusing on higher-value investments will deliver 36,700 new jobs and safeguard 464 existing jobs between 2022-23 and 2026-27. DIT estimates the programme will increase the economic benefits from every pound it spends on investment support by 40p and provide net savings of £4.2 million per year by 2027-28 (paragraphs 2.16 and 2.17).

17 **DIT has made progress with implementing the programme, but it is in its early stages.** DIT began developing its plans in 2020 and submitted a Spending Review bid for programme budget in 2021. There was an initial delay in taking the programme forward as staff were diverted to other priorities, most recently the conflict in Ukraine. DIT started to implement the programme in April 2022, with a programme plan through to 2028. It has set up a programme team and established nine workstreams, which include work to bring investment support services staff in-house and to develop a new model for managing investor enquiries overseas. It has piloted a new unit for responding to low-value enquiries from investors and conducted user testing for an online self-service platform (paragraph 2.18 and Figure 9).

18 **DIT must access and build the necessary skills, capacity and corporate knowledge if it is to achieve the forecast benefits of the programme**. DIT has rated the programme delivery risk as 'amber'. It intends to deliver the programme in phases, so that it can adjust plans if it is not delivering benefits as expected. DIT has made progress with filling vacancies in its project team, but limited capacity in the digital team could delay development of the online self-service platform for investors with simple queries. Investor use of the pilot enquiry response unit has been lower than expected so it is not yet possible to confirm that the unit gives investors what they need, and that efficiency savings will be achievable. DIT aims to refer more investors to the service to increase its use. A key part of DIT's transformation programme is bringing the Investment Services Team in-house when the contract ends in August 2023. This team currently has around 100 staff and holds relationships with around 900 investors. DIT plans to manage risks by retaining existing staff and transferring data held by the contractor to DIT (paragraphs 2.19 to 2.22).

Conclusion

19 The UK is an attractive destination for inward investment, which can play a key role in boosting the economy. DIT is taking sensible steps to increase the value it adds by focusing on projects that will have the highest economic impact, making more use of technology, working in a more integrated way with BEIS and improving due diligence processes. The Office for Investment, which DIT established to deliver a one-stop-shop for the highest-value investors, has had some early successes and DIT is supporting more high-value, high-impact investments. However, attributing success is inherently difficult, given long lead times in securing investment and the impact of wider economic factors on global investment flows. Understanding DIT's performance in supporting investment also requires a consistent approach to tracking impact over time. While there is some evidence that DIT's support has some impact on investors' decisions to invest, it remains difficult to determine how much investment would have happened without government involvement. Furthermore, attracting inward investment requires the coordination of multiple departments which hold policy levers. DIT needs to work in a joined-up way across government and local bodies to present a coherent UK offer to investors.

Recommendations

20 As it takes forward its transformation plans, DIT must build on progress to date and manage future risks if it is to achieve its aims of attracting long-term investment that drives growth. These recommendations are intended to support DIT and others with this endeavour.

a **DIT should work with BEIS, DLUHC, local authorities in England, devolved administrations and other relevant bodies to build deeper knowledge of the relative strengths of UK regions and nations.** This knowledge should be shared across DIT to inform how teams can better support investors. DIT should also clarify the role of the UK trade and investment hubs and how they will work with devolved administrations to promote growth throughout the UK.

b **DIT should consider how it can extend the benefits of working closely with BEIS to the rest of government.** DIT should:

- identify ways to further improve information sharing with BEIS on investors' interests and opportunities for investment; and
- explore opportunities to further strengthen joint working with other departments and build on the previous benefits of having a joint DIT and BEIS minister.

c **DIT should develop stronger processes for mitigating risks of supporting investments that expose DIT to higher levels of reputational and strategic risk.** As it reviews its due diligence processes, DIT should consider how it identifies and tracks the risks of involvement with controversial companies that may be involved in illegal or unethical activities or are subject to sanctions. Processes should be proportionate, integrated and used consistently across DIT and the OFI.

d **To mitigate risks to implementing its transformation programme, DIT should:**

- consider what contingency plans may be needed to address capacity constraints that could affect the delivery and effectiveness of digital tools that are critical to DIT's plans to achieve efficiency savings; and
- draw on National Audit Office guidance and other good practice on managing risks associated with transitioning and exiting contracts as it insources its Investment Services Team contract and works to ensure the effective transfer of capabilities and data from the supplier.[13]

e **DIT should draw out lessons from the first two years of the OFI, to inform DIT's transformation programme and its approach to managing investors.** This should also help inform further development of the OFI.

13 National Audit Office, *Good practice guidance, Managing the commercial lifecycle*, July 2021 (accessed 6 December 2022).

f **DIT should continue refining its performance framework to align with wider government policy objectives.** DIT should:

- ensure it has robust data to develop a wider range of value-based metrics such as the value of DIT-supported investment that contributes to the government's clean growth and research and development objectives;
- work with DLUHC to develop how DIT can gain greater insight into how it contributes to supporting growth throughout the UK, including in the geographical areas which most need investment; and
- ensure balance between allowing flexibility in the performance framework to respond to policy changes and achieving consistency so that DIT can continue to track and compare progress and trends over time.

g **DIT should assess how actual economic benefits resulting from inward investment projects compare with its forecasts at the outset**. This would help it draw out the reasons why actual benefits may be higher or lower than initial estimates, improve future forecasting, and gain additional insights into the impact DIT is having on economic growth and wider policy objectives. It could take a sample-based approach by, for example, focusing on the highest-value investments.