Why Choose Britain?

BY TOM CLOUGHERTY, ROBERT COLVILE,
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Centre for Policy Studies

About the Centre for Policy Studies

The Centre for Policy Studies is one of the oldest and most influential think tanks in Westminster. With a focus on taxation, economic growth, business, welfare, housing and the environment, its mission is to develop policies that widen enterprise, ownership and opportunity.

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Acknowledgements

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Executive Summary

The past decade has been one of the most turbulent in Britain's long history. The shock of the Brexit referendum. The rise of Corbynism. The pandemic. Russia's invasion of Ukraine. And now the most severe cost of living crisis in a generation.

If Britain is to get out of this mess, the only answer is to grow our way out. And the only way to do that is to harness the power of the private sector – not just in Britain itself, but around the world. Throughout our history, we have been distinguished by an openness to investment. In our current circumstances, making Britain the most attractive place possible to invest, to move to and to grow your business is a vital part of the recipe for recovery.

That is why the Centre for Policy Studies, with the support of Shore Capital, has been carrying out what we believe is the largest focus group of major investors that this country has seen. We have had more than 100 in-depth conversations with investors controlling hundreds of billions of dollars in capital. And we have asked them one simple question: "Why choose Britain?"

'Yes, we are more attractive than most of our European rivals. But that is only because they are even worse'

The answers they gave were not as encouraging as they could be. Our interviewees readily agreed that Britain still has enormous strengths. But they generally felt that these advantages were gradually eroding – that we have not used the time since Brexit to set out a clear story about why investors should choose Britain, or at least that it is not one that a majority of investors have yet heard.

Yes, we are more attractive than most of our European rivals. But that is only because they are even worse. And many of them are making a concentrated effort to catch up. Emmanuel Macron, in particular, has been setting aside enormous amounts of time to woo both established firms and high-growth newcomers that might normally consider the UK their natural European home.

In our conversations, there was a recognition that the Government is doing many of the right things. There was praise for the creation of the new Office for Investment, and for many of the initiatives that the Chancellor has undertaken on financial services. But there was also sharp criticism of the Government for introducing corporation tax rises and tax increases on work that made the UK a less attractive place to do business. There was also a general sense that the UK as a whole does not celebrate enterprise and entrepreneurship in the way that it could or should.

This report argues that:

- The Prime Minister needs to lead from the front as the best advocate for Britain, and the highest-profile champion for business. Those we spoke to felt that a country with Britain's natural advantages and France's dedication to wooing business leaders, coupled with a more sympathetic policy platform, would have an unbeatable proposition
- We need to make sure that businesses and investors know who they should be talking to in Government, and have expert and sympathetic guidance. Too many people told us that they did not know who to talk to, or that there was a lack of joined-up thinking
- The UK needs to overhaul its business tax regime to make it more investment-friendly, and indeed should set a target of making the UK the most investment-friendly country in the world
- We need to maintain and enhance those tax incentives that make Britain an attractive place to invest, expanding the limits on Enterprise Management Incentives (EMI), the Enterprise Investment Scheme and Venture Capital Trusts (VCTs), which have all proved successful in the past. We should also not only protect the existing non-dom regime but look at what else we can do to reward highly skilled and entrepreneurial people for relocating to our country
- We need a best-in-class regulatory regime, and a focus on competitiveness at the heart of Government
- We also need to do more to strengthen Britain's capital markets and investment environment, in particular when it comes to allocating long-term capital. International investors want to share in Britain's success, not compensate for its domestic shortcomings

The specific chapters of this report examine the UK's economic and competitive situation (p11); our policies on tax and regulation (p25); the wider finance and investment ecosystem (p48); and, crucially, how Government talks about and interacts with business, and goes about wooing investors (p68). All are informed by, and quote from, the conversations we have had.

We conclude with a 10-point plan, based on the interviews we carried out, to dramatically move Britain up the league tables in terms of attractiveness to investment – which would also make this a better place to do business full stop.

The 10-Point Plan

1.	**Publish a plan to make Britain the most investment-friendly country in the world**
2.	**Cancel the corporation tax rise**
3.	**Extend the special tax regimes that bring wealth and talent to Britain**
4.	**Enhance tax breaks that boost investment**
5.	**Reform the regulations that hold back our investment ecosystem**
6.	**Introduce cutting-edge regulatory frameworks to capture new markets**
7.	**Put a new competitiveness unit at the heart of government**
8.	**Renew No. 10's focus on business and put in place a much better support structure**
9.	**Empower cities and regions to promote themselves as investment destinations**
10.	**Revive the OxCam arc and promote business-finance-university clusters across the UK**

Introduction

"I speak on a daily basis to those controlling pools of capital about why they should come to Europe and within Europe, why they should come to Britain – it is a really tough question, especially compared to the US and Asia."

"Overall, we are still an attractive investment destination. We have the strongest combination of hard and soft power anywhere in the world."

"Whenever we go to sovereign wealth funds, they say 'you poor things in Britain – things must be awful'. And we have to explain – no, no, they're not."

"We haven't portrayed much confidence globally about Brexit. We should be showing more swagger if we want business to come here, list here, build their business here."

"The UK is a great place to be if you're a global business, but the direction of travel has been negative for the last 15 years."

"The Gulf looks at the UK today as a safety deposit box for real estate and not for opportunities for real growth."

"Brexit makes it possible for Britain to become the No. 1 destination for inward investment – but that potential has yet to be achieved."

"Starting with a clean sheet of paper, I would still choose to headquarter the business in London. We had to set up an office in Paris once passporting ended. But looking at how complex it is to do business in Paris, I would choose London every time and if I could close that Paris office I would."

"To be frank, most of the wealthy families who are looking for investment targets are looking anywhere apart from the UK."

Why choose Britain? It's a simple question, but one that has enormously important consequences for our economy.

Our prosperity in recent decades has been built on making our country the best possible place to invest and do business. Whether it be via the Big Bang in the City of London in the 1980s or attracting companies like Nissan, Toyota and BMW to resurrect our automotive industry, investors have known that they will receive not just a warm welcome in this country, but absolutely equal treatment under the full protection of British law.

In our current economic circumstances, that openness to investment is more important than ever. Britain faces not just a cost of living crisis, but a productivity and investment crisis. If we want to get growth back, get living standards up, and deliver on the Government's promises to level up the country, private enterprise and private investment will be absolutely crucial. And foreign investment will be particularly important, not least because of the significant productivity benefits it brings.

Yet a commitment to openness is a double-edged sword. If we fail to retain the sharpest possible focus on our competitive position – if a perception grows among investors that the UK is becoming a less attractive or less business-friendly place – then those flows of capital, talent and expertise may suddenly wither away.

The UK still tends to come out well in international rankings of competitiveness and investment. Many of our key sectors are absolutely world-leading – and we are well-positioned in many of the growth areas of the future. But in multiple conversations with leading business figures, our team at the Centre for Policy Studies detected a note of worry: that the attractiveness of the UK as a place to invest was steadily slipping away.

> **'There is a firm belief – in some quarters bordering on despair – that Britain is becoming a less attractive place to do business'**

There are of course existing surveys of Britain's attractiveness as a place to do business, or of the volume of inward investment this country receives. We cite many of them in this paper. But what has been missing from the debate are the voices of the decision-makers themselves – not the lower-ranking staff who might fill out a consultant's survey, but the people who are actively choosing, on a daily basis, whether to put money into our country or send it elsewhere.

So, with the help of Shore Capital, we carried out what we believe is the largest focus group to date of major investors in the UK – both numerically and in terms of assets controlled. This involved more than 100 in-depth interviews with investors controlling trillions of dollars in capital – based in the UK and overseas, in services and manufacturing, in all parts of the country. We spoke to founders, fund managers, CEOs, industry associations and key figures in government.

In the course of those conversations, a rather different picture emerged. There is a firm belief – in some quarters bordering on despair – that Britain is becoming a less attractive place to do business, and that government is not focused enough on the problem.

Yes, they say, Britain remains an attractive place, with many extraordinary advantages. But too often, it is trading on its existing strengths rather than focusing on enhancing them. In the words of a typical interviewee, **"where we are succeeding, we are succeeding despite, rather than because of"**.

In terms of the relationship with government, there is a general sense that it is still too hard for business to get a hearing, or sometimes even to work out who to talk to. There is also a powerful sense – driven by the convulsions of the last few years – that Britain has become a less stable and predictable place to put your money, especially if you are a firm that is looking to invest for the long term.

To its credit, the Government recognises that this is a hugely important area – and one where, historically, we have somewhat rested on our laurels. The appointment of Lord Grimstone as Minister for Investment, and the creation of an Office for Investment, have both been extremely welcome. **"The Office for Investment has been good at banging heads together and carries weight,"** was a typical comment.

The Government is also taking a more proactive approach to investment, by working with business and local government to put forward investible propositions, across a range of sectors, rather than waiting for enquiries to come in. In October 2021, the Queen and the Prime Minister hosted the first Global Investment Summit, gathering investors controlling an estimated $24 trillion in the same room.[1]

> **'In October 2021, the Queen and the Prime Minister hosted the first Global Investment Summit, gathering investors controlling an estimated $24 trillion in the same room'**

But there is still a sense that we have not quite completed the jigsaw – worse, that the Government is sometimes actively complacent about Britain's strengths and weaknesses. For example, the Centre for Policy Studies and Tax Foundation have published alarming data about the deterioration of our competitiveness on business taxation. Having risen to 11th in the OECD on the back of the temporary "super-deduction", a combination of corporation tax rises, falling investment incentives and tax rises on work via National Insurance will see us fall to 31st out of 37 advanced economies come 2023.[2]

If we want to make Britain attractive to investment, we should be aiming to climb further up that table – not plummet down it. And while foreign direct investment figures are still strong, April 2022 saw a record sell-off of UK equities.[3] Having got out of the habit of buying into UK markets during the uncertain Brexit years, fund managers have definitely not reacquired the habit: in fact, over the last seven years, no new capital has gone into UK-focused funds on a net basis.[4]

In the wake of Brexit, Britain can no longer sell itself as the obvious bridgehead to the European market. That makes it all the more important that we use the regulatory freedoms we have gained not just to maintain our competitive position, but to enhance it. But while there are all manner of promising reviews and consultations underway, investors are still waiting to see exactly how the Government will use Britain's new freedoms to maintain our competitiveness – and indeed to turbo-charge it. Meanwhile, foreign competitors are eager to grab their slice of the pie: the name of Emmanuel Macron came up again and again, to the point where it seems like a positive rarity for a CEO to set foot on French soil without being invited to the Elysée.

1 Prime Minister's Office, "PM speech at the Global Investment Summit", October 2021
2 Centre for Policy Studies and Tax Foundation, "The UK's International Tax Competitiveness", October 2021
3 Calastone Fund Flow Index, "Investors sought out safe havens in April amid record selling of UK equities funds", May 2022
4 Ibid.

The voices and views in this report are not those of the Centre for Policy Studies – though we do make a set of concluding policy recommendations, based on our conversations. Our aim has been to let our interviewees' honest opinions shine through, which is why we promised to anonymise their quotes where we cited them verbatim. Sometimes those views differed, and often even clashed. But certain core themes, and core complaints, came through again and again.

In particular, there was an overwhelming consensus that this agenda is not about one or two policy tweaks, or even massive symbolic changes, but about a consistent focus and a wider determination across a whole range of areas.

We have accordingly taken a broad view – just as those we talked to did. When we asked "Why choose Britain?", the answers ranged far beyond this incentive or that regulation. Indeed, it was striking how often our conversations started out by talking about policy, but ended up turning into a broader discussion of culture and attitude. As those in government ruefully admit, investment decisions are both ruthlessly rational and essentially idiosyncratic – a long queue at Heathrow or a brush-off from a senior politician may play as important a role at the margins as the headline rate of tax.

'A combination of corporation tax rises, falling investment incentives and higher tax rises on work will see us fall to 31st out of 37 advanced economies next year in terms of business tax competitiveness'

This report is therefore divided into five key sections.

- The first sets out the basic facts about the British economy, and the role of foreign investment within it.
- The second looks at the fundamentals of the business environment, in terms of our tax and regulatory competitiveness.
- The third looks at the state of our financial markets, financial sector and investment ecosystem.
- The fourth looks at the government's attitude and approach towards business.
- We then conclude by outlining a set of policy recommendations, drawing on our conversations, that would move Britain decisively towards the top of the league in terms of competitiveness.

Of course, in making Britain a more attractive place for foreign investors, our proposals would make it a more attractive place for British investors and entrepreneurs too – the best place in the world to start and grow a business, to quote the Conservative manifesto.

We recognise that the Government may not do everything that we ask for. But it is crucial for our national prosperity that we are able to give an overwhelmingly convincing answer to the question: "Why choose Britain?" In fact, we should be aiming for the case to be so strong that no one even has to ask themselves the question at all.

Part 1: The State of the Nation

Imagine that you were writing a prospectus for investors on behalf of UK plc. What would it say? You could highlight the fact that we produce many world-class products and services. You could highlight our natural advantages and long track record of success. You would probably have to acknowledge the impacts of Brexit, but you would argue that this gives the country the opportunity to develop a more bespoke, nuanced, agile and business-friendly regime, and to focus on higher-growth sectors and regions.

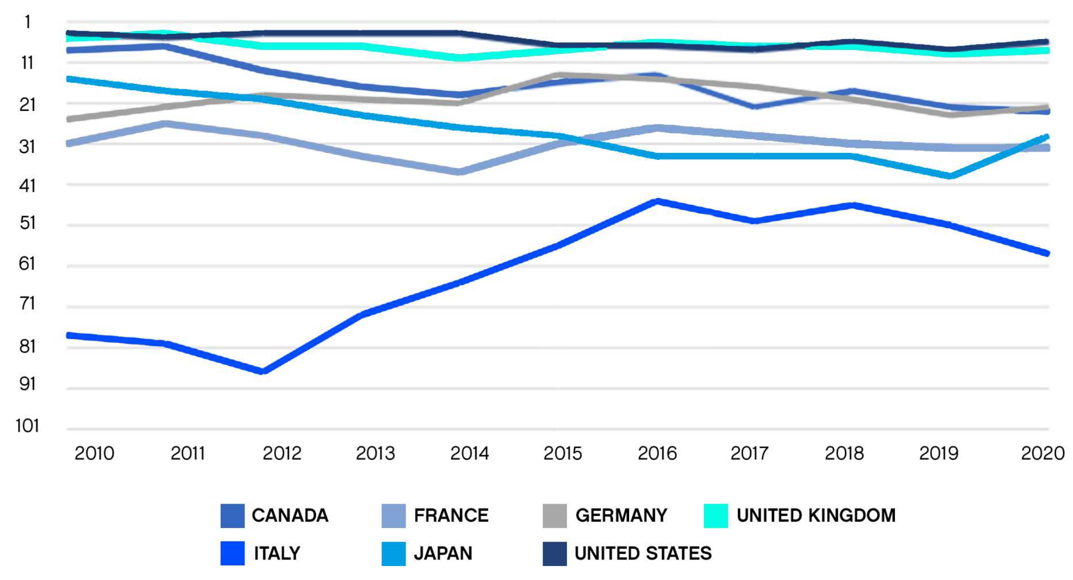
But you would also have to admit that growth since 2008 has been among the lowest in our long history. That we have been borrowing heavily to remain solvent. That many of our workers lack adequate training. That productivity remains far lower than it should be, as does business investment.

Post-Brexit and post-pandemic, the need for Britain to be an attractive place for investors and investment is more pressing than ever. So how well positioned are we?

Britain is still an attractive place to do business

One of the greatest strengths of the British economy, and the greatest attractions to investors, is that it is a good place to do business. We were consistently near the top of the World Bank's ease of doing business rankings, before that project was abandoned due to its becoming a target for manipulation.[5] (Though the fact that various global actors considered it worth their while to manipulate the index shows the value of a high position.)

EASE OF DOING BUSINESS RANKINGS



SOURCE: WORLD BANK

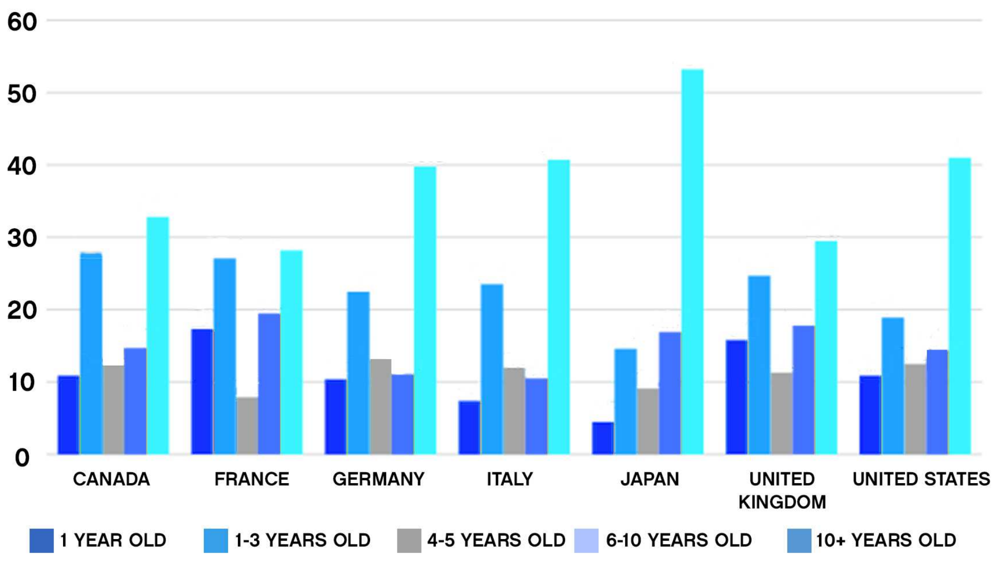
5 World Bank, "World Bank Group to Discontinue Doing Business Report", September 2021

EASE OF DOING BUSINESS SUB-RANKINGS FOR THE UK (OUT OF 190 COUNTRIES)

SOURCE: WORLD BANK

That said, while the UK is well known as being a good place to start a business, it is not as good a place to grow one. An impressive 40.5% of UK businesses are aged 3 years or less, the second highest rate in the G7 – but under 30% of firms are older than 10 years, the second lowest.[6] OECD figures have also shown that we lag behind in terms of speed and ease of growing a company.[7] And Centre for Policy Studies polling has shown consistently shown that businesses feel like Government does not understand them or properly support them: most recently, 62% of firms said that they felt the Government was not on their side.[8]

SHARE OF BUSINESSES BY AGE



SOURCE: OECD & UK GOVERNMENT

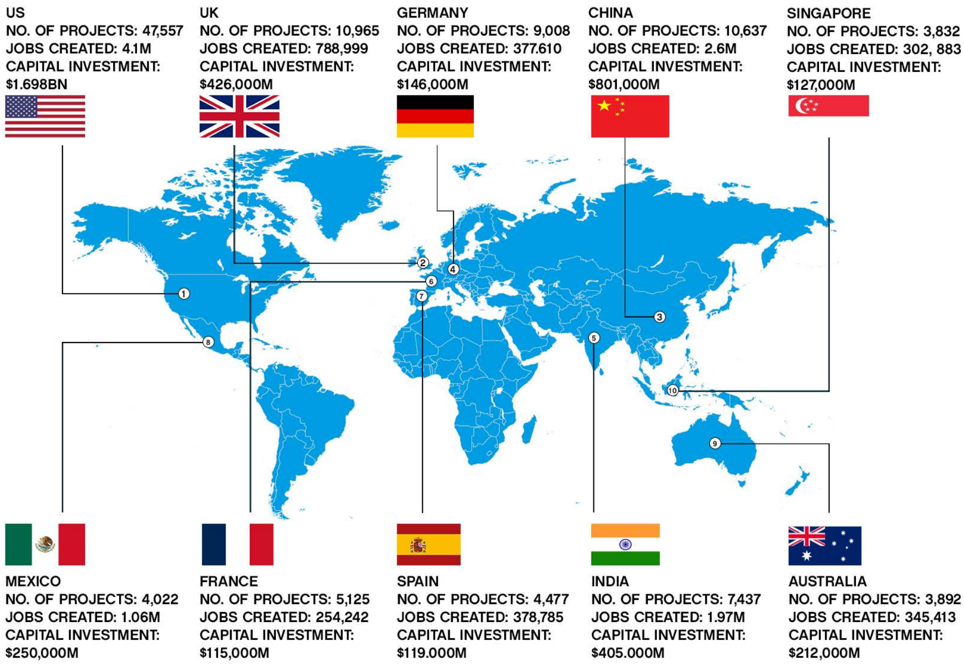
6 OECD, "Future of Business Survey: Businesses by Age"
7 Rishi Sunak, "A New Era for Retail Bonds", Centre for Policy Studies, 2017
8 Centre for Policy Studies, "Think Small", 2019

Britain is also extremely open to foreign investment, and has a long track record of attracting it. This matters because foreign-owned companies are on average 1.8 times more productive than domestic owned firms. As of 2018, labour productivity for a worker in a foreign owned firm was £74,000 compared to £41,000 in a domestic owned firm.[9]

A 2019 paper for Deloitte found that in the 10 years after the financial crisis, Britain was the third most popular destination for FDI globally, after America and China. The Brexit vote did obviously have an impact, but this was counterbalanced by the lower exchange rates that resulted (though the spike in 2016 reflects a few large takeovers rather than a sudden post-referendum investment spree).[10]

As Lord Grimstone, the Investment Minister, told the Treasury Select Committee in June 2021: “It is striking that we have a higher value of FDI companies, UK equivalent, than any other country in the G20. We are the most heavily overseas-invested country in the G20.”[11] According to the Department for International Trade, such foreign investment created 55,319 new jobs in the UK between 2020-2021.[12] The DIT’s press release cited analysis by the United Nations Conference on Trade and Development which showed the UK’s leading place in the world as an FDI destination, with total inward FDI stock increasing from $2.1 trillion in 2019 to $2.2 trillion in 2020. This was second highest in the world after the US.

TOP DESTINATIONS FOR FDI, 2009-2019



SOURCE: DELOITTE

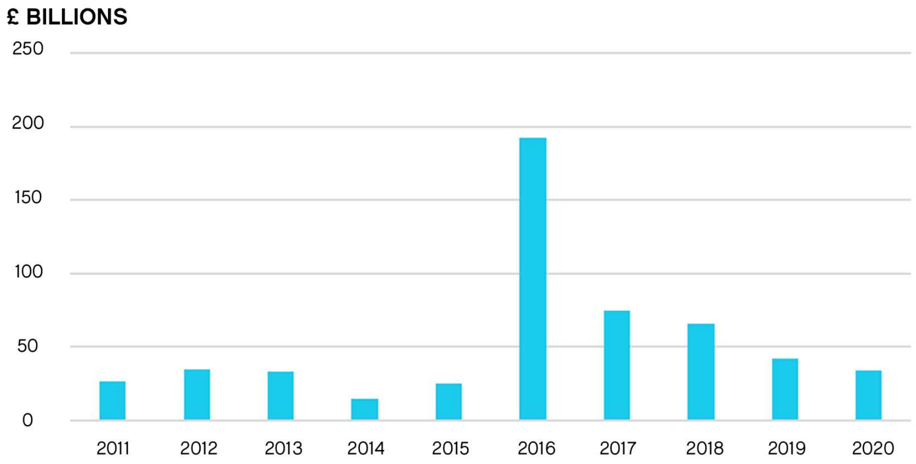
9 Office for National Statistics, “Firm-level labour productivity estimates from the Annual Business Survey (ABS): summary statistics”, see Table 9

10 Deloitte, “Power Up: UK Inward Investment”, 2019

11 House of Commons, Lord Grimstone to the International Trade Committee, June 2021

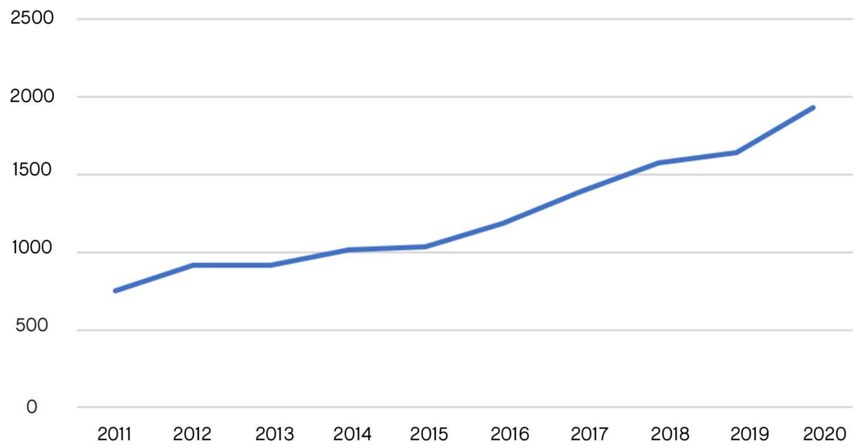
12 Department for International Trade, “Foreign investment boosts UK jobs during pandemic”, June 2021

TOTAL NET FDI FLOWS INTO THE UK



SOURCE: OFFICE FOR NATIONAL STATISTICS

UK INWARD FDI STOCK



SOURCE: OFFICE FOR NATIONAL STATISTICS

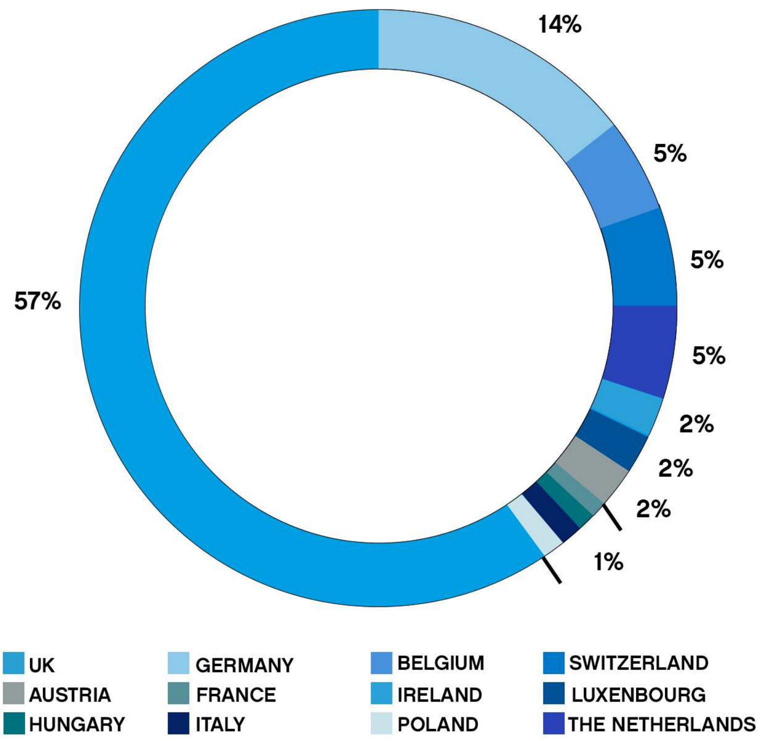
The DIT analysis boasted that: "The UK's strength and ambition for growth has been recognised by investors across the world. Despite a global downturn in FDI of 35% in 2020, and predictions that UK FDI projects would dip between 30% and 45% from 2019, investors still chose the UK – overall FDI projects only decreased by 17%. The UK has reclaimed its title as the most attractive destination for investment in Europe, with over 40% of executives now planning to establish or expand operations within the UK."

This proud description echoes the findings of EY's flagship annual "Attractiveness Survey" of 570 investors.[13] The 2021 edition placed Britain as Europe's most attractive country for foreign investment, with London being deemed Europe's most attractive city at the expense of Paris.

13 EY, "Foreign investors back Europe, but is Europe back?", June 2021

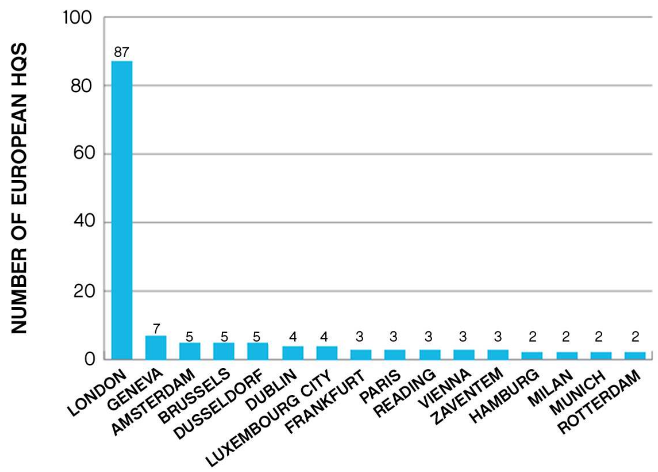
The UK in general and London in particular have also been the favoured destination for global firms to base themselves in Europe, although the advantages of doing so have understandably reduced post-Brexit. And we retain our reputation as one of the world's least corrupt countries, tied with Germany among the leading economies at the top of the World Bank's table.

LOCATION OF EUROPEAN HQS OF FORTUNE 500 COMPANIES BY COUNTRY, 2018



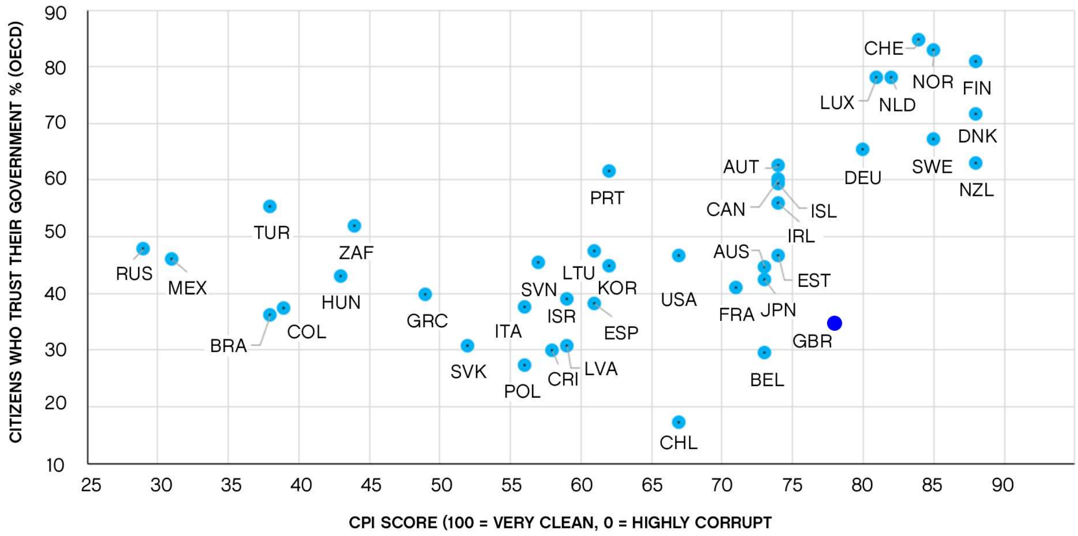
SOURCE: DELOITTE

LOCATION OF EUROPEAN HQS OF FORTUNE 500 COMPANIES BY CITY, 2018



SOURCE: DELOITTE

TRUST IN GOVERNMENT AND CORRUPTION PERCEPTION INDEX, SELECTED ECONOMIES



SOURCE: OECD, OECD DATA, "TRUST IN GOVERNMENT" INDICATOR AND TRANSPARENCY INTERNATIONAL, CORRUPTION PERCEPTION INDEX - GLOBAL SCORES (2021)

It might seem, from all of the above, that there is no need for this paper at all. Certainly, there is a feeling among some of those we talked to in government that inward investment is an area that is in good shape.

This, in our view, would be dangerously complacent – certainly given the mood music among the many investors we spoke to.

Perhaps the most frequent point made was that Britain is still an attractive place to invest, but that this attractiveness is being chipped away at, little by little. There was no one policy issue or problem that has caused this. It is more of a death by a thousand cuts. Even the more charitably inclined tended to feel that Britain had done little or nothing in recent years to make itself more attractive. As for our position vis-à-vis Europe, that was hardly a recommendation. As Deloitte's 2019 report on inward investment said, many global firms are staying in Britain more because none of the European options are any good, rather than because we have made an insuperably attractive case for them to stay.

This, indeed, is one of the core arguments of this report: that we should be seeking to benchmark ourselves, in terms of attractiveness to investors and to business more generally not against Europe, but against the best in the world.

But even if we do benchmark ourselves against Europe, some uncomfortable trends emerge.

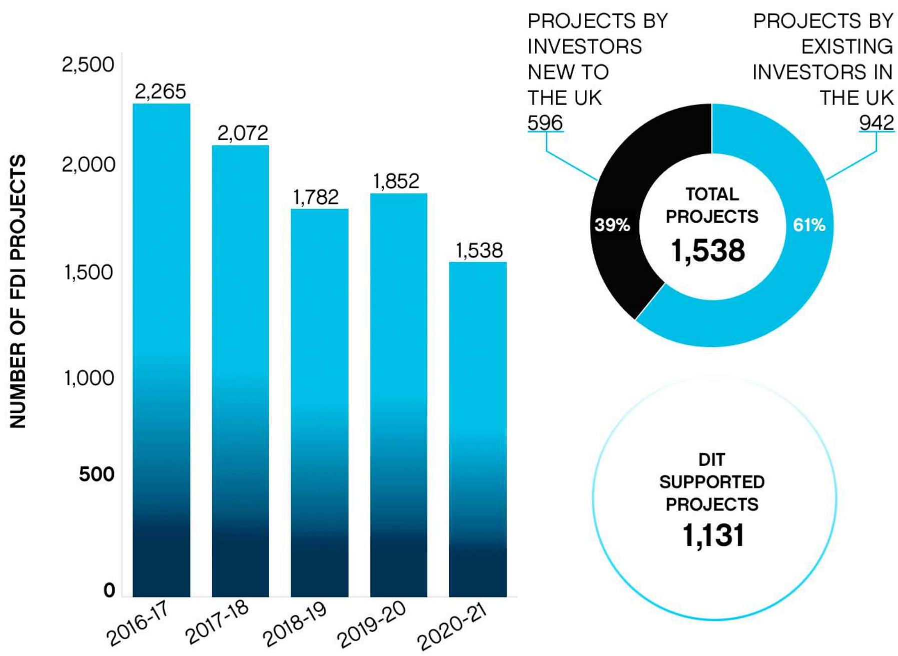
According to EY's latest European Investment Monitor, we are still ahead of France and Germany – but the scores are "virtually tied". France in fact attracted more projects in 2020, but more of these relied on reinvestment than in the UK.[14]

14 Ibid.

It is also true, as the DIT acknowledged, that FDI flows have been falling. Even though Britain has done less badly than other countries, we have also been historically more dependent on FDI, for all the reasons mentioned.

Comparing FDI inflows with other G7 countries as a percentage of GDP, we are also towards the middle rather than the top of the pack. Setting aside those mega-deals in 2016, we have been consistently behind not just Canada (with its deep entanglement with the US market) but increasingly Germany too.[15]

FDI PROJECTS IN THE UK 2016-21



SOURCE: DEPARTMENT FOR INTERNATIONAL TRADE

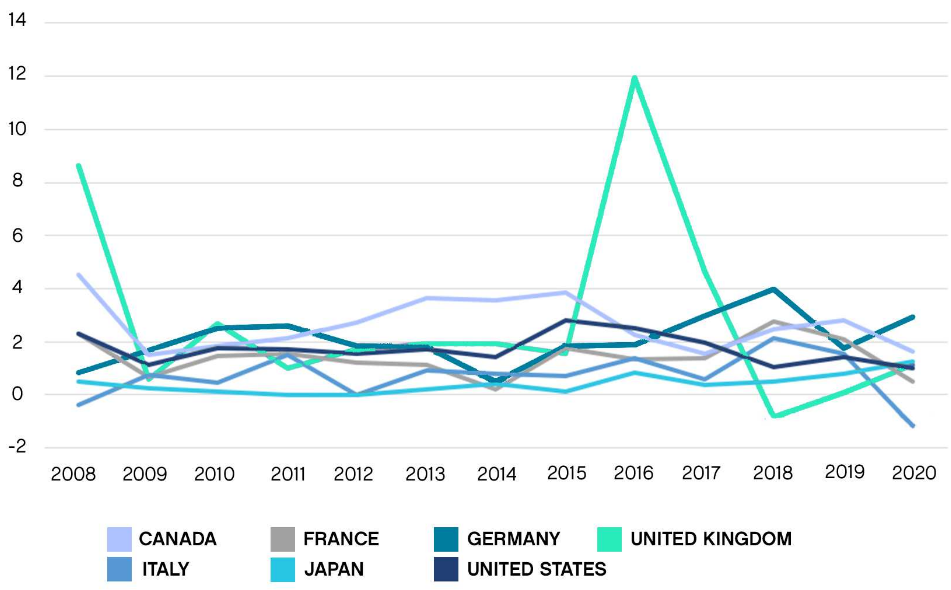
TYPES OF FDI IN UK, 2016-21

Types of investment projects	2016-17	2017-18	2018-19	2019-20	2020-21	% change
New investment	1,237	1,179	1,035	1,153	888	-23%
Expansions (including Retentions)	822	714	554	504	477	-5%
Mergers and Acquisitions (including Joint Ventures)	206	179	193	195	173	-11%
Total	2,265	2,072	1,782	1,852	1,538	-17%

SOURCE: DEPARTMENT FOR INTERNATIONAL TRADE

15 World Bank, FDI net inflows (% GDP)

G7 FDI NET INFLOWS, % OF GDP 2008-2020



SOURCE: WORLD BANK

As for our status as a major base for multinational firms, it is striking that we saw a marked decline in the years before Deloitte's analysis was carried out. Between 2013 and 2018, the number of Fortune 500 firms using the UK as their global HQ fell from 28 to 22, a sharper fall than anywhere save Japan.[16]

More importantly, there are other fundamentals of our economy and business environment that are not where they could or should be – which matters for this report's purposes because our attractiveness for investment is ultimately a product of our attractiveness as a place to do business full stop.

In the aforementioned Deloitte report, they ran through many of the most significant factors that make Britain an attractive place to invest: the English language; our position in a time zone between the Americas and Asia; our (now diminished) status as a gateway to Europe; the stable, predictable, pro-business environment we offer (or, as many of our interviewees lamented, that we used to offer); our transparent tax and regulatory system; our flexible labour market; the attractiveness of London; the strength of our universities; our attractive culture and lifestyle; and the depth of the UK talent pool.

These are all important factors. And many if not all of them will feature elsewhere in this report.

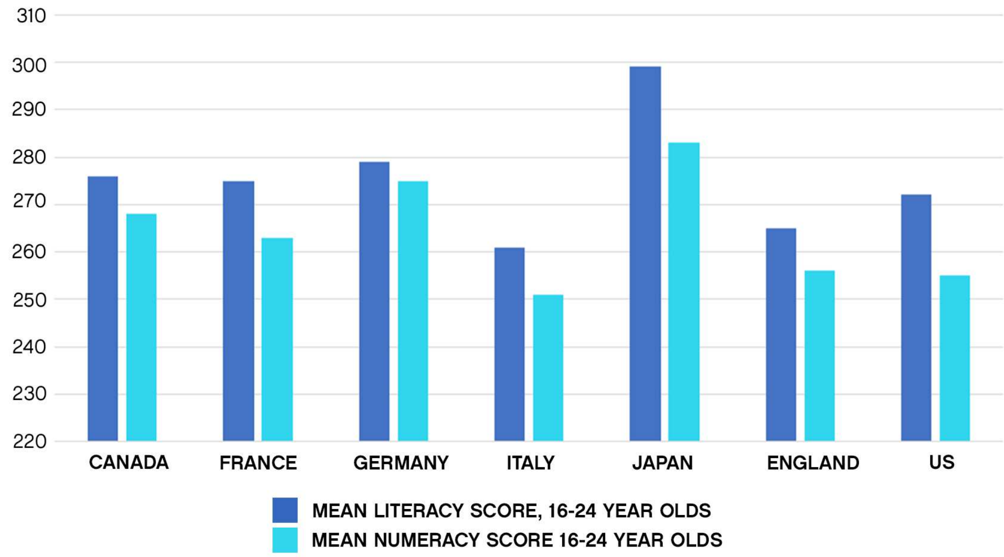
But we also have offsetting disadvantages, which we must acknowledge.

In terms of talent, it is clear that while the UK has many high-skilled workers, it also has many who are not particularly well trained by international standards. Our literacy and numeracy scores are relatively unimpressive when compared to our major rivals.

16 Deloitte, "Power Up: UK Inward Investment", 2019

17 OECD, "Survey of Adult Skills (PIAAC): Full selection of indicators"

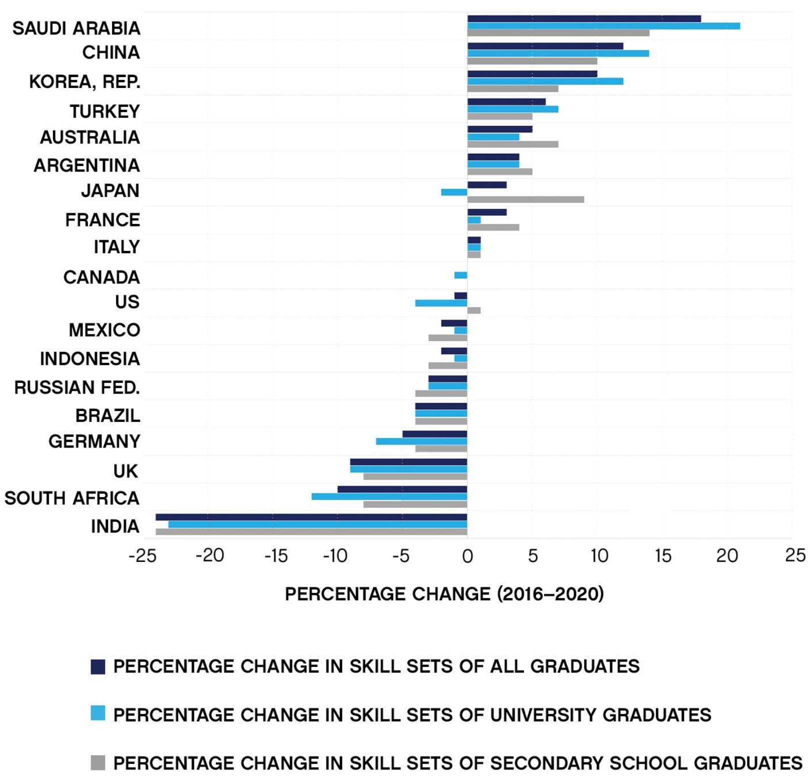
MEAN LITERACY AND NUMERACY SCORES, 16- TO 24-YEAR-OLDS



SOURCE: OECD

In fact, England ranks second lowest in the G7 for literacy and numeracy skills among those aged 16-24 who are now entering the workforce.[17] World Economic Forum data also shows that we are one of the few countries where graduate skills have been falling.[18]

CHANGE IN THE SKILL LEVEL OF GRADUATES



SOURCE: WORLD ECONOMIC FORUM

18 World Economic Forum, Global Competitiveness Report 2020

Our levels of digital skills are also relatively unimpressive, especially given the technological changes that are sweeping the world. Even before the pandemic, the CBI calculated that nine out of every 10 workers would need to develop new skills by 2030.[19] No wonder that the World Economic Forum gives us a distinctly mid-table score when it comes to our preparedness for the economic transformations that the 21st century will bring, putting us in the fifth decile.[20]

WEF ECONOMIC TRANSFORMATION READINESS INDEX

COUNTRY / ECONOMY	SCORE (0-100)	DECILE
FINLAND	69.9	1
SWEDEN	68.5	1
DENMARK	66.5	1
NETHERLANDS	66.3	2
CHINA	65.5	2
CANADA	64.2	2
NEW ZEALAND	64	2
BELGIUM	63.6	3
GERMANY	62.9	3
FRANCE	62.7	3
ISRAEL	62.7	3
SWITZERLAND	62.5	4
UNITED STATES	62.2	4
AUSTRALIA	62	4
JAPAN	61.9	5
UNITED KINGDOM	61.4	5
KOREA, REP.	61.2	5
ESTONIA	61	5
IRELAND	60.9	6
AUSTRIA	60.3	6
SPAIN	56.5	6
PORTUGAL	56.1	6
INDONESIA	55.3	7
CZECH REPUBLIC	54	7
CHILE	53	7
ITALY	51.9	8
BRAZIL	51	8
RUSSIAN FEDERATION	50.4	8
SOUTH AFRICA	50.4	8
SLOVAK REPUBLIC	49.7	9
INDIA	49.5	9
ARGENTINA	49	9
POLAND	48.8	9
HUNGARY	48.1	10
GREECE	47.2	10
MEXICO	46.9	10
TURKEY	45.2	10

SOURCE: WORLD ECONOMIC FORUM

It is also well-known that British workers are not as productive as their counterparts – in fact, in the decade after 2010, Italy was the only G7 economy that performed worse.[21] Compared to Germany, fewer British workers tend to be employed in the high-quality, high-value-added sectors where the opportunities of the future are – although we are still ahead of France.[22]

19 CBI, "A radical new strategy for lifetime reskilling must be the bedrock of UK economic recovery", October 2020

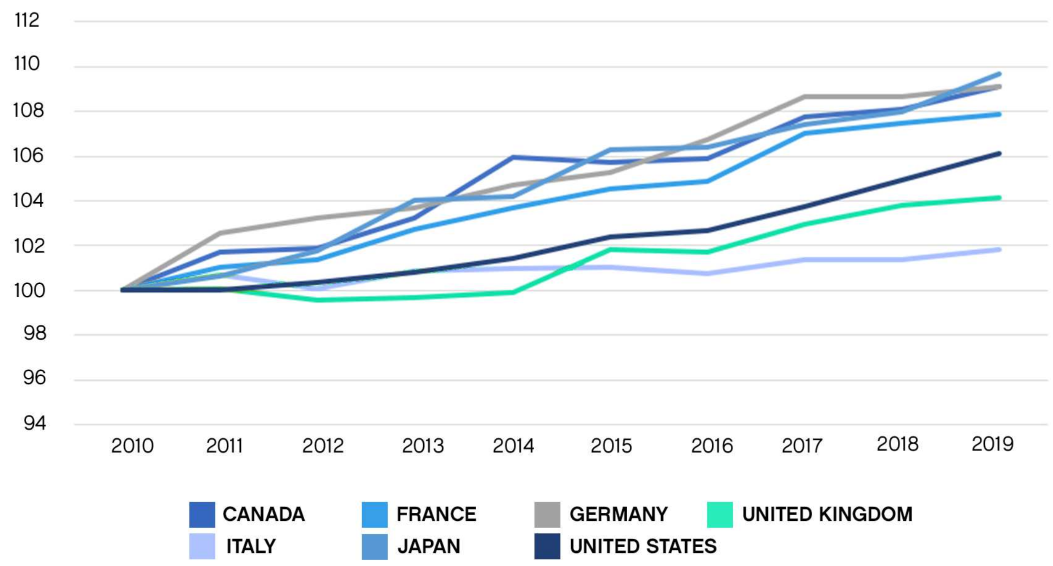
20 World Economic Forum, Global Competitiveness Report 2020

21 OECD, GDP Per Hour Worked

22 OECD, Employment by activities and status (ALFS)

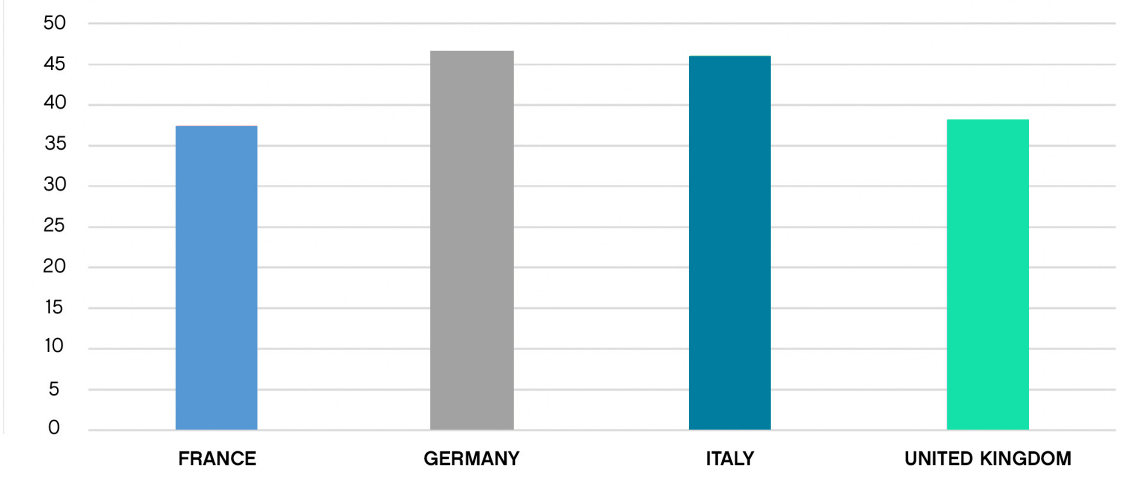
Also, for companies and investors that want to use the UK as a base from which to market to rest of the world, or simply our corner of it, our export performance has traditionally been extremely disappointing – although this is now a core area of focus for the Government, for obvious reasons. The UK has a far lower percentage of exporting businesses than the OECD average and the total volume of exports as a percentage of GDP falls alarmingly short of where we should want to be.[23] In 2018, for example, UK exports generated $382bn compared to $490bn in France, $520bn in Italy and $1.35trn in Germany.[24] We have also been poorer at developing home-grown global brands.[25]

OUTPUT PER HOUR WORKED, 2010-2019 (INDEX 2010 = 100)



SOURCE: OECD, OFFICE FOR NATIONAL STATISTICS CALCULATIONS

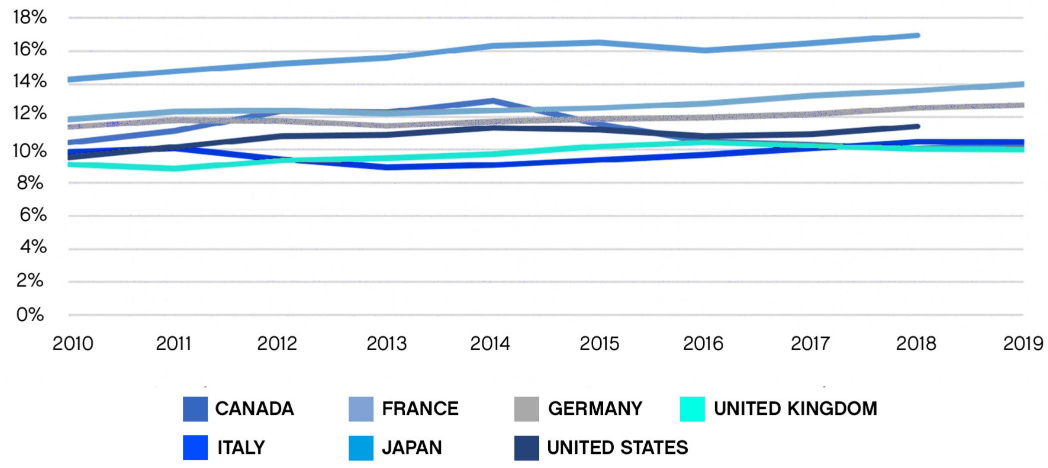
PERCENTAGE EMPLOYED IN HIGH VALUE ADDED SECTORS



SOURCE: OECD

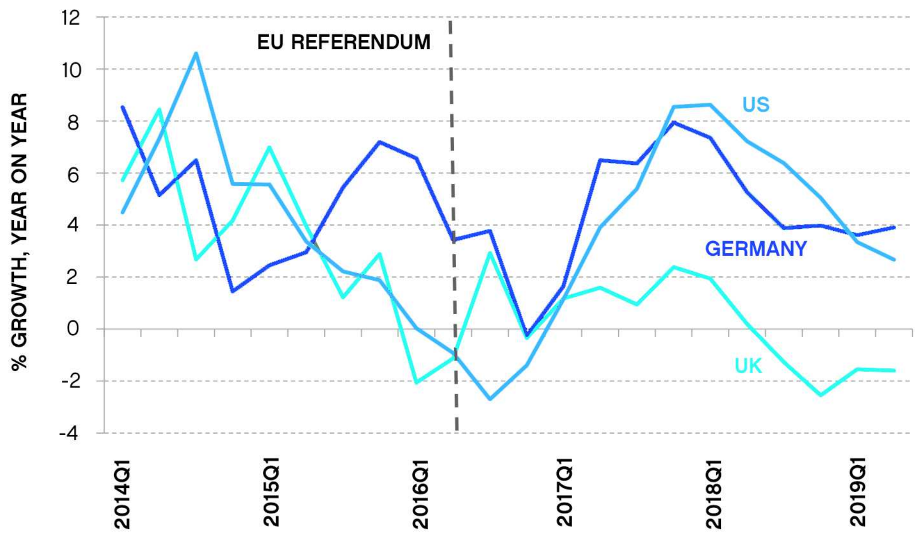
23 OECD, Main Economic Indicators, Volume 2021, Issue 5
24 Ibid.
25 Brandirectory Global 500, 2022 Charts

BUSINESS INVESTMENT AS A PERCENTAGE OF GDP



SOURCE: OECD

GROWTH IN BUSINESS INVESTMENT IN UK, US AND GERMANY, 2014-2019

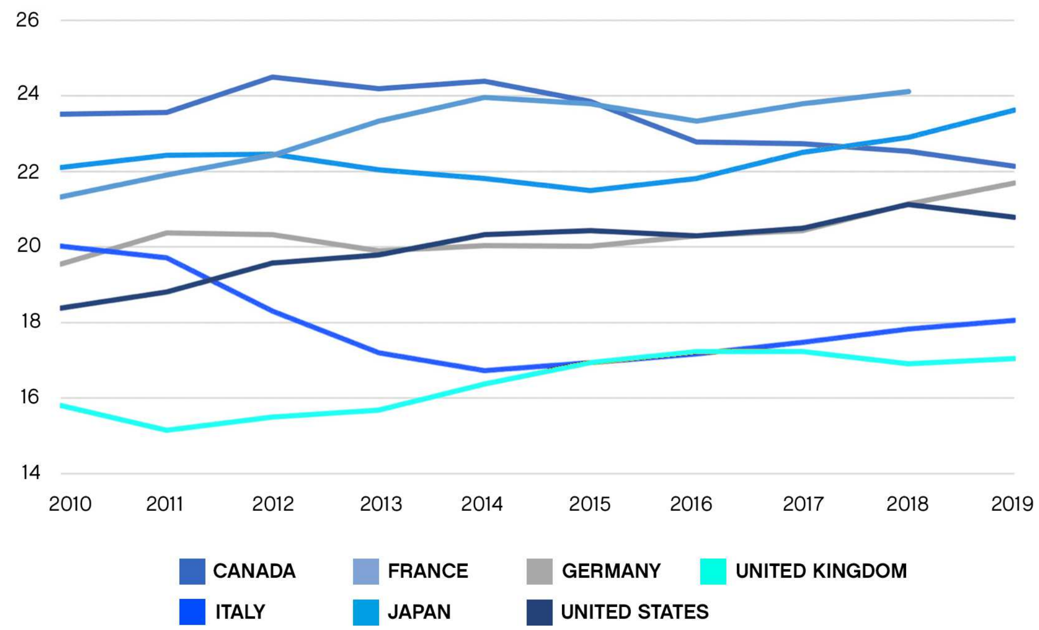


NOTE: THE FIGURE PLOTS BUSINESS INVESTMENT FOR THE UK, INVESTMENT IN MACHINERY, EQUIPMENT AND SYSTEMS FOR GERMANY AND PRIVATE NON-RESIDENTIAL FIXED INVESTMENT FOR THE US.
SOURCE: IFS, USING NATIONAL STATISTICS OFFICE AND CITI RESEARCH

Allied to this has been our notoriously poor performance in terms of business investment, as well as a failure to invest in infrastructure – especially outside the capital. The World Economic Forum's 2019 Global Competitiveness Report put the UK 36th for road infrastructure quality and 79th for fibre internet.[26]

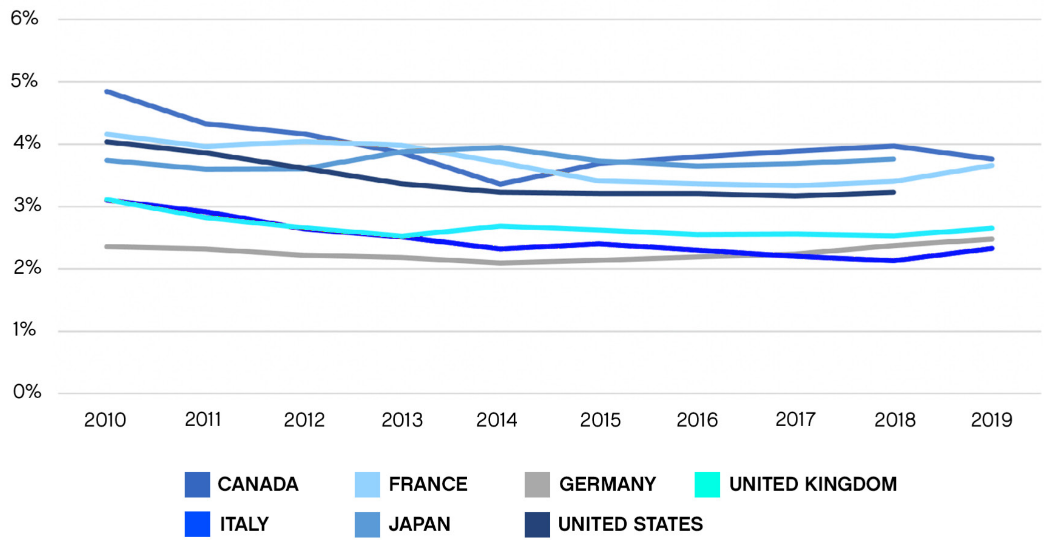
26 World Economic Forum, "The Global Competitiveness Report 2019", October 2019

TOTAL INVESTMENT AS % OF GDP



SOURCE: OECD

GOVERNMENT INVESTMENT AS % OF GDP

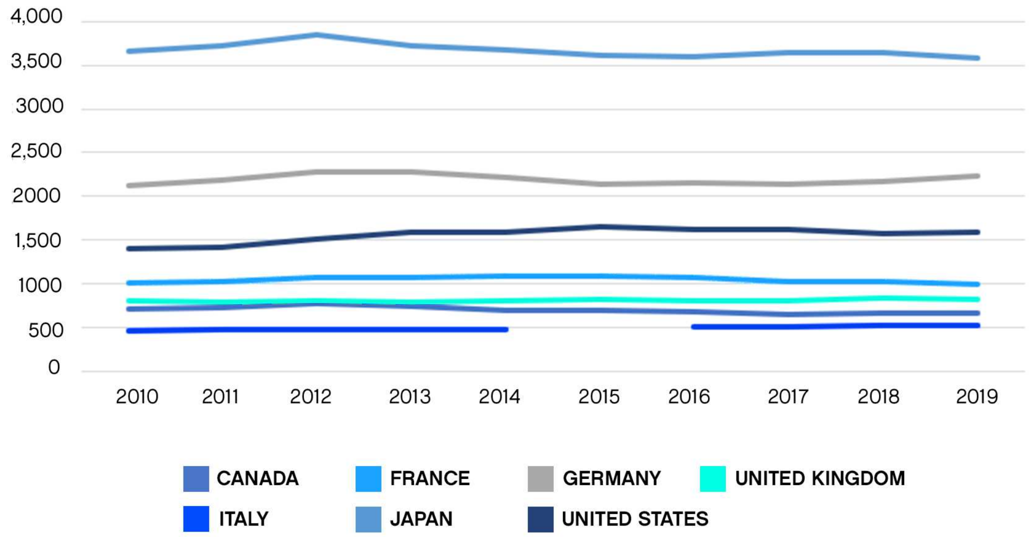


SOURCE: OECD

Complementing this picture of a country that has failed to invest in its future, spending on R&D, both public and private, has generally been low – as has the number of patents we have generated.[27]

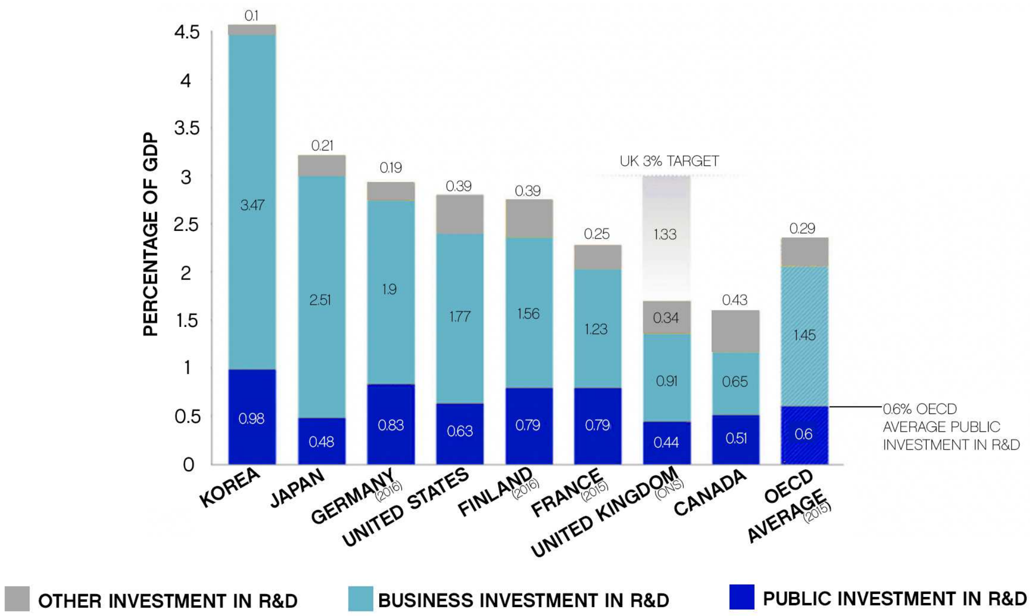
27 Patent data from World Intellectual Property Organization; population data from OECD

PATENT FILINGS PER MILLION PEOPLE



POPULATION SOURCE: OECD
PATENT SOURCE: WORLD INTELLECTUAL PROPERTY ORGANIZATION

R&D INVESTMENT AS A PERCENTAGE OF GDP



SOURCE: ROYAL ACADEMY OF ENGINEERING

Countries that do not invest in their own future growth cannot expect others to fill the gap for them. The lesson of inward investment over the years is that success breeds success: inviting others to share in the rewards of investing in Britain is a much more attractive proposition than asking them to bail us out.

So in the following sections of this report, we will hear from investors themselves about how the factors outlined in this chapter shape their attitude to Britain – what is attracting them to this country and, crucially, what is putting them off.

Part 2: Tax and Regulation

Many businesses and investors – especially those that operate on a global scale – have a choice about where they base themselves and where they operate. Our tax burden and our regulatory requirements play an obvious and important role in those decisions. We need to ensure both are competitive if we are to grow our economy.

Of course, tax and regulation are not the be-all and end-all. As many of those we spoke to said, it is the stability and predictability of the UK as an investment environment that has been our ultimate trump card – although they also added, and the Government acknowledges, that recent events have challenged this status.

‘There’s no running away from it, you need an attractive tax environment for investment. And I think one of the biggest mistakes we are making is putting up taxes. It is absolutely the wrong time to be doing this. It will stifle the recovery’

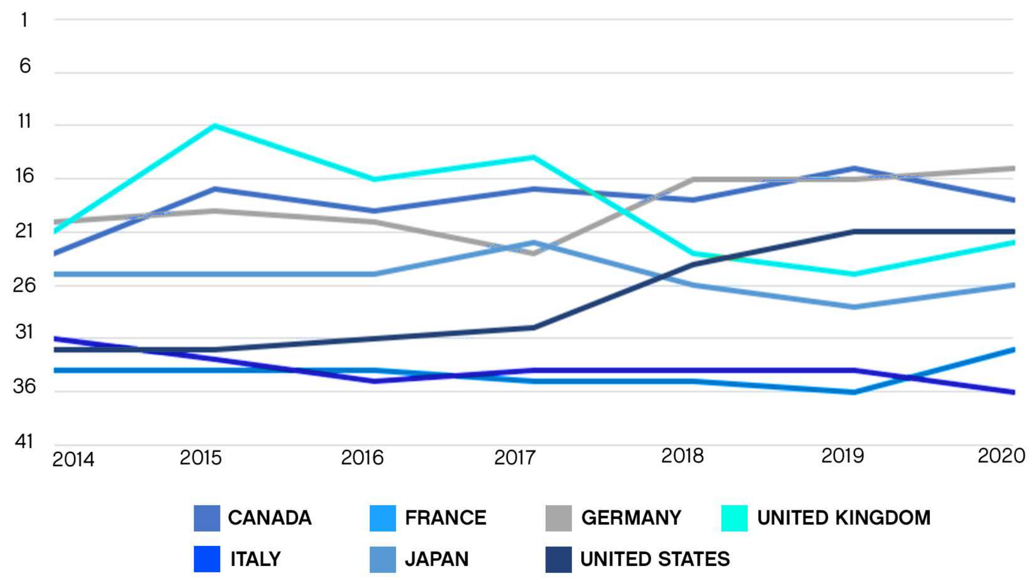
But tax and regulation still matter. They contribute to the straightforward cost-benefit calculations that each investor will make about whether to move operations to the UK, or ramp them up. And they are also a core part of the story that we tell about what kind of country we are. George Osborne’s roadmap for cutting corporation tax set out very clearly to investors that Britain wanted to be the lowest-tax, most business-friendly major economy – even though the cuts in investment allowances that he used to pay for it were a classic case of robbing Peter to pay Paul.

However, there is a growing sense among investors that the UK is moving backwards in terms of both tax and regulation – and in the process becoming a less attractive place to do business. **“There’s no running away from it, you need an attractive tax environment for investment,”** said one prominent business leader. **“And I think one of the biggest mistakes we are making is putting up taxes. It is absolutely the wrong time to be doing this. It will stifle the recovery.”**

As the Centre for Policy Studies has repeatedly warned, the withdrawal of the superdeduction, coupled with the headline corporation tax rate rising to 25%, as well as National Insurance rises, will see the UK fall to 28th place (out of 37 OECD countries) on the International Tax Competitiveness Index next year – and 31st in terms of business taxation.[28] And while the World Economic Forum’s Global Competitiveness Index ranked the UK 9th overall in 2019, we came in 21st for the “burden of government regulation”.[29]

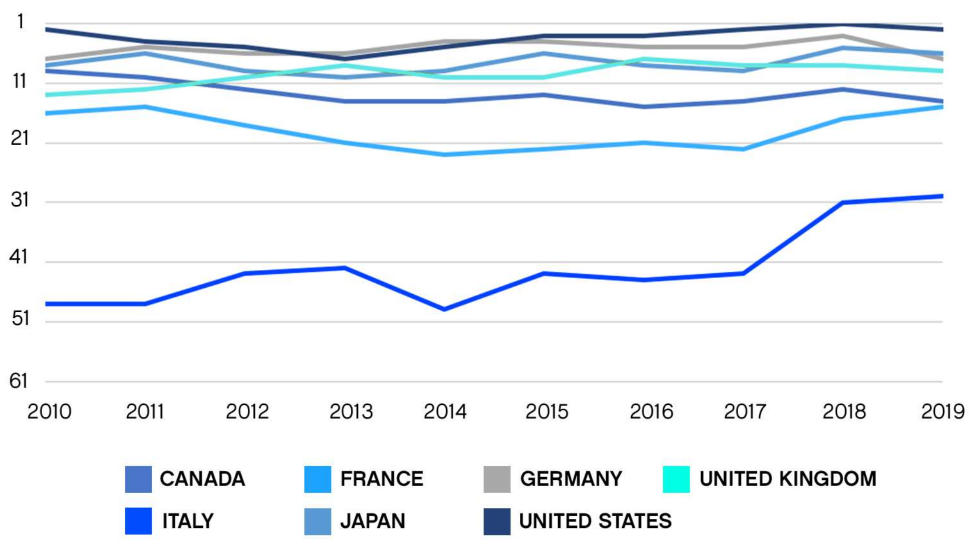
28 Daniel Bunn, Elke Asen, “International Tax Competitiveness Index 2020”, Tax Foundation, October 2020
29 World Economic Forum, “Global Competitiveness Report 2019”, October 2019

INTERNATIONAL TAX COMPETITIVENESS RANKINGS 2015-2020



SOURCE: TAX FOUNDATION AND CENTRE FOR POLICY STUDIES

WORLD ECONOMIC FORUM COMPETITIVENESS INDEX



SOURCE: WORLD ECONOMIC FORUM

The headline finding from our survey of investors was a perception that the UK doesn't take its tax and regulatory competitiveness seriously enough anymore. And you do not have to look far to see what the consequences are.

In the United States, there was clear evidence even before the pandemic of an exodus of leading US firms from high-tax states like California and New York. Since Covid, that trend has since accelerated significantly.

Firms moving from California include Hewlett Packard, Oracle, Charles Schwab, Bechtel, Parsons Engineering, CB Richard Ellis and 8VC.[30] Many of these firms have gone to Texas, although some, such as Palantir, have moved to Nevada and other states. Other firms, including Uber, Lyft, Facebook and Apple, remain primarily in California but have shifted substantial parts of their operations to other US states.[31] High-profile individuals, such as Elon Musk, CEO of Tesla, and his counterpart at Dropbox have both moved to Texas.[32] A study in 2019 study found that 1,800 relocations out of California occurred within a single year and 13,000 occurred between 2008 and 2016. The same study found that over the same period 275,000 jobs and $76.7 billion in capital funds were diverted out of California. The departing companies acquired at least 133 million sq ft of office space elsewhere.[33]

> **‘If we want to declare ourselves the planet’s global business hub, we need to put in place fundamentally attractive individual tax incentives to establish, create, and grow a business’**

As with California, many major firms have opted to move out of New York, often citing the high tax rates there relative to other destinations such as Florida. Firms which have moved or are moving include Elliott Management, Silver Lake, Moelis and Co and Icahn Enterprises LP.[34] AllianceBernstein Holding LP, one of the oldest names on Wall Street, announced plans in 2018 to relocate its headquarters, chief executive and most of its New York staff to Nashville, Tennessee.[35] Goldman Sachs and JP Morgan Chase have also said they are considering moving.[36] There have even been suggestions that the New York Stock Exchange could relocate to Miami.[37]

According to the Cato Institute, in 2016 alone 600,000 people with aggregate income of $33 billion moved from the 25 highest-tax US states to the 25 lowest-tax states. The biggest loser was New York, and Florida the biggest winner.[38] A 2019 study by Bloomberg similarly found that states in the North East were seeing large amounts of wealth leave for southern states, influenced by high state taxes.[39] In Connecticut 1.6% of total wealth in the state left due to outmigration, with New York the second biggest loser (1.1%). The biggest beneficiary was Florida, followed by Texas.

Why is this happening? Partly, this is about business taxes: New York in particular has been increasing its corporate tax rate. But it is also about the wider tax and regulatory environment. Texas has a higher headline rate of corporation tax than California, but comes in 11th of the 50 states on the Tax Foundation’s rankings of business tax competitiveness, because of its wider business-friendly approach,

30 Reporting from CNBC, Forbes, Wall Street Journal, Washington Business Journal & Los Angeles Times
31 Reporting from New York Times, Washington Examiner, Bloomberg
32 Reporting from CNBC & Business Insider
33 Reporting from Southstar Communities
34 Reporting from The New York Times
35 Reporting from The Wall Street Journal
36 Reporting from Forbes
37 Reporting from Forbes
38 Cato Institute, Tax & Budget Bulletin, No. 84, Tax Reform and Interstate Migration, September 2018
39 Lee J Miller and Wei Lu, Bloomberg, “Florida Is the Big Winner as the Wealthy Move Out of Northern States”, May 2019

whereas California is 48th.[40] Texas also has much less regulation and much lower income taxes for high earners. Likewise, Florida has much more generous corporate taxes than New York – but also charges no federal income tax, whereas New York has been raising taxes on high earners.

According to Michael Devereux of the Oxford University Centre for Business Taxation, FDI falls by 2.5% for every 1% rise in the corporation tax rate.[41] Other reviews of the academic literature have suggested that the effect is as high as 3.3%.[42] And alarmingly for the UK, the impact of higher corporate tax rates on investment is higher for financial services, and smaller for manufacturing.

Another recent study found that the mobility of star scientists is also highly elastic, depending not just on personal income tax but also corporation tax.[43] A one percentage point decrease in corporate income tax rates increased the number of scientists arriving by 1.9%. A recent paper also found that a 1% cut in local business taxes increased the number of local establishments by 3-4% over a ten-year period.[44]

‘We're losing a lot of life sciences business to Ireland purely because of their lower corporation tax rate’

There is a clear risk for the UK here. It may be easier for firms to move within the US than between European countries – but not by much. While the linguistic, cultural or regulatory barriers may be higher, firms that relocate there will also have better access to European markets, especially in financial services.

If we are to avoid a brain drain (and a wealth drain, and a growth drain), we need to focus ruthlessly on our competitive advantage. So how, according to our interviewees, are we doing?

How attractive is Britain's corporation tax regime?

To begin with, it is striking that the investors and business leaders we spoke to in our research were almost unanimous in believing it would be a mistake to raise corporation tax from 19% to 25% next year, as is currently planned.

One successful venture capitalist described tax increases as **"pure economic vandalism"**. A hedge fund founder we spoke to complained that the Chancellor was **"completely missing the point on tax"** and effectively looking for revenue where it risked causing significant economic harm: **"We don't have the right answer to the question, 'What is the hierarchy of taxation?' Taxes on work should be right at the bottom."**

40 Tax Foundation, "2022 State Business Tax Climate Index", December 2021

41 Michael P Devereux, Said Business School, "Be Cautious About Raising The Corporation Tax Rate", February 2021

42 Ruud A. de Mooij & Sjef Ederveen, "Taxation and Foreign Direct Investment: A Synthesis of Empirical Research", 2003

43 Enrico Moretti, Daniel J. Wilson, American Economic Review Vol. 107, "The Effect of State Taxes on the Geographical Location of Top Earners: Evidence from Star Scientists", July 2007

44 Juan Carlos, Suarez Serrato, National Bureau of Economic Research, "Who benefits from state corporate tax cuts? A local labour markets approach with heterogeneous firms, 2016

Again and again during our research we heard that – perhaps contrary to prevailing opinion – the headline rate of corporation tax really did matter for businesses making location and investment decisions. **"We're losing a lot of life sciences business to Ireland purely because of their lower corporation tax rate,"** said one interviewee.

As outlined above, the feeling from our interviewees was that corporation tax not only matters in its own right – **"the influence of tax departments in US corporations cannot be overstated,"** one CEO told us – but also had a strong signalling effect. In essence, a low and/or falling corporation tax rate was a sign that the government was serious about competitiveness, and that the country was open for business. A big increase in corporation tax, on the other hand – like the one pre-announced by Rishi Sunak in his March 2021 Budget – made business and investors worry about what else might be coming down the track.

A common view among the people we spoke to was that the government should use a low corporation tax rate to lure companies in – once they're here, they generate jobs and economic activity and drive all sorts of other tax revenue: **"Just focus on getting people into the UK,"** as one leading banker put it to us.

> **'There is strong signalling potential in having a suite of arrangements that are clearly and very overtly designed to say that this is a better place to start and grow a business'**

There is strong evidence to back up these claims about the deleterious effects of higher corporation taxes, in addition to the examples cited from the US. Research by the OECD suggests that corporation tax is the most damaging form of tax when it comes to GDP per capita.[45] In economic terms, that makes sense: taxes on business (and shareholders) diminish the incentive to invest and build capital; lower investment leads to weaker productivity and lower wages.

Various studies point to a link between average corporation tax rates and GDP, with a Tax Foundation literature review suggesting that a 10 percentage point cut to the average rate could add as much as 1 or 2 points to GDP growth in the short run, and substantially increase long-run output.[46] A more recent article released by the Federal Reserve, which looked at state-level corporate income taxes in the US, even found that a one percentage point increase in the corporation tax rate was associated with a 3.7% decline in employment in start-up firms.[47] That finding can only make you worry about the effect a six percentage point increase in our corporation tax rate will have on Britain's entrepreneurial climate.

There is also a lot of evidence to suggest that workers ultimately bear much of the brunt of corporation tax increases. A study by economists at Oxford University's Centre for Business Taxation, which looked at data from 55,000 companies across Europe, found that almost 50p of every £1 increase in the corporation tax burden ultimately falls on employees.[48]

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45 Asa Johansson et al., "Tax and economic growth", OECD, July 2008

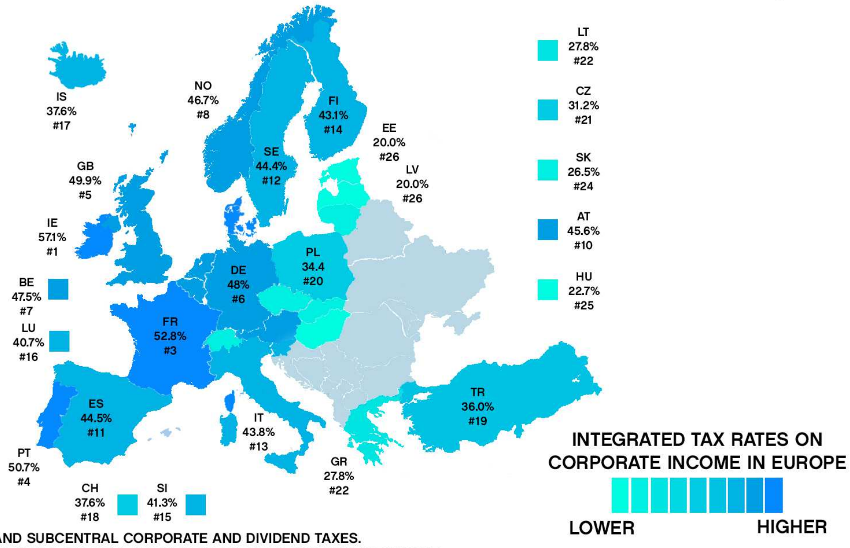
46 William McBride, "What is the evidence on taxes and growth?", Tax Foundation, December 2012

47 E. Mark Curtis and Ryan A. Decker, "Entrepreneurship and state taxation", Federal Reserve Board, January 2018

48 Wiji Arulampalam et al., "The direct incidence of corporate income tax on wages", Institute for the Study of Labour, October 2010

INTEGRATED TAX RATES ON CORPORATE INCOME IN EUROPE

TOP INTEGRATED TAX RATES ON CORPORATE INCOME DISTRIBUTED AS DIVIDENDS IN EUROPEAN OECD COUNTRIES, 2021



NOTE: INCLUDES BOTH CENTRAL AND SUBCENTRAL CORPORATE AND DIVIDEND TAXES.
SOURCE: OECD, "TAX DATABASE: TABLE II.4. OVERALL STATUTORY TAX RATES ON DIVIDEND INCOME.

That is not ideal in the midst of a cost of living crisis, and coming hot on the heels of a decade of wage stagnation, as well as recent increases in personal taxation.

So how competitive is the UK's corporation tax regime now? And what effect will scheduled increases have?

As things stand, Britain has the fifth lowest corporation tax rate in the OECD. From April 2023, we will drop to 20th place on that particular ranking – behind all our Northern European neighbours, and on a par with Spain, Belgium and the Netherlands.[49]

It's worth remembering, though, that corporate profits are often taxed twice – once at the business level, and then again at the individual shareholder level if those profits are distributed. And when you look at integrated tax rates, the UK fares even worse.

Our top dividend tax rate was already unusually high by OECD standards before the recent addition of the 1.25% health and social care levy. We now rank 34th out of 37 OECD countries on this measure. With a top marginal rate on dividends of 39.35%, and corporation tax at 19%, our integrated rate is a fraction under 51%.[50]

Once the corporation tax rate goes up to 25%, the highest integrated marginal tax rate on profit will be 54.5%. That is a very large chunk of any income stream for a government to capture. In fact, only four out of 37 OECD countries have a higher integrated tax rate.[51]

Then there's the issue of the tax base. Effective tax rates depend not just on what the rate is, but also on how much income that rate applies to. Here again, the UK has in recent years been something of an outlier among developed countries,

49 Author analysis, based on Daniel Bunn and Elke Asen, "International Tax Competitiveness Index 2021", Tax Foundation, October 2021

50 Ibid.

51 Ibid.

offering some of the stingiest investment allowances in the OECD. Indeed, the Tax Foundation found that while the statutory corporation tax rate fell by 10 percentage points between 2007 and 2016 (from 30% to 20%), the effective marginal tax rate on new investment only fell by 3 percentage points, from 20% to 17% – precisely because investment allowances were tightened as the headline rate fell.[52]

This dynamic was a considerable source of frustration to some of those we spoke to as part of this research. **"The UK is way behind on capital expenditure,"** one industrialist told us. It also goes some way to explaining why the significant cuts we made to the statutory corporation tax rate did not produce the investment, growth, and wage effects that you might otherwise expect.

To its credit, the Treasury seems – belatedly – to have realised this. The Chancellor introduced a time-limited, 130% "super-deduction" in his March 2021 Budget. And at the recent Spring Statement, he outlined a range of possible successor schemes – all of which would be considerably more supportive of investment than the status quo ante. The Government is duly consulting on the future capital allowances regime.

'Policies like the super-deduction do not help encourage new investments; they just bring some forward. The government needs to create long-term certainty'

It is vital that a suitable successor to the super-deduction takes effect. The Tax Foundation currently ranks us fifth in the OECD for "capital cost recovery" – an aspect of the tax system with a strong association with investment and growth – but has warned we will fall to 30th overnight when the super-deduction expires, unless action is taken.[53]

Crucially, whatever follows the super-deduction should, as our research has underlined, be a permanent scheme. As one business leader told us, **"Policies like the super-deduction do not help encourage new investments; they just bring some forward. The government needs to create long-term certainty."** Welcome as the super-deduction was, this sentiment was widely shared by the people we spoke to during our research. (In previous CPS research, we have charted the yo-yo nature of investment allowances in Britain in recent years – the very opposite of stability and predictability.)[54]

More broadly, it is clear from the conversations we have had that Britain's corporate tax regime matters a great deal to investors and business leaders. Getting it right – making sure that we have the most attractive possible offer – must therefore be a key part of making Britain the best place in the world to do business.

52 Tom Clougherty and Daniel Bunn, "The UK's Tax Competitiveness", Centre for Policy Studies, October 2021

53 Ibid.

54 See, for example, Tom Clougherty et al., "A Framework for the Future: Reforming the UK Tax System", Centre for Policy Studies and Tax Foundation, October 2020.

Other issues affecting Britain's tax competitiveness

A country's tax competitiveness isn't just about corporation tax – as important as it is. The broader tax system matters a great deal too.

The investors and business leaders we spoke to were clear on the importance of personal taxation. There is little point, they argued, in having a tax system that attracts corporations, while simultaneously putting off the most talented workers and executives. To be internationally competitive, both sides of the tax system need to pull in the same direction.

As one prominent venture capitalist put it, "**individual taxes are very important – if the CEO is coming from overseas and their taxes are going up… they'll be annoyed**".

> **'Individual taxes are very important – if the CEO is coming from overseas and their taxes are going up, they'll be annoyed'**

The general sense we got was that the UK's personal tax system wasn't a huge deterrent at the moment – but also that it was becoming relatively less attractive over time; that some of the most attractive characteristics of our personal tax system had been eroded; and that people could see personal tax becoming a problem in future.

We heard praise for Tony Blair keeping the top rate of income tax at 40% throughout his tenure as prime minister, with some of our interviewees feeling that the introduction of the additional rate (initially at 50p, later at 45p) sent the wrong message while raising little revenue. Indeed, the additional rate does mean that among OECD countries, Britain now has a slightly above average top rate of income tax, instead of a slightly below average one.[55] And previous CPS research has cast doubt on whether the additional rate really raises any revenue at all.[56]

However, as far as personal taxes go, capital gains tax came up far more often in our conversations than income tax. A leading investment banker put it so clearly that his thoughts are worth quoting at length:

"If we want to declare ourselves the planet's global business hub, we need to put in place fundamentally attractive individual tax incentives to establish, create, and grow a business. The crucial part of this is that CGT stays significantly lower than income tax – that differential is really important to domicile decisions, to big hitters generating their gains here. But it also speaks to the tonality. There is strong signalling potential in having a suite of arrangements that are clearly and very overtly designed to say 'this is a better place to start and grow a business'."

That emphasis on entrepreneurship was repeated elsewhere. "**Treating CGT like income isn't great for entrepreneurship,**" said one asset manager. "**There is a case for targeting entrepreneurs with better taxes,**" said another.

55 OECD, Tax Database 2021

56 Centre for Policy Studies, "Tax Cuts Don't Have to be Taxing", February 2020

Recent changes to CGT hadn't escaped our interviewees' attention either: **"There haven't been too many negative changes on taxation yet, but there have been some nibbles... some backwards movement on things that were super attractive, such as entrepreneurs' relief."**

Another issue to emerge from our discussions was the important of the Enterprise Management Incentive scheme, which lets the employees of eligible firms pay CGT rather than income tax on stock options – with their gains generally qualifying for business asset disposal relief (and a reduced, 10% tax rate).

As the founder of a tech start-up told us: **"My employees have taken more risk than someone who goes to work for an established big business – the tax system should reflect that."**

"The single most important issue after ownership and corruption is tax," said one interviewee. **"We have a rather clunky system to put it mildly in terms of getting investment profits out of the country. This is particularly due to our unbelievably archaic withholding tax on interest payments. If you're a UK tech start-up and you want to raise money from a first round tech investor, most of those are in the US and they will say 'we will be very happy to invest in you, but only if you set up a US Topco'. The reason for that is almost entirely tax. There are bits of our tax process that could have been designed to frustrate overseas investors in small companies, which is a bit dispiriting."**

'There are bits of our tax process that could have been designed to frustrate overseas investors in small companies, which is a bit dispiriting'

It does appear that EMI and other incentives are an important part of Britain's tax competitiveness mix. The Entrepreneurs' Network's Sam Dumitriu has pointed out elsewhere that "start-up employees in the UK pay less tax on the exercise of stock options than in any other OECD country", arguing that EMI is essential to British start-ups trying to compete with Silicon Valley wages, and attract top talent to our shores.[57] Lower taxes on stock options also appear to encourage venture capital activity – which itself creates a more dynamic business environment, with greater potential for productivity-enhancing innovation spillovers.[58]

The only problem, Dumitriu says, is that other countries (like France) have cottoned on and are starting to catch up, while our EMI scheme is increasingly hampered by out-of-date restrictions on the size of eligible businesses – which haven't changed since 2000.

The Entrepreneurs' Network has found that three-quarters of UK start-ups report a "brain drain" to big tech firms over the last five years, precisely because their own growth has made them ineligible to offer EMI-qualifying stock options.[59]

57 Sam Dumitriu, "Don't scrap the tax break that gives Britain its edge", CapX, January 2020

58 Magnus Henrekson and Tino Sanandaji, "Stock option taxation and venture capital activity: a cross-country study", Venture Capital, November 2017

59 The Entrepreneurs' Network and Coadec, "The Startup Manifesto", November 2019

From a competitiveness standpoint, the EMI is thus a microcosm of the capital gains tax regime more broadly – an essentially attractive set-up that needs to be maintained and augmented, but is in fact being slowly undermined by an indifferent or even hostile political climate.

It's also worth pointing out here that the frequently mooted idea of aligning CGT and income tax rates – something the chancellor asked the Office for Tax Simplification to look into in 2020 – would leave Britain levying the highest top rate on capital gains (from shares in listed companies) of any country in the OECD.

Our conversations with investors and business leaders suggest that's a road that the UK simply can't afford to go down: **"It would be madness to put CGT up,"** as one start-up founder succinctly put it. In fact, some saw the continual uncertainty about the future of CGT – which they claimed not to encounter in other European countries – as problematic in itself.

'Post-Brexit, you want to holistically promote low tax and low regulation – but uncertainty and rumour regarding CGT and other taxes doesn't achieve that'

A leading figure in the private equity world told us that **"post-Brexit, you want to holistically promote low tax and low regulation – but uncertainty and rumour regarding CGT and other taxes doesn't achieve that"**. Another major investor in tech and life sciences put it even more starkly: **"Uncertainty kills entrepreneurialism."**

So far, the general picture is one of a tax system that has some good elements, but which could certainly be made more appealing to the business leaders and investors that we spoke to. Unfortunately, the perception is that things are more likely to change in the wrong direction.

What other factors affect our international tax competitiveness? On the positive side, Britain is judged to have the widest network of tax treaties in the OECD.[60] **"Tax treaties are important,"** as one venture capitalist told us, because they prevent or mitigate against the double taxation of economic activity that crosses borders. This is clearly an advantage that we should look to maintain and build upon.

On the downside, Britain also stands out internationally for its property tax system – but not in a good way. As a percentage of GDP, we raise more money from property taxes than almost any other OECD country (only Canada, France, and Korea surpass us). What's worse is that we raise that money in a particularly damaging way.[61] Business rates impose a very heavy burden on business and are structured so that they discourage investment. Stamp duties on shares and property transactions, meanwhile, create harmful economic distortions. One study actually found that a two percentage point increase in stamp duty land tax caused welfare and productivity losses equivalent to 80% of any revenue gain to government.[62]

60 Daniel Bunn and Elke Asen, "International Tax Competitiveness Index 2021", Tax Foundation, October 2021

61 Tom Clougherty et al., "A Framework for the Future: Reforming the UK Tax System", Centre for Policy Studies and Tax Foundation, October 2020

62 Christian A.L. Hilber and Teemu Lyytikäinen, "Transfer taxes and household mobility: distortion on the housing or labour market?", Journal of Urban Economics, September 2017

It's worth remembering too that the top marginal stamp duty land tax rate has risen precipitously over the last 25 years, from 1% in 1997 to 12% today – and that's before factoring in the 3% surcharge on additional homes and the 2% surcharge on non-resident buyers. It is quite plausible that these punitive tax rates actually cost the government money by discouraging transactions at the top end of the market. Certainly, some of the people we spoke to in our research were convinced that high stamp duty rates were a deterrent to wealthy foreigners basing themselves in the UK – and therefore something that loses us business and investment in the long run.

Stamp duty on shares is a less well-known tax, but according to one bank chief economist we spoke to, **"It's the worst tax in the UK… if you look at the final value impact on people's pensions, it's phenomenal."** It is also an example of a rather curious feature of the UK tax system – that despite our being a services-oriented economy with a valuable financial sector, we don't actually tax financial activity in a particularly sympathetic way.

'UK taxes on banks are higher than other international financial centres – including in Europe'

The problem is not simply that we spent years opposing a financial transaction tax at the EU level while operating our own particularly archaic version at home. It's that, to quote Anna Marie Dunn, the CFO of JP Morgan EMEA, who was speaking at a recent CPS/Atlantic Council/New Financial event: **"UK taxes on banks are higher than other international financial centres – including in Europe."** Indeed, PwC calculates that in 2024, with a 25% corporation tax rate and a 3% bank surcharge, a London bank will face a considerably higher total tax rate, at 46.5%, than one in Frankfurt (38.6%), Amsterdam (37.5%), New York (36%) or Dublin (25.7%).[63]

By then, we will also be an outlier on how we tax banks. To quote Dunn again, **"when you look at the bank levy, banks are being taxed for having assets in the UK. That does not encourage assets in the UK! And post–next year, when the EU completes its funding of the Single Resolution Fund, the UK will be a global outlier in having a tax assessed on that basis."**

The tax treatment of the financial sector is thus a good example of a recurring theme in this report: namely, that the UK government doesn't do a great job of understanding the country's comparative advantages and strategic opportunities, and tailoring its policies accordingly.

The importance of special tax regimes

When you talk about a country's tax system, discussion tends to focus on its main features – the headline rates of tax, the main allowances, and so on. But among the people we spoke to during our research, there was also a keen focus on some less high-profile parts of the tax system – the various schemes designed to encourage business and investment, or help the UK to compete for talent, that we will refer to here as "special tax regimes".

63 PwC, "2021 total tax contribution of the UK banking sector", UK Finance, October 2021

We have already discussed the importance of one such regime – the Enterprise Management Incentive. But that is far from being the only one worth considering.

For example, many of our interviewees drew attention to the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture capital Trusts (VCTs). These are designed to encourage investment in small and emerging businesses by giving investors upfront income tax relief on the money they put in and then exempting any capital gains from tax after a specified holding period.

All indications are that these schemes are vital to British entrepreneurship, with EIS and SEIS helping businesses get off the ground, and VCTs subsequently helping them to grow. According to research by Ipsos MORI, 60% of businesses that had used these schemes did not think they would have attracted investment otherwise.[64] This makes economic sense: investing in start-ups is risky, and any tax burden on equity is bound to deter investment at the margin. The same research found that 90% of investees credited at least some of their growth in employee numbers to EIS or VCTs.

The investors and business leaders we spoke to were united in their belief that EIS, SEIS and VCTs had been a success, and helped plug an important funding gap in the UK. The problem, though, is the limits on investment. As one extremely successful founder put it: **"EIS tax breaks work on small amounts – why not large amounts? If it makes sense to let people put in thousands, why not let them put in millions?"**

'EIS tax breaks work on small amounts – why not large amounts? If it makes sense to let people put in thousands, why not let them put in millions?'

Instead, the Treasury imposes two separate limitations. First, they cap the amount that a particular investor can put into a business. Second, they limit the total tax-advantaged amount that a given business can receive, both in a single year and over their lifetime. What's more, the limits cause some obvious problems. As the Patient Capital Review noted, "the hard limits on investment size create inefficiencies as businesses transition away from tax-advantaged investment, particularly due to the inability of angels and investors to provide follow-on funding." [65]

This feeds into a common complaint we heard during our research: that Britain doesn't have a start-up problem, but does have a scale-up problem. We simply aren't doing enough to make Britain the place to be for high-growth businesses. (Not least because the Treasury instinctively focuses on the risk of people gaming the system, rather than the benefits from future growth.)

As well as the investment limits, there are a couple of pressing issues that the government needs to address when it comes to these special tax regimes.[66] For one thing, EIS, SEIS and VCTs are currently subject to sunset clauses that would see them expire in 2025; they ought to be put on a permanent footing. Then there's the chicken-and-egg dilemma created by HMRC's 2018 decision to require businesses

64 Ipsos MORI, "The use and impact of venture capital schemes", HM Revenue & Customs, February 2016

65 HM Treasury, "Patient Capital Review: Industry Panel Response", January 2017

66 Emma Jones and Sam Dumitriu, "Access all areas: finance", The Entrepreneurs' Network, March 2022

seeking Advanced Assurance (pre-approval for investment tax reliefs) to include investor names and addresses in their application – the dilemma being that investors often won't come on board until Advanced Assurance has been received. Here, it would be sensible to reverse course.

We have described special tax regimes as "less high profile" parts of the tax system. Yet every so often, such regimes emerge from obscurity to make headlines – even front page ones. So it was with recent revelations that the Chancellor's wife, Akshata Murty, had elected to be taxed as a non-domiciled resident, or non-dom.

The ensuing coverage made clear that many people don't really understand what a non-dom is: it doesn't mean that you're exempt from UK taxes; it just means that you don't pay UK tax on your overseas income unless you bring that income into the UK (this is called the "remittance basis").

Non-dom status is also subject to some significant restrictions: establishing that you are domiciled outside the UK isn't a straightforward thing (generally, the appropriate parent must have regarded another country as their permanent home when you were born). Non-doms also lose their tax-free allowances for UK income and capital gains, and must pay a hefty annual fee (£30,000 rising to £60,000) once they have been in the UK for a certain period of time. You can't claim non-dom status at all if you have been UK resident for 15 out of the last 20 years.

'We have let non-doms have too good a run for too long, but we have lost some big players since the rule change. It's hard to quantify but that has an impact. It is an example of a small thing that adds up.'

The investors and business leaders that we spoke to as part of this research generally regarded the non-dom regime as an important part of the British tax system – as something that we benefit from economically, and that we ought to maintain and defend. In fact, well before the issue hit the headlines again, many were telling us that George Osborne's original reforms to non-dom status had damaged Britain's attractiveness, and that we should seek to make our non-dom regime more attractive rather than less. There were frequent mentions, and an expert understanding, of the new incentives offered by countries such as Italy to woo high-net worth individuals.

Fundamentally, the sense that we got was that offering non-dom status was essential to attracting high net worth individuals, as well as the most highly skilled and in-demand foreign workers, to the UK. Once they are here, their UK earnings, spending and investments will generate significant gains to the Treasury – and to the economy more generally. Even those who were critical of aspects of the regime insisted on its value. **"We have let non-doms have too good a run for too long, but we have lost some big players since the rule change,"** said one hedge fund CEO. **"It's hard to quantify but that has an impact. It is an example of a small thing that adds up."**

Or maybe not so small. HMRC estimates that non-doms paid almost £8 billion in UK income tax, NICs, and CGT in 2020 (they undoubtedly contribute a lot of VAT and other taxes too). That's all money that could be at risk if non-dom status was abolished. Tellingly, since new restrictions on non-dom status were introduced in 2017, both the number of non-doms and the amount of tax they pay has fallen.[67]

There are a couple of other points worth making. First, it isn't at all obvious, as a matter of principle, that someone who earns money overseas, pays tax on those earnings overseas, and never brings those earnings to the UK should face an additional UK tax liability – simply because they live here.

After all, globalisation has led many countries to shift to a "territorial" (as opposed to "worldwide") system for taxing corporate profits. We made that leap in 2009, partly in response to a series of business emigrations, and it means that a company's foreign earnings are exempt from UK tax. There may be practical impediments to applying the same approach to individuals at large (Singapore appears to be the only country with a territorial personal tax system), but the same logic – that you must avoid double taxation if you are to be competitive in a globalised economy – surely applies in both cases.

'The Bank of England and the Financial Conduct Authority think it is not their job to worry about London's competitiveness'

Secondly, as some of our interviewees noted, Britain is far from the only country to operate a special tax regime for individuals. According to a study by the EU Tax Observatory, as of 2021, there were 28 "personal income tax schemes targeting foreign individuals" in effect across the EU.[68] Indeed, seven EU countries – including Italy and France – operate something akin to a non-dom scheme, giving special treatment to foreign-source or worldwide income.

As mentioned above, Italy's special tax regime for high net worth individuals came up a number of times during our research. It exempts overseas income and assets from Italian taxation for an unlimited period of time, in exchange for a lump sum annual levy of €100,000. The scheme was introduced in 2017 specifically to encourage high net worth individuals to move to and invest in Italy. At least in part, it was motivated by a desire to capitalise on the fallout of the Brexit vote (as well as tax changes in Switzerland) to attract more money to Italy.

In short, our research and the discussions it has involved suggest that there are compelling principled and practical reasons for the UK to continue operating the non-dom system, and to ensure that – whatever reforms may be introduced – the scheme remains attractive and competitive going forward.

67 HM Revenue & Customs, "Statistical commentary on non-domiciled taxpayers in the UK," July 2021

68 Eloi Flamant et al., "New forms of tax competition: an empirical investigation," EU Tax Observatory, November 2021

The regulatory outlook

Tax is not the only factor that shapes the business landscape. Another huge element is the impact of regulation.

The traditional narrative around regulation is about the burden of red tape. But in fact, the biggest complaint we heard in our research was about the perceived lack of urgency with which the government was approaching regulatory reform after Brexit. As mentioned in the next chapter, at a recent CPS/Atlantic Council/New Financial conference on the future of banking and finance, not a single person in the audience agreed that we have used the six years since Brexit well enough to position ourselves to take advantage of new opportunities.

Many of the investors and business leaders we spoke to also felt that the government was deferring too much to regulators, which are seen as fundamentally risk-averse, and largely uninterested in the performance of the British economy. **"The Bank of England and the FCA think it is not their job to worry about London's competitiveness,"** complained one leading City figure.

> **'If you told CEOs that regulators are concerned with competitiveness, most would laugh'**

Solvency II, which we discuss in detail in the following chapter, offers a perfect example of this dynamic. An EU-derived piece of legislation, which governs the amount and type of capital insurance companies must hold, Solvency II was always considered inappropriate to UK markets.

Its "matching adjustment" rules prevent insurers from investing in the sorts of future-oriented projects that, both politically and economically, we would like to see funded. Part of the problem, our interviewees said, is the way the Prudential Regulation Authority enforces the rules – they want insurers investing in things with long track records and more-or-less fixed returns, which automatically rules out most long-term growth opportunities.

The high "risk margin" further curtails investment, even though industry specialists say this capital buffer's volatility at low interest rates makes it an ineffective tool for promoting financial stability.

It is also worth noting that the British insurance industry weathered the financial crisis practically unscathed (before Solvency II) and that there was just one failure in the past decade – that of a very specialised, particularly high risk insurer which was nevertheless dealt with in an orderly fashion.

The Treasury recently launched a consultation on changes that would resolve some of the issues that people we spoke to have with Solvency II, and free up billions of pounds of capital for investment.[69] That is very much to be welcomed.

69 HM Treasury, "Solvency II Review: Consultation," April 2022

But what is striking is that this was a very clear "Brexit opportunity" – an EU law long thought ill-suited to the UK; the subject of much research and argument even before the Brexit vote; and also something on which there is an unusual degree of political and industry consensus. And yet the EU itself has moved faster to reform Solvency II and relax its constraints on investment than we have. What's more, there remain concerns among the people we spoke to that the Prudential Regulation Authority might somehow undermine any legislative liberalisation through its approach to enforcing the rules.

Indeed, as mentioned above, one of the main frustrations we detected was that people felt the government was deferring too much to regulators. They also worried that Brexit might actually make this phenomenon worse, because of the sheer amount of regulatory work to be done.

'A lot of the growth will come in areas where we have not yet regulated. So the challenge is about putting in place flexible, attractive regimes for the future so that we can get ahead'

Today, much of the detailed subject-matter expertise needed to deal with complex regulation is found outside government departments, in the various agencies that enforce the rules. That is, perhaps, an understandable state of affairs; but it is not necessarily a healthy or helpful one when you have a government determined to boost growth through regulatory reform and a set of regulators who are focused almost entirely on risk – and, in many cases, on "reputation management" and "fighting the last war" – rather than embracing new opportunities.

Naturally, the investors and business leaders we spoke to welcomed moves to give regulators explicit secondary objectives on competitiveness and growth, but generally thought **"growth should become a primary objective if you want them to focus on it. At the moment it is just lip service."** The necessary cultural change is a big one. As a major investor put it: **"If you told CEOs that regulators are concerned with competitiveness, most would laugh."**

Some of the people we spoke to in our research stressed that the biggest regulatory issue we faced wasn't how to deal with inherited EU laws – or indeed the established body of UK regulation – but rather how we choose to regulate new and emerging technologies and markets. As one senior political figure put it:

"A lot of the debate about regulation is about how you get rid of the regulations which exist. But a lot of the growth will come in areas where we have not yet regulated. So the challenge is about putting in place flexible, attractive regimes for the future so that we can get ahead."

A number of "future-oriented" regulatory challenges came up during our research. Data was seen as a big issue, as were life sciences and the green economy (and associated things like carbon markets). But the most-mentioned topic by far was cryptocurrency and digital assets.

Here, again, our interviewees were mostly frustrated by the government's apparent lack of impetus. One prominent hedge fund manager summed up the mood:

"HMT and the Government are useless on crypto. It is a classic case of wasting an opportunity… Crypto is one of the big vector changes in markets. It will potentially upend finance across the whole world. Singapore and China are in the lead. The EU will be the slowest. But the UK is doing nothing, which is scandalous."

The impatience we encountered was largely down to our interviewees seeing Britain as a natural home for blockchain technology, given Britain's comparative advantage in finance. **"London should take this all day long,"** said one major investor. A leading figure in Britain's financial markets added that **"we need to get rules in place for distributed ledgers, digital fiat currency, stablecoin – that's the interesting, structural, wholesale part of it."**

In fairness, the Treasury would say that they are well aware of the opportunity and are making progress. In early April, the Chancellor announced a package of measures designed, in his words, "to make the UK a global hub for cryptoasset technology".[70] A consultation on the wider regulation of the cryptoasset sector is promised later this year. Nevertheless, it is hard to overlook the slow pace of policy change when compared with what many of our interviewees saw as the "incredible innovation" of the blockchain community.

'We need to get rules in place for distributed ledgers, digital fiat currency, stablecoin – that's the interesting, structural, wholesale part of it'

There is also a feeling – again – that whatever the government's ambitions, the regulators themselves are likely to be unhelpful. **"The Bank of England doesn't see it as their job,"** one significant investor told us. **"The regulators don't have the capacity or expertise for future-facing regulation,"** added one trade body we consulted.

Of course, there is still no unanimity around cryptocurrency or blockchain. Some of those we spoke to are still not persuaded, and recent upheavals in the market suggest they may have a point. But even many crypto sceptics admitted that there was significant potential associated with the attached technologies. And there was a sense that the debate about cryptocurrency regulation is part of something bigger – an example of the feeling among investors and business leaders that Whitehall's structures and processes aren't up to the task of seizing new opportunities, that Brexit was sold as a way to overcome this institutional sclerosis and make us more dynamic, nimble, and strategic; but that those benefits have yet to materialise.

If we are serious about getting the industries of the future to choose Britain, that is something that needs to change.

70 HM Treasury, "Government sets out plan to make UK a global cryptoasset technology hub," April 2022

Access to talent and skills

A key part of the UK's attractiveness to international investors and entrepreneurs has been because it provided both a skilled workforce and a flexible labour market (aided by freedom of movement during its membership of the European Union). However, as noted in Part One, the UK's skills gaps have been widening for some time, and there are now notable skills shortages in certain sectors – coupled with labour shortages affecting unskilled work, too. Both the pandemic and Brexit have further fed into these challenges, which many of those we spoke to citied as of being of increasing concern.

"We find it increasingly difficult to attract and retain high quality European labour to our business," said one investor. **"There has been a drain of existing personnel who are keen to return to the Continent. Being able to attract the best people is central for the UK, and London, to keep its competitiveness and superiority. European graduates are not concerned with macro issues (i.e. post-Brexit regulatory reviews, consultations etc). They are concerned with where it is easiest to find a job that I will enjoy with easy entry and easy exit options."**

There are both immediate and longer-term concerns that businesses have in terms of access to talent and skills. That ranges from businesses struggling to find the workers they need now to businesses not having the confidence that they will find the workers to justify further investments or achieve further growth. There was near-universal concern from those we spoke to that the demand for skills in certain areas will not be matched by the supply in the domestic labour market. This is particularly the case regarding digital skills, which have been the subject of many a government and industry white paper. In 2019, before it was disbanded, the Industrial Strategy Council stated that reskilling the existing workforce will be the country's major challenge between now and 2030.[71]

'Being able to attract the best people is central for the UK, and London, to keep its competitiveness and superiority'

Those we spoke to were not dismissive of the UK workforce, and few cited the skills gap as a reason not to invest. But there was widespread agreement that companies – and in particular high-growth companies – require access to specialised, high-skilled talent and that the UK immigration system needs to accommodate this. The founder of a well-known tech company told us that one of their **"biggest issues is recruitment... we hire a lot of people from the US because they've seen scale before"**. Access to talent and skills is fundamental to the UK's international competitiveness.

There was, accordingly, a concern among many we interviewed that there is a disconnect between the realities of the UK's post-Brexit immigration system and the perception around it.

71 Industrial Strategy Council, "UK Skills Mismatch in 2030", Research Paper, October 2019

One high-profile banker reiterated that **"being able to attract the best people is central for the UK"**, before adding that **"there has been a certain tonality – are we open to business and is international labour welcome?"** But the head of a hedge fund told us that **"people think getting a visa is now harder"** while the head of one of the most well-known UK venture capital firms called the visa regime **"intimidating"**.

Several other interviewees were in fact very complimentary towards the action the Government has taken and were aware of various attractive policy initiatives that have either been implemented or have been announced, such as the Scale-up Visa, the High Potential Individual Visa (which requires no job offer), the Global Mobility Visa and the Innovator Visa. Some mentioned the Global Talent Network, aimed at attracting the best talent in science and tech, which will launch in the Bay Area, Boston and Bengaluru. **"The new visa regime [has been] helpful,"** Richard Gnodde, CEO of Goldman Sachs International, told an event co-hosted by the CPS. **"That hasn't had enough airtime, but the moves of this government have been really quite significant and are pretty much best in class, if not best in class."**

"The new visa regime [has been] helpful. That hasn't had enough airtime, but the moves of this Government have been really quite significant and are pretty much best in class"

But even those who praised the Government's immigration policy wanted to see a greater focus on how those policies actually work in practice. The sponsorship costs of the Skilled Worker Visa were regularly noted as being high compared to competing locations, and the processing time too long. There was also a general sense that the Home Office could be more effective at utilising already available data to streamline the burden on businesses, such as using real-time payroll information to do compliance checks.

Overall, problems with the immigration system seem to be as much about perception as reality. A senior banker acknowledged this, stating that **"the Government has acted well in this area"**. A senior partner at a leading international law firm told us: **"I hear [the visa system] talked about more than I see it actually being an obstacle."**

The same, however, cannot necessarily be said of low-skilled work. Many of those who ran large businesses primarily based in the UK noted that they have often struggled to replace the labour EU workers used to provide from the UK domestic workforce. One CEO of a FTSE 250 company told us: **"I would like to take every single employee from the UK, but I can't find them."** They also highlighted that there had been limited engagement from Government in this area other than when **"they thought we would run out of turkeys at Christmas"**.

The Government would of course counter that firms that have been (in a phrase first reported by one of the authors of this paper) "drunk on cheap labour" could raise wages or embrace automation in order to compensate.[72] But it is clear regardless that access to labour is a significant issue for would-be investors, as is the smooth functioning of the visa system.

72 Robert Colvile, "They couldn't stop this Effing crisis, so how will ministers persuade voters they can fix it?", Sunday Times, October 2021

Housing

There are all manner of domestic policy areas that do not directly impact on investment decisions, but contribute to wider sentiment towards a country. The sense of being safe on the streets, or the length of traffic jams you have to endure on the way to the airport, or how easy it is to get a place for your children at their preferred school, or on to the membership list at the local tennis club – all of these may seem like small issues, but they contribute hugely to people's quality of life and their sense of whether the UK is an attractive destination.

"A lot of these decisions get made on a sort of emotional level," explained one of our interviewees. **"It is the CEO and the senior management team – where do they want to hang out for board meetings, where does the family want to go shopping, what are the hotels like?"**

One of the most important factors affecting quality of life is housing. In the examples above of the exodus from New York and San Francisco towards Miami and Texas, housing costs have played a crucial role. Even if investors themselves can afford to buy property at London prices, they will obviously be concerned if their workers cannot. So the sheer cost of living in London in particular was highlighted by those we spoke to as something that could be damaging to the UK, and to London's attractiveness versus some other comparable global cities.

'A lot of these decisions get made on a sort of emotional level. It is the CEO and the senior management team – where do they want to hang out for board meetings, where does the family want to go shopping, what are the hotels like?'

As mentioned above, part of the UK's business proposition is about giving people access to a skilled workforce. If many workers feel priced out, they may look to other cities or countries. There was also a general concern that unaffordable housing impacts businesses, which have to increase wages. London's Chamber of Commerce has repeatedly argued that as housing costs rise further, London risks losing the skilled workers who are critical to the city's future, with an increasingly detrimental effect on London's productivity, competitiveness and resilience.[73]

There was also a particular focus on, and resentment towards, punitive stamp duty land tax rates. The kind of investors and executives that a highly competitive Britain should be trying to attract will probably face marginal tax rates of 15% or more when buying a property. This was widely felt to be economically distortionary, counter-productive in revenue terms, and sending a bad message to those considering Britain. Additionally, some commented that stamp duty has **"high entrance and exit costs to internationally mobile people"**. This view that stamp duty could in some way be seen as a tax on mobility of senior executives resonated with some of those we interviewed. (The Centre for Policy Studies has separately highlighted the iniquities of the current system and proposed reforms, in our paper Stamping Down.)[74]

73 Kate Allen, "Rising house prices a threat to 'London's competitiveness", Financial Times, May 2014

74 Alex Morton, "Stamping Down", Centre for Policy Studies, October 2019

There was also widespread criticism of the delays and expense involved in the planning system, for those trying to build new sites – and the ever-present risk of rejection. **"Planning is a significant issue,"** said one investor. **"Trying to build a factory is a nightmare – even redoing existing sites is incredibly challenging and long."** Another commented: **"I'm trying to do some property development, and I'll never do it again here. Why would you?"**

Infrastructure

The importance of the UK's infrastructure as a vehicle for improving its international competitiveness was often cited as an important, albeit underappreciated, factor – and one where the country could benefit long-term policy commitment. This was particularly true in terms of the need to support the UK's growth clusters and improve their access to markets, as well as increasing access to labour and capital across the UK. These, of course, are all intimately related to the Government's existing plans to improve productivity and generate balanced economic growth throughout the UK.

'Planning is a significant issue. Trying to build a factory is a nightmare – even redoing existing sites is incredibly challenging and long'

One frequent theme in our conversations was that global investment policy cannot be separated from a discussion of place – and invariably, a discussion of infrastructure always followed. The point was repeatedly made that infrastructure is not just an economic asset, or a key prerequisite for investors, but one of those things that affects people's perception of a country as a well-functioning place. As the National Infrastructure Commission's report on improving competitiveness noted: "Infrastructure and its supply chains can themselves develop into industrial clusters. These can attract investment and talent, and lead to exportable innovations for the UK."[75] Its examples included the clusters developing near offshore wind farms in the Humber, the Solent and East Anglia.

Three particular examples often came up to illustrate the important of the UK having world-class infrastructure:

HS2 and Northern Powerhouse Rail
While it was recognised that ever increasing cost estimates (surpassing £100 billion) and delays have plagued HS2, the scaling back of the initial plans, and the watering down of plans for Northern Powerhouse Rail which would have linked Leeds and Manchester via Bradford, were seen by many as yet another example of government failing to deliver on previously announced long-term policy commitments. It was also seen as reflecting a failure to fully equip parts of the North of England with the necessary assets needed to challenge the South East – something that to many appeared at odds with the levelling up agenda.

75 National Infrastructure Commission, "Improving Competitiveness", April 2020

Transport for London

As has been discussed elsewhere in this report, the success of London is one in which the rest of the country shares. A regular refrain from those we interviewed was that **"London should not be levelled down"**. The tensions between the Government and City Hall over Transport for London's funding settlement during the pandemic were cited by some as showing how party-political tensions can undercut the competitiveness of the UK. One remarked that **"it is extraordinary that we were in a position where TFL was getting fortnightly extensions"**. Many others argued that whatever happens after the pandemic, the Government must ensure that the Underground in particular does not enter a period of decline. A typical comment was that it is wonderful that **"you can get a Tube or walk to see your lawyers, accountants, bankers or PR people [in London]. in California you need to take a plane."** That said, some of our interviewees also complained about the recent proliferation of cycle lanes and how they have extended journey times across the capital.

'If you can't even let people into the country efficiently, how can you expect them to invest here?'

Heathrow

Another striking trend among the business leaders we surveyed was how often a country's main airport was cited as impacting on their perceptions of it. One CEO told us that getting into the centre of Paris from Charles de Gaulle is a **"nightmare"** and that they also **"try to avoid JFK if possible"**.

While most were complimentary about the UK's major airports and their connectivity to its cities – particularly London – the length of queues and baggage delays at Heathrow in particular did keep coming up as something the UK should seek to address urgently. It was felt among those we spoke to that it gave a bad impression of the UK from the offset – and that it was something that should be able to be fixed quickly. **"The lack of border force staff is an issue,"** noted one executive. **"It affects the ease of getting into London."**

While it is hard to quantify how much of an impact delays at Heathrow and other UK airports have on the UK's international competitiveness, it is clear that it impacts perceptions of the UK as an easy place to visit on business and the desirability of London as a venue for C-Suite level meetings. Moreover, from our conversations, it was evident that it has become an easy stick to beat the Government with to illustrate general incompetence or inaction. In the words of another investor that we spoke to: **"If you can't even let people into the country efficiently, how can you expect them to invest here?"** This is not just about business visitors. One interviewee pointed to research from King's College London finding that those who have visited London were far more likely to eventually set up a company here, and even more so if they had studied here.

Conclusion

Britain has long had a positive policy environment towards business and investment. But it is not as positive as many in Government are allowing themselves to believe. Increases in business taxes have been noticed, and not with approval. So has the ever increasing burden of regulation.

Even seemingly minor frustrations on this score can have a huge impact. For example, we heard multiple complaints about the difficulty foreigners have in opening bank accounts. One interviewee warned: **"As it is so complex the banks are saying 'it is too hard for us', so they are not interested in the process. It is much easier for them not to bother. My colleagues and partners in the USA will apologise that it takes about a month to open an overseas bank account, but I can't even make that promise."**

A point that was made repeatedly was that investors are not, in many cases, following every twist and turn of British politics – especially if they are located overseas, or part of a multinational corporation. They will tend to remember only a few key facts, or the impressions of Britain that they have gathered from brief visits or picked up from friends and colleagues. For many, the last big thing they noticed was Brexit. But if they have noticed anything since, it has generally been something that reduces their enthusiasm for investing in Britain rather than increasing it – such as the decision to hike corporation taxes.

As we argue in Part Four, the Government must therefore not only be far more focused on making Britain a great place to do business, but shout from the rooftops about its intention to do so.

Part 3: The Finance and Investment Landscape

One of the most important arguments running through this paper is that there is no tension between making Britain an attractive place for overseas investment and making Britain an attractive place to do business. Yes, you can offer specific incentives to relocate activity, or expand the number of people in Government working to court overseas investment – and we should definitely do both.

But ultimately, what lures talent and investment to this country, and what keeps it here, is the quality of the wider business environment. As Peter Harrison, CEO of Schroders, told a recent event co-hosted by the Centre for Policy Studies, **"to be really competitive internationally, you need a vibrant domestic economy"**.

"We need to think of the capital markets not as a means for bankers to acquire Lamborghinis, but the way we recycle our savings into future prosperity, by funding the companies and infrastructure that Britain will need in the future"

Some of that, as set out in the chapter above, is about tax and regulation. But it is also about the wider investment environment. This is particularly true for would-be entrepreneurs, or those with growing companies who are looking for a home. Often, when we talk about inward investment, the image that comes to mind is of large multinationals making transnational capital allocation decisions, or high net worth individuals who have already made their pile. But it is also vital that Britain is able to offer deep pools of capital and liquidity for companies at every stage of their growth cycle, from start-up to listed company.

As Julia Hoggett, the head of the London Stock Exchange (LSE), has said repeatedly, **"we need to think of the capital markets not as a means for bankers to acquire Lamborghinis, but the way we recycle our savings into future prosperity, by funding the companies and infrastructure that Britain will need in the future. Overseas investment has played a crucial role in that process, not least because of the regulatory restrictions on domestic institutions, and will continue to do so."**

Indeed, the reason that this chapter talks so much about the LSE and the City of London is that that is where we were led by so many of our interviewees. Not all of them worked in finance. But all of them recognised that we have problems with capital allocation and the listings environment that we need to fix, if we are to make this country the best place possible to come to and thrive in. And that starts with the capital itself.

The role of the City

Why is London where it is? Because of inward investment – of a kind. As Prof Ian Morris writes in his recent history of Britain, the historic centre of London is located where it is because it was the only place where the Thames was simultaneously narrow enough for Roman engineers to bridge and deep enough to moor the vast grain ships needed to feed the legions. This early London was, says Morris, a "bottom-up boomtown" – Tacitus talks about it being "crowded with traders and their wares". In a beautiful historical echo, archaeologists inspecting the foundations for Bloomberg's vast new London headquarters recently found the remains of wax tablets, on which the ancestral City traders had scribbled advice to each other about best lending practice.[76]

Today, London is one of the world's two great financial centres. To quote a recent report, "along with the United States it plays an outsize role as a crossroads for international banking and finance, with a global share of 19% of activity (compared with 25% for the United States), more than double its main rivals in Asia and five times more than France or Germany. In markets such as derivatives trading and foreign exchange, the UK is the clear global leader: it accounts for half (50%) of global interest-rate derivatives trading and just under half (48%) of all foreign-exchange trading."[77]

The presence of London helps not just the City itself, but the wider economy. More than 95% of large UK companies use capital markets to finance investment and manage risk – and UK capital markets are twice as deep as the rest of Europe's, relative to GDP. This is one of the reasons why so many global companies have chosen to make their homes here.

> **'Along with New York, we are on one of the world's two great financial centres. That's our starting place and we shouldn't forget it, or be complacent because of it'**

However, the UK also has clear weaknesses. Over the last 20 years the number of listed companies has fallen by more than 40%, while the UK's share of global IPOs has dropped from 13% to less than 4%. The amount of long-term capital invested here is far below the levels of comparable developed economies. Global investors have been underweight on UK stocks since Brexit, and remain so.[78]

Speaking at an event co-hosted by the CPS, Richard Gnodde, Chief Executive Officer of Goldman Sachs International, praised London's very strong position. He stated that **"clearly, we couldn't start from a better place, along with New York we are on one of the world's two great financial centres. That's our starting place and we shouldn't forget it, or be complacent because of it."** At the same event, Peter Harrison of Schroders, commented that **"we have got a really really vibrant starting point. We mustn't drop our heads."**

76 Ian Morris, "Geography is Destiny", Profile Books, 2022

77 Panagiotis Asimakopoulos, Christopher Breen and William Wright, "The Future of UK Banking and Finance", New Financial and Atlantic Council, April 2022

78 Ibid.

But it is also clear that there are significant gaps need to be addressed, in an atmosphere of intense international competition.

There is for example a clear recognition that the European Union, and its respective financial hubs, are vying to take business from London. That doesn't just damage the capital. The Chancellor has rightly challenged the myth "that 'financial services' and the 'City of London' are synonymous"[79], highlighting that the reach of the industry stretches far beyond the Square Mile. Half of the £164.8 billion generated by financial services in 2020 was outside London, as are two thirds of the 2.3 million people working in financial and related professional services.[80][81]

At the same time, however, those we spoke to stressed that the US remained the UK's primary competitor and that the City's success should be benchmarked against New York and other global centres. It is not enough to be the most attractive place in Europe.

One thing that all of our interviewees agreed on was that in the aftermath of the EU referendum, policy engagement with the professional services sector was notable by its absence. The City in particular felt unloved and neglected, with little to no mention of financial services in the post-Brexit EU-UK negotiations.

'On much of this stuff, everyone knows what needs to be done. We need to get on and do it'

Now, the mood is different. The Government appears determined to capitalise on the UK's unique opportunity to create a bespoke regulatory and supervisory environment exclusively tailored for its needs post-Brexit. As things stand, there are more than 30 major reviews underway. Though as many of our interviewees pointed out, there is also a sense that the Treasury and the regulators are setting up consultations on the reviews and reviews of the consultations. As one chief executive said: **"On much of this stuff, everyone knows what needs to be done. We need to get on and do it."**

Reinvigorating the stock market

Of all the topics that came up during our interviewees, the one of the most common concerns was the state of the UK capital markets, and of the listings environment more generally. One of the country's best-known investors warned that compared to its US counterparts, Britain's stock exchange looked like **"Jurassic Park"**. There was a clear consensus that both China and the US offer higher trading volumes and higher valuations compared to London, aided by larger domestic economies, as well as housing exchanges rich in stocks of emerging global growth sectors such as technology. **"If you're a growth company, why would you not list on the S&P or Nasdaq?"** was a common refrain. Added to this is the sheer amount of private capital that can now be deployed, which limits the necessity to go to public markets.

79 Statement to the House on Financial Services, November 2020

80 Georgina Hutton, Ali Shalchi, "Financial services: contribution to the UK economy", House of Commons Library, December 2021

81 TheCityUK, "Key facts about UK-based financial and related professional services 2021", March 2021

While the US was constantly used as the main frame of reference, some warned that the UK should not completely forget the competition it faces on the Continent. Amsterdam was often cited, because of Euronext's technology expertise. One partner at a law firm who specialises in IPOs told us that **"if you want a good valuation and informed investors it has been perceived for a long time that it's New York over London. But there's also now Amsterdam."**

This applies more broadly. As another interviewee said: **"There is unfortunately a big point about companies from third country jurisdictions looking at the UK and thinking 'I want to tap European capital markets, I want Europe to be a base for my future growth', but it's a bit like placing yourself in the arms of the French tax system or Germany employment system – why would you place yourself in London, exposed to the unquantifiable future points of friction with the rest of Europe, when you can have a flag in a flexible European market – like Amsterdam?"**

Some pointed out that exchanges all across the world are upping their game, including in the Middle East: **"A lot of exchanges around the world are putting considerable effort to marketing themselves."** Consequently, it was felt that London, while primarily benchmarking itself against the US and China, needed **"to also look at the competitive landscape"**.

'If you're a growth company, why would you not list on the S&P or Nasdaq?'

Companies considering a listing, said one senior investment banker, look at where the **"capital pool is deepest and where the valuation is likely to be most attractive, and on both fronts the US is miles ahead of us"**. One CEO of an asset manager who was otherwise very upbeat about London's future reiterated that **"increasingly new IPOs and SPACs are bypassing the LSE"**. Others pointed out that many of the companies that would traditionally list in London may now stay in their home countries amid pressure from their domestic governments

Other metrics, too, paint a discouraging picture. Between 2008 and 2020, the number of listed companies in the UK fell by 40%.[82] There are fears that in the current inflationary environment, exasperated by war in Ukraine, UK equity capital markets could hit a "10-year low" in Q2.

Then there are the significant outflows that UK-focused equity funds have been experiencing for some time now. In April 2022, UK equity funds saw record outflows of £836 million – beating the previous record set in January 2022 when investors sold down a net £795 million from UK-focused equity fund holdings.[83]

It is clear that funds investing in the UK stock market are struggling to recapture past popularity. January was the eighth consecutive month that investors sold UK-focused equity funds, redeeming £2.9 billion of their holdings. This is a greater total than the nine months of selling that immediately followed the European Union referendum. And over the last seven years, there has been no net new capital coming into UK funds.[84]

82 HM Treasury, Lord Jonathan Hill, "UK Listing Review, March 2021

83 EY, "Slow start to 2022 for global and London markets due to uncertainty caused by geopolitical and inflationary headwinds", April 2022

84 Daniel Thomas, Financial Times, "Numis warns UK equity market activity at near 10-year low", April 2022

It is important to note that the recent sell-offs are not a problem unique to the UK: investors are increasingly buying global funds instead of country-specific ones. However, the sheer scale of the problem is unique to the UK, with it being the only region to record outflows every year since 2016. And within global funds, too, the UK component has been on a downward trajectory.

The picture is not one of unmixed gloom. Last year was a record year for IPOs on the LSE, with over 120 companies listing, raising £16.8 billion.[85] That made it the strongest year for IPO capital raising since 2007 and the highest number of IPOs since 2014. There were also several high-profile UK based unicorns that listed in London in 2021, highlighting that a London IPO is still seen a viable route for some high-growth VC-backed companies.

However, this success needs to be put in its global context. IPO markets globally were their most active in 20 years following renewed market optimism aided by vaccine rollouts and significant government stimulus.[86] But one good year for UK IPOs, within a great year globally, should not paper over the cracks.

A significant reason for the LSE lagging is because in stark contrast to the US and China it predominantly offers investors value stocks. Even some stocks which recently listed that are labelled as "tech" are in fact more consumer stocks, such as Artisanal Spirits and Victoria Plumbing.

' The FTSE has gone nowhere, whereas the US stock market has soared. When it comes to listed companies, we have fallen behind '

This has triggered fears, as outlined above, that London is in danger of being left behind. One major investor warned that **"London could irreversibly fall behind New York"**. The chair of one FTSE250 company echoed this sentiment: **"The FTSE has gone nowhere, whereas the US stock market has soared. When it comes to listed companies, we have fallen behind."**

Richard Gnodde echoed this on his CPS panel, pointing to the broader eco-system within the US for why **"people were voting with their feet"**. Key reasons included **"the ongoing support and vibrancy and understanding of the company as it evolves and innovate. Founders think Nasdaq is a deeper market with more sophisticated investors, more sophisticated analysts and commentators. They feel it is a better place to be challenged, to grow and to thrive... what eco-system do you want to live in, that is the question?"**

One example of this that was frequently cited was that the same firm will achieve a bigger valuation if it floats in the US than in the UK. Although some senior figures argued that this view is outdated, there was a consensus that the view that the US offers better valuations is commonly held and is in itself an issue for London.

85 KPMG, "2021 UK IPO volumes surge, defying market uncertainty and volatility", December 2021
86 EY, "2021 Global IPO Trends report", December 2021

To quote a well-known senior advisor working in equity capital markets, **"there are definitely some myths out there about valuation, I think the days where you get large valuation disparity are probably in the past. A lot of investors are now global. However, a lot of participants and a lot of board members will harbour a belief that you will get a higher valuation in the US."**

Part of the challenge for the UK, in the words of a senior banker, is that it has "**not created a global titan**". Notoriously, when Apple's valuation reached $3 trillion earlier this year it made it worth more than the entire FTSE 100.[87]

This was something that was regularly repeated by our interviewees: the success of the FANGs has allowed the US exchanges to evolve and "**created belief among US investors that if they're lucky the next one they buy into may do the same. We have not seen that here.**" As another person we talked to said: **"Just try to imagine what a British Elon Musk would look like. You just can't."**

More than just belief among investors though, it has built momentum and a **"swagger"** around the exchange being the place to be for budding entrepreneurs. One senior lawyer told us: **"If you're a successful tech company, why wouldn't you chuck yourself into the pool of other tech companies in the US? Why wouldn't you create exactly the same voting structure as Google? It would be a negative for my marketing to investors to accept that I have to go to London, because it almost implies that I am a second-rate company – I have got to be hunting with the big beasts and all the big beasts are in New York. That only builds itself up as it reaches critical mass."**

‘Just try to imagine what a British Elon Musk would look like. You can't’

Of course, hosting value stocks is not in and of itself a bad thing for London and it should not be wished away. This is particularly the case in the current macroeconomic environment, with rising interest rates marking the end of ultra-cheap money, which is leading some investors to look to the companies that the FTSE 100 is rich in. The LSE has many commodity-exposed companies which provide an attractive hedge against inflation.

But again, there is definitely a perspective that the founders of high-growth companies – the firms that are creating the products, jobs and growth of the future – are answering the question: "Why choose Britain?" with a shrug. Part of this, our interviewees told us, is that the Government has not been as active as its rivals in wooing firms that might want to list here – an issue discussed in the next chapter. But it is also that the path to becoming a listed company in the UK is thornier than in the USA in particular; that the valuation you receive may well be less when you do so; that you will have less access to expertise to help you grow; and that the business world and in particular the media will be only to happy to kick you if you stumble.

87 Patrick McGee, Financial Times, "Apple becomes first $3tn company after boost from pandemic demand", January 2022

You can see the outcome of these trends in the number of homegrown UK-based companies which are tending to list overseas, stay private, or be bought out by larger foreign companies. The 2021 Small Business Equity Tracker estimated approximately a third of UK equity backed companies that exited via a listing since 2016 have listed on an overseas stock exchange.[88] Meanwhile, the tendency among British founders to sell out earlier than their American counterparts has been dubbed "yellow Porsche syndrome".[89] One senior banker noted that **"unlike US companies, European ones are happy to sell for one billion rather than grow it and sell if for five"**.

In addition to this, there is an overwhelming consensus that the UK fails to champion the companies that decide to list here. The stumbles faced by Deliveroo or THG were, some told us, greeted positively gleefully in certain quarters of the City, and in the press. That has undoubtedly impacted perceptions of London as a place to list for similar companies. It also reinforces the image of London as 20th century exchange which does not welcome, or understand, high-growth companies. A partner at top law firm, who previously was a general partner at a technology-focused venture capital fund, commented that **"you have one crisis, like the THG, and the ripple effect is huge"**. And while of course stumbles happen in the US too, they aren't the only tech stocks on the exchange.

> **'Unlike US companies, European ones are happy to sell for one billion rather than grow it and sell if for five'**

More worrying, however, is that even in areas where the UK has great strengths, such as life sciences and fintech, not many companies are choosing to list here. The Kalifa Review noted that across major stock exchanges, the US accounted for 53% of fintech IPO listings between 2015-2020, while London had just 6.7%.[90] This is despite the UK being Europe's leading fintech hub and having the second most VC investment in the sector globally in 2020.[91]

On the positive side, it should be noted that those we spoke noted how companies that a few years ago would never consider London now want to have a conversation about it as a listings option. However, most still end up going elsewhere. One senior executive commented that: **"I would say today, the majority of tech founders want to have a proper conversation on whether to go to the US or the UK. That is a big shift in behaviour."** Another added: **"A really attractive UK or European tech companies will probably move to New York. They will dabble and have a look at London – and some IPOs do happen – but the majority will go the US."**

88 British Business Bank, "Small Business Equity Tracker 2021"

89 Oliver Shah, "Dividend addiction: FTSE shareholders accused of starving UK companies of cash to invest", Sunday Times, January 2022

90 Ron Kalifa, "The Khalifa Review of UK FinTech", February 2021 , February 2021

91 British Business Bank, "Small Business Equity Tracker 2021"

Dividend addiction

On top of the factors mentioned above, there were two further issues that came up repeatedly when we asked why the UK was falling behind as a home for high-growth firms. One is that UK investors prioritise steady cashflow in the form of dividends over longer-term growth. Astonishingly, we were told that one industry body had been telling fintech champions that it didn't want their firms in its index, because of the risk involved – it might disrupt the dividend payments that their pensioner investors relied on.

"As someone that has raised money from US investors and UK investors, the mindset is generally night and day," said one City veteran. **"The UK investors are not prepared to pay for growth, and will generally be far more cautious. Also, UK public market investors seem to be far more interested in clipping dividends than genuinely investing in growth. If a company is high growth, it's viewed as being high risk – and penalised because it's not likely to pay a dividend."**

'With the large companies I work with, chopping your dividend is literally like putting a saw through your chest and moving it back and forward. Investors hate that. They like the consistency of income'

Another was even more blunt: **"With the large companies I work with, chopping your dividend is literally like putting a saw through your chest and moving it back and forward. Investors hate that, they like the consistency of income. That does generally drive decision-making in boardrooms. If there was less of emphasis on dividends because they weren't as attractive versus share appreciation then that would drive more investment and people would be less pressured to put out every cent. Many financial services firms are distributing 70-100% of their cash generation. This does impact their ability to invest and grow."**

Dividend addiction is stifling innovation, and holding London back, as companies come under significant pressure to pay out the majority of their income instead of investing it back into the business to grow it further.

One interviewee noted that **"the UK has a challenge with UK long-only investors being dividend-focused. There is a pressure on companies to deliver dividends for income funds"**. Another zeroed in on the UK's income funds as the source of this pressure. He felt this phenomenon, a form of **"financial decadence"**, was **"unique to the UK and one that is very much holding it back"**.

Many noted that US fund managers are far more comfortable investing in loss-making companies knowing that their future earnings potential may be far greater. **"A rapidly growing company, which with every pound is generating notable growth but zero dividend, is less attractive to UK investors, because they worry about the valuation and are getting no running yield,"** said one investor. As a result, **"UK stock market investors tend to be uncomfortable with high-growth companies"**.

Some were even more blunt. One venture capitalist said that the focus on "**cash flow, dividends and quarterly earnings has been catastrophic – all three discourage long-term investment. And it doesn't seem to end.**"

Move to America, and you will get not just a higher valuation, but better-informed set of investors as well. When you add the regulatory and corporate governance burden on listed companies, one senior lawyer told us that if you would be "**mad to go for a public listing rather than a private equity investment**" here. Another noted that "**many talented future CEOs of public companies are instead looking to private ones**".

Where are the retail investors?

One point made by some of those we interviewed was that the UK should encourage and strengthen the role of retail investors in financial markets. It was suggested that more retail investment would lead to greater deployable capital, increased liquidity and a more robust stock market. Moreover, it was argued that increased participation in the stock exchange would change how people perceived it, and could lead to politicians looking to champion the stock exchange as households would have stakes in the companies listed on it. Lord Hill has spoken of the need to "**build a share-owning democracy**", in the Thatcher style. Richard Gnodde argued at the same event that broader retail participation could play a role in addressing SME funding gaps in the UK before adding that more broadly "**domestic savings should be invested in the domestic economy**".

'Many talented future CEOs of public companies are instead looking to private ones'

Again, comparisons were frequently drawn with the US, where there is a rich retail investor base. Here, however, the proportion of UK shares held by UK-resident individuals is just 12%.[92] Some 56.3% of the UK stock market is owned by international investors, a massive proportion compared to other countries.

Of course, attracting international investment is good – indeed, it is the point of this paper. But as one senior City figure commented, it dilutes public support for capitalism: "**If I am an individual in the UK with no stake in these oil companies, I want them to be taxed, whereas if I feel I own the market, I don't want to be taxed. At the moment, the incentives of UK households are very unaligned with the incentives of stock markets, because they are not invested in them.**"

A lack of research expertise

Another issue that constantly came up was the effect that MiFID II's unbundling rules have had on the City's research expertise, reducing both the quality and quantity of coverage for many companies. This expertise used to distinguish the UK from other financial hubs and was a real comparative advantage. But now the UK is in danger of being unable to make up the ground it has lost.

92 Office for National Statistics, "Ownership of UK quoted shares: 2020", March 2022

"Looking at the macro changes happening within finance, public equity markets have seen a decline and that is in part due to the lack of research," said one former Downing Street advisor. **"Investors rely on research."**

This problem has often been blamed on the EU. But it was Britain's own bureaucrats and regulators who were most enthusiastic about the changes. The idea was that by banning companies for rewarding good research with transactions and commissions, you would reduce the risk of warped incentives. Instead, companies that faced being charged separately for research decided that they didn't want to pay for it – resulting in a dramatic hollowing out of expertise. **"In the old days, you might have four or five reports about a firm,"** said one investor. **"Now there might only be one person covering it, and they might even be working with it anyway."**

If the UK wants to rival the US in terms of encouraging companies to list here, particularly in the high-growth sectors such as technology, it needs to rebuild its research expertise and capabilities.

Those we spoke to told us that the lack of research is having three notable impacts. First, high-growth companies, particular technology companies, fear that they are not well understood by the investor community. Second, investors often do not have confidence in the limited research that does exist on small cap companies. And third, the unbundling provisions are severely impacting smaller brokerage firms, which in turn is reducing competition and skewing the market towards larger companies which are more liquid.

> **'In the old days, you might have four or five reports about a firm. Now there might only be one person covering it, and they might even be working with the company anyway'**

The FCA insists that MiFID II has resulted in substantial savings to investors in equity portfolios and disputes the notion that introducing research and unbundling requirements has significantly impacted research analyst coverage for smaller UK public companies. Instead, it argues that coverage levels have always been low. But every single market participant we spoke to pointed the finger at MiFID II.

The FCA has at least recognised that average analyst coverage figures mask the fact that a significant proportion of companies at the lower end of the market cap spectrum are without coverage. Tellingly, 79% of public companies with a market capitalisation of less than £250 million have either zero or just one analyst covering them. These were levels of coverage, in the words of the FCA, "which may be insufficient to provide a fully informed view for investors".[93]

Irrespective of what the exact root cause is, it is clear that research expertise in the City is inadequate and that this is impacting what investors feel confident in investing in and the confidence companies have in being fully understood. This in turn means that both investors and companies will be less likely to choose the UK to operate from.

93 Financial Conduct Authority, "Changes to UK MIFID's conduct and organisational requirements", April 2021

In April 2021, the FCA announced some measures to try and address these challenges.[94] In particular, it exempted research on listed or unlisted companies that have a market capitalisation below £200 million from the inducement rules. But the European Securities and Markets Authority (ESMA) has set the exemption threshold at €1 billion.

In addition to the threshold, the FCA has exempted third party research on fixed income currencies and commodities (FICC) instruments from the inducement rules, allowing it to be provided on a bundled basis. It has also exempted research providers where they do not provide execution services.

In other words, there has been some action to address the low levels of coverage for SMEs – but those we spoke to were clear that we are far from recreating the rich analytical expertise that once distinguished the UK from its competitors.

The Government is aware of all these challenges and the need to act. It is implementing recommendations from both Lord Hill's Listings Review and Ron Kalifa's review of UK fintech, including allowing dual-class share listings for companies on London's premium market, reducing the free float requirements (although these are still much higher than the US) and enabling SPACs.[95]

‘If I am an individual in the UK with no stake in these oil companies, I want them to be taxed, whereas if I feel I own the market, I don't want to be taxed. At the moment, the incentives of UK households are very unaligned with the incentives of stock markets’

Additionally, there are various live consultations underway that are aimed at increasing the LSE's competitiveness, for example by streamlining the UK's excessive prospectus regime. There is also the upcoming Austin review into secondary capital raising. At a recent CPS event, Lord Hill said he had been pleased and surprised by the reception in government for his recommendations, and the speed with which they are being implemented.

However, while both the Hill and Kalifa reviews have been near universally welcomed, neither of their remits could fully address many of the fundamental challenges behind the UK's performance. More action is clearly needed to address the more systemic challenges that are holding the LSE and the UK's broader financial eco-system back. While, as Lord Hill told us, his review sent **"a very positive signal"** both domestically and internationally, it poses the question, what's next?

94 Financial Conduct Authority, "Changes to UK MIFID's conduct and organisational requirements", April 2021

95 Philip Stafford and Laura Noonan, Financial Times, "Sweeping overhaul of UK listing rules comes into force", December 2021; Huw Jones, Reuters, "Britain approves rules to help London catch up with New York in listings", December 2021, Daniel Thomas, Financial Times, "London attracts first Spac after rule change", November 2021

The capital gap

Despite the uncertainty caused by the pandemic, the investment environment in the UK held up strongly. There was a record amount of equity funding in 2020 and the current data available suggests this continued strongly in 2021.[96]

The consensus is that there were a combination of factors behind this notable increase in M&A activity. But the key issue is not the volume of equity available, but the size of the deals. UK equity deal sizes are still smaller than in US companies at each funding round, and this is particularly the case for later-state companies.

There was a consensus from those surveyed that the UK does not have a start-up, entrepreneurship or innovation problem when it comes to creating scalable businesses. But, in the words of one former managing partner of a global private equity firm, it has a "**dearth of growth and patient capital – and that's the problem**". One investor echoed this analysis, noting that "**the lack of patient capital in the UK has always been problematic**".

The founder of one of the UK's best-known tech firms told us that while there is a lot of capital in the UK "**it doesn't normally go to growth companies**", and that it was a challenge his company faced "**all the way through**" its development. Another veteran contrasted the experience of being funded by US and UK venture capital firms. The former pumped in cash and offered access to expertise from across their sprawling network of investments, in order to turbo-charge the firm's growth. The latter showed much more interest in cost control and avoiding losses.

> **'The lack of patient capital in the UK has always been problematic'**

This is not a new issue: it predates both the 2008 financial crisis and the pandemic. And as so many people we spoke to pointed out, it is a bizarre situation given that the UK has incredibly deep pools of long-term capital available in the form of pension funds and insurance assets, with some estimates putting this figure at £6 trillion.[97] Tracy Blackwell, CEO of the Pension Insurance Corporation, recently told us that "**this country has an asset that is envied all over the world and nobody really understands it; the huge amount of long-term savings that is sitting in pension funds, insurance assets and private savings**". In her words, "**it is amazing asset that generally gets forgotten**" and "**Brexit actually gives us the opportunity to mobilise the UK's long-term savings**".

Yet currently, only a fraction of this capital is currently deployed into growth or patient capital – in stark contrast to the US. For example, in the US, 65% of venture capital comes from pension funds. But it is only 12% in the UK.[98] Peter Harrison stated that "**the UK becomes more vibrant as you create a larger pool of patient capital and free up the money stuck in DC pension funds and in Solvency II**". As Tracey Blackwell said, "**the money is sitting there – we just need to mobilise it**". One suggestion was to create a domestic equivalent of the Commonwealth Development Corporation to leverage investment.

96 British Business Bank, "Small Business Equity Tracker 2021"

97 New Financial and Atlantic Council, "The Future of UK Banking and Finance: A blueprint for domestic and international reform", April 2022

98 British Business Bank (2019), Small Business Equity Tracker

While pension funds are rightly conscious of protecting policy holders, often their concerns are more perceived than perhaps are warranted. One City veteran commented that **"there is something institutionally conservative about the UK pension fund industry"**. Another noted that **"in many cases pension funds are too risk averse and are therefore pushed into fixed income investments"** before adding that **"more of our pension savings should be directed to start-up risk investments"**.

Those we surveyed felt that there is an opportunity for UK financial institutions to address these longstanding funding gaps while also delivering increased returns on their investment for policy holders. Many pointed to how based on long-term historical performance, VC historic returns have been higher than those of listed equities. Moreover, a higher proportion of defined contribution pension holders are younger members and therefore have longer time horizons which align more with investing in VC.

The Pension Charges Survey 2020 shows that two-thirds of DC scheme providers have no direct investment in illiquid assets within their default arrangements.[99] Currently, many people in their twenties and thirties are familiar with and customers of high-growth innovative companies, yet their pensions are being invested in lower-growth industries via the stock market. The head of one of Britain's largest hedge funds complained to us that "stocks on the FTSE [take] up a huge amount of money instead of it being invested into other businesses". Another senior private equity figure told us: **"the answer is obvious, liberate the pension funds"**.

> **'The UK becomes more vibrant as you create a larger pool of patient capital and free up the money stuck in DC pension funds and in Solvency II'**

This is something that the Government has increasingly recognised too, urging UK financial institutions to create an 'Investment Big Bang' in Britain by investing a greater proportion of their capital in longer-term illiquid UK assets. One senior executive remarked that **"it is bizarre that it is easier for Canadian and Australian pension funds to benefit from UK long-term assets"**.

Some we spoke to were cynical as to whether institutional investors, particularly pension funds, wanted to see change to the status-quo. When some high-growth companies list on the LSE and subsequently struggle, they said, it emboldens their view that it's too risky to invest in these companies. One executive commented that **"institutional investors do not want change; they almost take delight in these companies failing – 'oh look at our poor pensioners'"**.

While it is clear that the Government recognises the opportunity that these deep pools of capital present, it is less clear how it will successfully both enable and incentivise UK institutional investors to invest these assets.

99 Department for Work and Pensions, "Pension Charges Survey 2020", January 2021

This is not to say that recent policy interventions from the Government have gone unnoticed. From our conversations, there was agreement that this Government and past ones should be lauded for their policy interventions regarding the Enterprise Investment Scheme (EIS), Seed Enterprise Investment Scheme (SEIS) and Venture Capital Trusts (VCTs), which have significantly helped start-ups scale up.

However, there was definitely a feeling that these policies reflected a somewhat patchwork approach and could be improved further. As noted in the previous chapter, and indeed in the Treasury's Patient Capital Review in 2017, the hard limits on investment size mean businesses transition away from tax-incentivised investment due to the inability of angels and VCTs to provide follow-on funding.[100] Moreover, VCTs can only invest in certain companies that are less than 10 years old.

There was, however, praise for the creation of British Patient Capital, with its £2.5 billion budget. Its parent organisation, the British Business Bank, which is currently halfway through its 10-year investment programme, was similarly praised, alongside the establishment of the Future Fund: Breakthrough and the Life Sciences Fund.

‘It is bizarre that it is easier for Canadian and Australian pension funds to benefit from UK long-term assets’

Equally, the increased grant funding from Innovate UK to high-growth companies over the last decade has not gone unnoticed. This is in addition to changes the FCA has made to further enable retail investors to invest in patient capital through unit-linked funds. But one City veteran said that more needs to be done: **"A large number of institutional investors cannot invest easily in patient capital vehicles. They are both scared and limited in how they can do it."**

It may seem strange that in a paper which is about overseas investment, we are spending so much time talking about the UK's domestic investment environment. But investors do not invest in a vacuum. Britishvolt recently attracted £1.7 billion of funding to build the UK's first battery gigafactory.[101] But that investment only came after the Government promised to put in £100 million via its Automatic Transformation Fund. The easier it is for British investors to make long-term investments, and the more confident they are of a stable policy and investment environment, the more we will become attractive for foreign investors too. Success breeds success.

On which score, there is a particular opportunity to help us unlock pools of capital for investment – one which will be incredibly familiar to those of our readers in the financial sector. That is the problem the insurance industry has with Solvency II and pension caps.

100 HMT Patient Capital Review, Industry Panel Response, October 2017

101 Peter Campbell, FT, "Britishvolt secures £1.7bn funding for North East battery plant", January 2022

Solvency II is a European directive, generated in response to the financial crisis, which governs how insurers allocate their capital – and which, by unanimous consensus, forces them to lock far too much of it in their vaults. The pension caps issue refers to the regulations surrounding defined-contribution schemes, which pushes them to make low-risk investments which come with low fees but also an incredibly low ceiling for growth.

As our interviewees told us, the Government and Bank of England are both right to see Solvency II as being ripe for reform. The Association of British Insurers (ABI) believe changes to the matching adjustment and risk margin mechanisms could free up to £95 billion.[102] The Pension Insurance Corporation, which has approximately £47 billion in assets under management, has stated that "appropriate" reform of Solvency II could unlock a "once in a lifetime opportunity" to invest £20 billion.[103]

'In many cases pension funds are too risk averse and are therefore pushed into fixed income investments. More of our pension savings should be directed to start-up risk investments'

In terms of defined-contribution schemes, there are two key barriers stopping this pool of capital being invested into venture capital. First, DC pensions are subject to a 0.75% cap on fees. Second, regulations require assets under management to be valued regularly. VC funds charge both a fixed annual management charge (AMC) and a performance element – commonly known as carry. The AMC normally is a percentage of the total committed capital, while carry is calculated as a percentage of the total capital gain and is taken at the end of the life of the fund. This amount is charged upon the fund clearing specific hurdles, which are tied to delivering strong results.

This combination of AMC and carry, widely known as "2 and 20", means that fees for management VC are higher than those of other asset classes. But this is mainly because managing such funds is labour-intensive and the ticket sizes tend to be lower than those for later-stage private equity funds. Without changes to the charge cap, it is difficult for DC schemes to accommodate the carry when investments are successful – and the cap makes investment in the asset class less attractive for DC schemes. Therefore, the 0.75% fee cap is at odds with the VC model.

Regulation has predominantly focused on increasing the transparency of cost and fund value. This has driven DC schemes' investment strategies towards high liquidity, clear pricing, and low fees. Their operational structures, including frequent dealing and daily pricing, further encourage allocations to liquid markets such as listed equities and bonds.

The Government has sought to exclude performance fees from the 0.75% cap on charges in default arrangements, but it has received concerns from the industry. However, those we spoke to agreed that it is a significant barrier to investment.

102 Association of British Insurers, "Post-Brexit reforms to financial regulations could release £95bn to boost the UK economy and tackle climate change", February 2021

103 Ian Smith, Financial Times, "UK insurers reveal misgivings over reform aimed at freeing up billions for investment", March 2022

Corporate governance

Another area that continually came up in our discussions was how hard it is to run a company. Not because of the economic environment, but because government and regulators make it so difficult. Those on the boards of public companies, in particular, told us that the burden in terms of compliance had grown and grown in recent years, to the point where it was unclear not just why a company would choose to list in the UK but why experienced and qualified figures would choose to join it.

"It is simplistic to say that the incremental burden of corporate governance and compliance makes the UK a less competitive market internationally," said one interviewee. **"Because what everyone is playing for above everything is a trustworthy marketplace – the overriding consideration throughout is that the market can be trusted by investors. But it is wrong to assume that you build trust by layering on regulation after regulation and enforcing them more and more actively."**

> **'The overriding consideration on regulation is that the market can be trusted by investors. But it is wrong to assume that you build trust by layering on regulation after regulation and enforcing them more and more actively'**

Beyond the endless flood of regulation, and the regulators' apparent failure to understand the impact of their endless communications and interventions, there was a broader problem that it is harder in the UK than elsewhere to align the incentives for board members and CEOs with those of the company, in particular for high-growth firms.

Most notably, the rules that stop UK companies compensating non-executive directors with stock have made it very hard for them to attract US board members. A board member we spoke to of one of the UK's high-profile tech IPOs told us that **"we couldn't attract Americans on to our board – they all wanted to be paid in stock"**.

This isn't just about attracting the best talent, but creating the means to align the interests of the Board with those of the shareholders. While boards in the UK tend to be respectable, there was a sense from our discussions that sometimes they lack the energy and expertise of the boards in the US.

There is also a very British attitude towards CEO pay, which again prevents us attracting the best talent. **"US investors are much more understanding about remuneration issues,"** said the chair of a large company, **"unlike UK investors who run scared of pay hikes for CEOs. A life sciences company recently suggested a 5% uplift for their CEO. All the US investors voted in favour but none of the UK investors."**

In terms of the broader picture, a common refrain we heard was that a CEO will spend at least two working days a week **"not focused on growing or running the company, but dealing with the corporate governance burden"**. One leading investor commented that **"the growth of private equity, which is striking and significant, is partly because in some senses you get better owners than public listings and don't have to deal with excessive corporate governance"**.

Another told us that "**we have this amazingly unyielding corporate governance framework, which is at its worst in the listing markets – which is why people avoid listing if they can**". He added that the recent threat to rebalance the situation by extending the more onerous aspects of the existing regime to unlisted and or private companies as well "**is a real concern – investors do not see corporate governance legislation as a benefit to them, they see it as a bureaucratic burden**".

The National Security and Investment Act

In January 2022 the National Security and Investment Act came into effect, imposing new limits on takeovers and acquisitions of UK companies. While this legislation is in keeping with a global trend, and there is obviously a need to screen the potential buyers of British companies, a common refrain from our interviewees was that much greater clarity is needed. In particular, it needs to be clear that these measures are strictly aimed at preserving our national security and vital strategic technologies, rather than being a form of protectionism by the back door.

Yes, there are examples in recent years of promising UK-based companies being taken over by foreign ones, which in turn take the majority of the wealth creation and jobs with outside of the UK. But our interviewees generally believed that this problem was better solved by raising the UK's game than by taking steps that might deter foreign investment more broadly.

'The uncertainties around the National Security and Investment Act cause me a huge number of headaches. If you're an artificial intelligence company, maybe it will get referred, maybe it won't. Any deal with a bit of AI or tech in it is potentially exposed. The only helpful thing is that other European countries are significantly worse'

In terms of the specifics, some pointed out that the legislation does not actually define "national security", and that the 17 "sensitive" sectors it spans cover too much of the economy. One interviewee cited the fact that a merger could be scrutinised involving a fashion company that used high-end textiles: "**I suppose spies do wear waterproof coats.**"

There is therefore a concern that without further clarity, and sensitive handling of the rules on the part of government, the Act has the potential to significantly impact M&A activity in the UK. One leading investor described it as "**another switch-off**" to investing in the UK. Another senior City figure expressed concern that it may be "**bad news**" as enterprises that the legislation is not primarily designed for may be "**drawn into it**".

A partner at a law firm told us it had been "**totally detrimental. The uncertainties around this Act cause me a huge number of headaches. If you're an artificial intelligence company, maybe it will get referred, maybe it won't. Any deal with a bit of AI or tech in it is potentially exposed. It is really putting American buyers off... The only helpful thing is that other European countries are significantly worse.**" But, he added, "**it is triggering a lot of unhelpful conversations. The sooner we are clearer as a nation about what we are truly trying to protect then we can make it clear to the right people that they are welcome.**"

One of the main reasons for the implementation of the new rules was due to concerns about China's strategic acquisition of key technologies. One leading investor we spoke to on the Chinese side commented: **"China understands why the UK would have this policy. The key is that it's implemented fairly and that more clarity is provided."**

In other words, Chinese firms want to know clearly where their investment is welcome and where it is not. But this point can be applied across the board: the remit of the legislation should be as clear as possible. **"To an investor, regulatory uncertainty is an absolute killer,"** warned one interviewee.

Those concerned about the new rules illustrated this lack of clarity by pointing out that there is no financial threshold for notification, which means that even low-value transactions that meet the Act's two conditions must be scrutinised. The trigger events could include minority investments, as well as intra-group transactions and (in the context of the voluntary regime) acquisitions of or transactions giving control over assets such as land or IP. So not only is this new regime wider in scope than traditional M&A deals, but there is the regime is not as efficient as possible, investment activity may simply not occur.

The interface with universities

When those we interviewed talked – as they often did – about Britain's natural advantages as a place to invest, one of the most common factors that came up was the university sector. Britain is blessed by having more than its share of the world's elite institutions, with a research pedigree that is second only to America's.

However, there was also a strong sense that the UK does not do enough to capitalise on this sector, and to enhance its connections to the business community.

> **'Universities should be better at being business incubators when it comes to monetising ideas and discoveries'**

There was a consensus that in many key sectors, the clusters around universities are the natural home for innovation and investment – and that they also play a crucial role in attracting the world-class talent that Britain's companies need. But it was also widely agreed that there was too much of a barrier between the two, and that when compared to the USA in particular, the UK is very poor at turning the innovative ideas from its universities into successful scalable businesses or sellable products. There were also several mentions of the recent decision to abandon the Oxford-Cambridge project, discussed in the next chapter, as indicative of our failure to prioritise investment.

For example, the Chancellor of a major British university warned that **"in many ways we take our universities for granted"**. One major investor told us: **"The university system is underexploited – it needs to improve commercialising intellectual property."** Another said: **"Universities should be better at being business incubators when it comes to monetising ideas and discoveries."**

A senior official at the Economic Research Council admitted that **"UK universities' relationship with business isn't great – it's not really part of their ethos"**. A former minister asked: **"Why is it that in the regular university polls we always have so many of the world's top universities, but many of them are in the worst productivity regions in Western Europe?"**

There seems to be both practical and cultural challenges here..

Practically, incentives within the university system are often not geared towards commercialising innovation. Too often, early-career researchers are not encouraged to turn their innovative ideas into businesses, or to pursue high-risk research projects. This is partly because it does not fit with internal priorities and partly because of the uncertain research funding environment. Added to this, some researchers feel that they are unable to access the necessary expertise required to help turn their ideas into businesses.

> **"Why is it that in the regular university polls we always have so many of the world's top universities, but many of them are in the worst productivity regions in Western Europe?"**

The misaligned incentives include (but are not limited to) encouraging consistent academic output over pursuing more ground-breaking research. This leads to an over-emphasis on publishing research papers or peer-reviewed articles – in other words "chasing citations" in low-risk projects not only to generate credibility and profile but to increase your chances of qualifying for future grant funding. For early career researchers, such citations are a requisite for being considered for certain jobs or posts. However, registering a patent or even establishing a university spin-out is not seen as equivalent.

This is also in part a cultural problem within academia. Having commercial instincts is not giving sufficient weighting. One person we spoke to lamented how **"academics get an improved position by peer reviewed articles, not by turning their ideas into practical suggestions that make the world a better place"**. Another stated that **"peer reviewed articles should not be the be all and end all"**.

The sheer amount of time an early-career researcher spends applying for jobs, or further funding, is also counterproductive. Short-term funding contracts mean a career in research is full of uncertainty, which limits its attractiveness. This points to a need to reassess how funding works at the post-doc and early-career research stage, moving more towards a longer-term model.

Of course, all of the above is a generalisation – there are many universities that are doing excellent work in this space, and there has certainly been an improvement in recent decades. But the feeling persists on the business and investor side of the divide that this process has not gone far enough.

It can also be difficult for early career researchers to move back into academia if they have spent any time outside to work in industry or create a spin-out. Those who manage to transition back into academia often have to accept a less senior position relative to their peers. Put simply, any time spent outside of academia is too often seen as lost time and not given equal footing to keeping abreast of the latest literature or pumping out papers.

Many of those we spoke to felt that the Government should learn from the UK's success in developing and procuring of vaccines to establish targeted commercial projects designed to make the UK the market leader in certain specific areas of research, with the potential to become commercial products or services. This was seen as a possible way of facilitating university and business interaction.

There was a consensus, too, that if Government provided greater specificity in what it wanted to achieve via its research and innovation agenda, it would send clearer signals to academia and industry. The 2017 Industrial Strategy was an attempt to do this, with its four "Grand Challenges", but it did not achieve its desired effect.[104] The creation of the Advanced Research and Invention Agency (ARIA) may help, but it is still dwarfed by its US equivalents.

Some of those we spoke to suggested that there was a need to reform UK Research and Innovation (UKRI), the umbrella organisation established in 2018 to cover the UK's nine research councils, which deploys approximately £8 billion of public money a year. The Government is set to double UKRI funding over the next five years, but nonetheless some questioned whether UKRI was anything more than **"a self-serving academic body"** with one adding that **"if it is taxpayer funded, how much of it should be funding research into niche areas of academia or into ideas that will benefit the wider country and increase tax revenues?"** Of course, it is vital that fundamental research remains bottom-up and curiosity-driven. But some of our interviewees suggested additional targeted funding to support later-stage R&D in particularly promising areas of research.

Conclusion

The UK does have many attractions as an investment landscape – which helps explain why it attracts such a significant amount of investment. But there is always room to improve. Yes, there are certain gaps with America in particular that we may never be able to close, in particular in terms of the size of the capital markets and the scale of the venture capital industry. As one of those we interviewed pointed out, the scale of America and China's domestic markets give them a natural advantage in terms of generating the kind of home-grown, high-growth, mass-scale technology firms that populate their stock exchanges.

But there is still a great deal more we can do to ensure that the UK is a natural place to come for people who want to start, grow and list the companies of the future, or invest in those who are doing so. Britain's universities also offer us a priceless advantage, which we are still not utilising as well as we could. Fixing some of these problems would be relatively simple – and the gains would be truly significant.

104 HM Government, "Industrial Strategy: Building a Britain fit for the future", 2017

Part 4: The Role of Government

Introduction

It might seem strange to devote a specific chapter of this report to the role of Government. Haven't we been talking about that already? The state is ultimately responsible for tax policy, regulation, the immigration system, skills policy and plenty more areas which we have already considered in this report. Each of these will impact on how appealing the UK is as a place to do business – both in terms of the policies themselves, and (crucially) how effectively they are implemented.

But beyond setting the framework within which businesses operate, our politicians and civil servants have another vital function in terms of attracting capital: demonstrating their openness to, and enthusiasm for, investment.

> **'France, Germany, Netherlands are taking proactive steps to improve the competitiveness of their local markets… they're readily engaging with founders, businesses and investors'**

Investors are rational actors, who make their decisions based on the calculus of where they will derive the most profit at the lowest risk. But they are also human beings. They talk. They gossip. They swap notes. They notice changes in the mood music.

That is why one of the Government's most important tasks is to promote a vision of the UK as a pro-growth, pro-enterprise country; to encourage entrepreneurs and entrepreneurship; to talk up wealth creators and wealth creation; and to defend the fundamentals of a free-market economy. In short, to tell a story about this country that removes any doubts in the minds of those who are wavering over whether to choose Britain.

It is obvious to everyone who has been paying attention that the nature of that narrative has changed in recent years. We used to tell the world that Britain in general and London in particular was a free-wheeling, low-regulation global services hub – until the financial crisis blew a hole in that narrative.

The Cameron government did set out a clear narrative about Britain's attractiveness, with a "Plan for Growth" (a title subsequently reused by the Johnson administration) centred around attracting international capital, and a clear commitment from George Osborne to drive down corporation tax – albeit at the cost of slashing allowances for investment. This was accompanied by sustained and successful attempts at business outreach, to both foreign and domestic investors. Then, however, came Brexit, then Corbyn, then the pandemic, then the supply chain crisis.

It was not only Britain that was unable to offer investors the stability and predictability that they crave. But we suffered more than most.

So clearly we must strain every sinew to show why Britain is a country deserving of new investment. Yet one of the key messages we heard from those we spoke to was that government had got used to investors coming to Britain, rather than Britain going to investors. Not only was there, until recently, no Office for Investment, but there was a sense in some quarters that the kind of symbiotic relationship between industry and government seen in France or Germany was rather un-British, that it was not the job of Whitehall to put its thumb on the scale. Even the idea of actively incentivising firms to relocate here has not always been embraced, not least in the Treasury.

‘The task of building a new economy post-Brexit has not started’

Arguably, this is still true. Ben Houchen, Mayor of Tees Valley, recently told a CPS panel about some investors looking to house a new gigafactory in the UK. In order to access the Automative Transformation Fund, set up by the Government to support such bids, they had to show that they could get better terms elsewhere. In other words, Britain was actively encouraging people to approach other countries to work up alternative investment cases. The Government of course would counter that it cannot simply hand out subsidies willy-nilly, and must ensure that its incentives are actually making a difference.

In our conversations with investors, we also heard that – again unlike our European counterparts – the effectiveness of government-business relations waxed and waned depending on the personalities involved. That is itself a reflection of the way each Prime Minister tends to reshape the No 10 operation in their own image.

As we argued earlier in this report, the fundamentals of our economy are strong. In many sectors, we genuinely do lead the world. We can offer investors access to capital, skilled labour and the absolute protection of the rule of law – not to mention the quality of life available in one of the great global capitals, and many other beautiful places beyond. We benefit from a range of other familiar advantages, such as our time zone, the widespread use of the English language and our geographical position. Surveys such as EY’s 2021 UK Attractiveness Survey state that we are the most attractive destination in Europe.[105]

There is much to that argument. In the course of researching this paper, we were told the story of a major US bank that surveyed its UK staff on where else they might want to move to, if it came to it. The top answer was Paris – because it was the easiest place to get back to London from.

105 EY, “Foreign investors back Europe, but is Europe back? EY Attractiveness Survey, Europe”, June 2021

But a comment that came up again and again was that much of this success comes about because of those fundamental strengths, rather than as a result of specific Government efforts. As one interviewee said: **"Too many of our successes are in spite of the Government, not because of it."** Another warned that: **"France, Germany, Netherlands are taking proactive steps to improve the competitiveness of their local markets... they're readily engaging with founders, businesses and investors."** Some accused the UK Government of complacency.

This may be unfair. As mentioned above, this Government has dramatically overhauled the investment infrastructure within Whitehall. It is making a concerted effort to go to investors with concrete propositions rather than airy aspirations. It views Net Zero, in particular, as an area for huge investment potential, modelled on the success of offshore wind, where a clear and stable regulatory structure, and the transparent incentives of the Contracts for Difference model, resulted in an explosion of investment and activity. It is also fair to say that ministers have had rather a lot on their plates in recent months and years.

But even if Government is telling investors a convincing story about why they should invest in the UK, too many of them are not hearing it. As one of our interviewees put it: **"If you're the head of a global corporation, you don't really think much about the UK. And when you do, the last thing you remember is probably Brexit, which you probably think was about turning away from the rest of the world."** But we still have the opportunity to put that right.

'If you're the head of a global corporation, you don't really think much about the UK. And when you do, the last thing you remember is probably Brexit'

What Britain stands for

A few weeks ago, the Centre for Policy Studies held a conference with the Atlantic Council and New Financial on the future of banking and finance in the UK. In the glorious surroundings of Banqueting House, in the heart of Whitehall, the moderator began by asking the audience a question that was not on the agenda. How many people here, he said, thought Britain and its regulators had made best use of the six years since Brexit to make itself a more attractive destination? Not a single hand went up.

As the senior Bank of England official on the panel pointed out, the question was slightly unfair: regulators' overwhelming priority in the years after Brexit was to ensure that our financial system could be untangled from Europe's without the whole thing falling over, a task at which they were markedly successful.

But as many of our interviewees said, Brexit serves as an inflection point for the UK – an opportunity to think about the sort of country we want to be in the future. There are all sorts of exciting reviews or consultations or initiatives in the pipeline. But as Lord Hill, the former European Commissioner, pointed out on that same panel: **"We have not generated momentum or a clear message after the Brexit vote."** Another of our interviewees, a prominent Brexiteer, confesses his frustration that the task of **"building a new economy post-Brexit has not started"**.

We are also beset by a range of familiar problems. Our country remains economically unbalanced; we suffer from a serious skills gap; UK productivity has been flatlining for well over a decade; and domestic business investment falls way short of our international peers. Thanks to the one-two punch of Covid and Brexit, our exporting figures are drastically lower than they were in 2019.[106] Inward investment has also fallen, though ministers argue that the miracle given Covid is that it did not fall further.[107]

"Coming off the back of Brexit and Covid, and with Net Zero absolutely essential, we have a once in a lifetime opportunity"

Among our interviewees, there were a range of views about the best path forward. Some of those we spoke to think any regulatory divergence from the European Union risks undermining our international appeal. Others we spoke to think we need to "go for broke", building something akin to Singapore-on-Thames. But all agreed that the Government needed a clearer business case for Britain. As one senior investor told us: **"Coming off the back of Brexit and Covid, and with Net Zero absolutely essential, we have a once in a lifetime opportunity."**

This is not just about producing industrial strategies or plans for growth – although it would certainly help if each Government, or even each new minister or set of No 10 advisers, did not immediately rip up its predecessors' efforts. Different governments and commissions have produced strategy after strategy, which have contained many good ideas. The current Plan for Growth sets out a convincing priority list: using innovation, skills and infrastructure to drive sustainable growth and to spread opportunity.[108]

But such documents often turn into laundry lists of spending priorities, with specific industries lauded or funds created almost as a form innovation virtue signaling. That is not what is needed. Rather, the UK needs to be clear about the sort of economy it wants to build and how it is going to build it – to create a consensus around a shared vision of the economy, in the way that you can summarise in a sentence what makes many of our rivals an attractive place to invest. As a leading policy thinker told us: **"People could tell you what the German [economic] model is, or the South Korean, or the Irish. But what about the British?"**

106 UK Trade National Statistics, "UK regional trade in goods statistics: four quarter 2021"
107 Department of International Trade, "Inward Investment Report, 2021/21", June 2021
108 HM Treasury, "Build Back Better: our plan for growth", March 2021

One of the country's most successful entrepreneurs backed up this point, arguing: **"There needs a clear pitch on what the UK economy is and what it stands for."** Another interviewee commented: **"People have used the UK as a bridge into Europe – but it is less clear if that is going to be possible in the future."** In conversations with leading American investors, we were told, **"there was a big question about where the UK will position itself in the future"**.

What our interviewees hoped for, when we put the question, was that Britain should define itself, pure and simply, as the most business-friendly country in the world.

One aspect of that self-definition, for many, was the need to be innovative, tech-friendly and to make ourselves one of the most active global investors in science and R&D. As a senior lawyer pointed out, **"if we fund a lot more science there are huge commercial prizes on offer."** Others told us we need to be a lot better at commercialising our research – but that expanding the research base is a necessary step on that journey too.

> **'People could tell you what the German economic model is, or the South Korean, or the Irish. But what about the British?'**

To make good on this potential, they argued, the UK should work to identify where it might develop new areas of expertise in the future, such as in AI, web.3, cleantech or other areas enabled by the Fourth Industrial Revolution. Within those areas it then needs to ensure it is able to capitalise on its academic and research strengths, by making sure there is access to the talent needed, that it has a competitive regulatory regime and that there is sufficient funding, both public and private, for those who want to do business here.

But our focus on the growth sectors of the future does not mean we should ignore our current strengths and areas of competitive advantage. As representatives of the financial sector told us: **"It's good to have a hydrogen strategy but we need to support financial and professional services – these are really important areas for the UK. We need a strategy just like they have one for hydrogen."**

As mentioned in previous sections, we also need to get the business fundamentals right: our interviewees told us that UK needs to continue to invest in its transport and digital infrastructure, right around the country. There was also criticism of the UK's its chronic short-termism. More than one person we spoke to referenced the Government's seeming inability to build a third runway at London Heathrow, and talked about the recent perceived U-turns on HS2 as particularly short-sighted.

In a similar vein, one leading entrepreneur and philanthropist pointed out the folly of **"not doubling down on the Oxford-Cambridge Arc"**. This followed reports that the project promoted by ministers in 2018 as the future of the British economy was being ditched in 2022 for not being insufficiently representative of the "levelling up" agenda (and for incurring the wrath of local councils, who objected to the need to build more houses, offices and laboratory space to preserve the status of these world-class innovation clusters).[109]

109 Peter Foster and Jim Pickard, "Plans to create UK rival to Silicon Valley shelved by Boris Johnson", February 2022

"The biggest British disease in this space is the new minister coming in and ripping things up," lamented one former Government advisor. Another investor argued that we need at least a 10-year horizon for most big decisions but acknowledged, with a degree of frustration, that most Governments **"do not think that way as they are too tied to election cycles"**.

Indeed, it is worth exploring the story of the Oxford-Cambridge Arc (better known as OxCam), as it was cited by multiple interviewees to illustrate a range of British failings.

The Arc is (or perhaps was) a regional project designed to connect Oxford University and the University of Cambridge, and the manufacturing centre of Milton Keynes, via east-west transport links. The promise was to create 700,000 jobs and build a million homes, while adding a measurable chunk to UK GDP.[110] The Arc was intended to tie together the leading businesses, universities and global scientific enterprises that already operate in the region – a constellation that is hard to replicate and is envied internationally.

> **'The biggest British disease in this space is the new minister coming in and ripping things up'**

It was only in 2017 that the National Infrastructure Commission published a white paper outlining ambitious plans for the Arc,[111] and until very recently businesses were told that it represented a key part of the Government's plans. However, it has been widely reported that Michael Gove has decided to withdraw central support: reportedly, when asked what was happening to the project, he mimed a toilet being flushed.[112]

In retrospect, persuading Britain's councils to be enthusiastic about a project sold on the back of a million new homes was perhaps optimistic. But a recent letter written to the Chancellor from 17 major companies argued that failing to support the Arc "will have significant economic implications for the UK" and will "deliver the worst of both worlds – losing out to international competitors combined with the steady deterioration of [Oxford and Cambridge] as high-growth business clusters".

The letter contrasted the meagre amount of laboratory space being built in the Arc compared to its main competition in Boston's biopharma cluster. In 2021 alone Boston had nearly six million sq ft of lab space under construction, while Oxford and Cambridge jointly average 300,000 sq ft of new lab space per year. It warned that without support from central government, those companies wanting to invest in this space will simply move to another country and leave the whole of the UK poorer as a result.

110 Peter Foster and Jim Pickard, "Plans to create UK rival to Silicon Valley shelved by Boris Johnson", February 2022

111 National Infrastructure Commission, "Parterning for Prosperity: A new deal for Cambridge-Milton Keynes-Oxford Arc", 2017

112 Peter Foster and Jim Pickard, "Plans to create UK rival to Silicon Valley shelved by Boris Johnson", February 2022

Investors we spoke to complained that this U-turn has had the added negative impact of devaluing trust in the UK to see through long-term policy commitments. One former Government advisor noted: **"If you are an inward investor and central government has some commitment it has made… who knows the value of that commitment?"**

A number of our interviewees cited OxCam as illustrating a range of British failings: a failure to fully capitalise on the excellence of UK universities, as discussed in the previous chapter; a longstanding failure to fundamentally address planning reform, at the expense of economic growth; a failure of government to deliver on its previous long-term policy commitments; and the danger (as discussed below) that the levelling up agenda becomes a pretext for discouraging investment in other parts of the country.

This is hardly the sort of behaviour, in other words, that helps Britain tell the world a story about its being the most business-friendly, the most innovation-friendly and investor-friendly country in the world – despite ministers making specific promises to put life sciences, a core pillar of the OxCam project, at the heart of their growth agenda.

> **'The French and Germans relentlessly sell themselves and they're unapologetic about it'**

Leading from the front

One of Britain's great strengths is its enormous soft power. Measures of soft power are always slightly artificial, but we consistently rank at or near the top of them.[113] The historian Dominic Sandbrook has called post-imperial Britain the world's dream factory: the country that gave the world Harry Potter, James Bond, Downton Abbey, the Beatles, Ed Sheeran, David Beckham, the Lord of the Rings and The Great British Bake-Off.[114] We are on course to have more studio space than Hollywood – a tribute to the power of inward investment, and judicious tax incentives.[115]

Millions of people around the world think fondly of Britain. Millions of them have visited here, or even been educated here. If we want to sell ourselves to the world – or to investors – we are almost spoilt for choice. Cream tea at Wimbledon? A trip to the Globe? A drive to Silverstone? A visit to the Queen's home at Buckingham Palace? Even in just the next few months, there will be obvious global showcases such as the Queen's Platinum Jubilee, or the Commonwealth Games in Birmingham.

If we can couple our cultural appeal with a rock-solid business case, we should have a slam-dunk investment proposition for both the head and the heart.

113 Brand Finance, "Global Soft Power Index 2022", March 2022

114 Dominic Sandbrook, "The Great British Dream Factory: The Strange History of Our National Imagination", October 2015

115 Jake Kanter, "Hollywood losing out to blockbluster Britain", The Times, February 2022

It is true that we have had successes on this front, in particular via the GREAT campaign – now running for well over a decade. But a key finding that came out of our interviews was about the importance of not just messages but also messengers – and, in particular, of the personal touch.

Last year's Global Investment Summit was a near-unique initiative as far as the UK Government was concerned and was widely lauded, particularly by the international investor community. Most of those we spoke to who were present at the summit praised it as a high-quality event – though one representative from the world of international finance told us: **"it wasn't a patch on what the French do"**.

The odd disgruntled voice notwithstanding, the Summit is clearly to be welcomed as a sign of intent. The former chairman of multiple leading UK companies praised it as **"a very positive attempt to understand the investor mindset"**, with the Prime Minister and the Queen's own personal commitment to the event helping to make it such a success.[116] But it is striking, and puzzling to many of those we spoke to, that there will be no follow-up event this year.

'Visiting Macron is now the key pit stop everyone makes on the way to Davos, not going to London'

Inside Government, they insist that there is no dilution of ambition. They want the Global Investment Summit to retain its prestige and rarity value as a biennial event, rather than being diluted through over-familiarity. There will be a series of smaller, sector-specific summits and initiatives this year to keep up the momentum.

That may be the right strategy. But again, it was striking that none of those we spoke to were familiar with it. They just knew that the UK had done a great conference, but it seemed like a one-off.

A marked contrast can be seen between the approach taken by the UK Government and that of other counties. As one global investor told us: **"the French and Germans relentlessly sell and they're unapologetic about it"**. **"The French pull out all the stops,"** complained one of the UK's trade envoys. **"The Elysée Palace gets involved."** Many UK ambassadors, he lamented, neither understand business nor want to promote trade relationships.

Again, the Government has a counter-argument. Trade promotion, like merchant banking, is a job for the experts. Britain has trade commissioners in every embassy specifically tasked with that function. But it is hardly a novelty to point out that the Foreign Office has traditionally viewed this as a secondary rather than primary part of its job. Many ambassadors, while extremely competent professionals, also have a limited understanding of and interest in commerce.

When we asked people about which countries really prioritise business investment, the French came up time and time again. Yes, employment costs are a nightmare. And people would probably prefer to live in London if they had a choice. But like the old Avis slogan had it, because they're number two, they try harder – in particular by making it clear to international business people how much they value their investment and their economic activity.

116 Prime Minister's Office, "PM speech at the Global Investment Summit", October 19, 2021, Link

American business representatives told us that France is currently **“rolling out the red carpet for asset managers and wealth managers”**. One of the UK’s leading champions of fintech told us that **“Macron has a number of initiatives… including regular active dialogue with investors and founders and a particular drive in tech.”** A leading cryptocurrency founder told us that when he went to France for two weeks without an agenda or any meetings set up, President Macron insisted on meeting him to discuss the French approach to his sector. In the UK, by contrast, he had a much more sceptical reception.

The biggest symbols of France’s global ambitions are its regular investment summits. British civil servants, who have been keeping an eye on the guest list, argue that the quality has been steadily dipping. But those who have attended told us that **“they are brilliant events – the French are in full sales mode but no one minds because the event is something you really want to be at”**. As one guest put it: **“Versailles is simply top of the tree.”**

Nor are the French letting up. Just a day after Macron was re-elected, the global CEO of one Canadian pension fund was invited, in the President’s name, to an investment conference in July 2022. Not only that, but various members of the CEO’s team were also emailed to ensure the invitation had been seen and to start dialogue in advance of the event. The plans had clearly been laid well in advance of the vote to hit the ground running. **“Visiting Macron is now the key pit stop everyone makes on the way to Davos, not going to London,”** warned one interviewee.

‘I remember when Google was looking at where to put its European HQ. The Irish sent over a delegation of three people with detailed plans about building new roads and changing certain regulations. We sent them a glossy brochure in the post’

The French approach is strategic in nature but benefits from excellence in execution – and virtually everyone we spoke to who had experienced it voiced their admiration.

This sort of activist approach is not only to be found in France. We were told by one Government insider that when Unilever were deciding whether to choose the UK or the Netherlands as their global HQ, the Dutch prime minister, Mark Rutte, was in near-daily contact with Unilever execs. The British PM, Theresa May, spoke to the Unilever CEO just once during the same period. Ultimately, of course, Unilever did choose the UK as its HQ – but no thanks to the Government’s lobbying efforts. Once again, Britain’s strong fundamentals saved its Government’s bacon.

Yet sometimes, fundamentals are not enough. **“I remember when Google was looking at where to put its European HQ,”** says one veteran. **“The Irish sent over a delegation of three people with detailed plans about building new roads and changing certain regulations. We sent them a glossy brochure in the post.”** Google did not select the UK.

The promotion of the UK is a vital national challenge and an obvious area of opportunity. And with a plethora of national assets – including the Royal Family, regular sporting occasions, historic buildings, globally recognised towns, cities and sites – we have a full armoury which could be brought to bear.

Those we spoke to were near-unanimous that the Prime Minister himself needs to lead efforts on this front – to take it on as what one called his **"personal job"**. Many mentioned the level of ambition, positivity and determination he showed when he was Mayor of London. Then, he made it his business to reach businesspeople from all around the world, extolling the virtues of London as one of the greatest places on Earth to do business. That same sort of boosterism is needed now to ensure people recognise the enormous opportunity that exists to invest and to do business in the UK.

"We should be having a clear aspiration for being the talent magnet to the rest of the world," said one interviewee. Another spoke about the need for Britain to be a **"talent magnet for the world"**. But he added that: **"Like so many things in government, forming that impression is less to do with legislation and more to do with narrative. We have been really bad at narrative for the last few years, but it's something we should be really good at - and ironically, this is the thing that Boris is personally great at. He's probably the best politician in the world at doing it."**

> **We have been really bad at narrative for the last few years, but it's something we should be really good at – and ironically, this is the thing that Boris is personally great at. He's probably the best politician in the world at doing it**

Investing in investment

The establishment of the Office for Investment, the appointment of Lord Grimstone as Investment Minister and the commitment to the Global Investor Summit individually and collectively demonstrate the UK's commitment to investment.

But many of those we spoke to felt that there was still only limited bandwidth at the centre of Government to deal with investor relations, and that this function was dependent on a few dedicated and talented people at the centre rather than being baked into government thinking or structures.

There was also widespread concern over the wider relationship between Government and business – revolving not around speeches about Peppa Pig, but the basic fact that too many businesses simply do not know who to talk to in government, or fall between multiple departments.

Fintech firms thinking about listing in the UK have found themselves bounced between the Treasury, BEIS, DCMS, No 10 and the regulators, with little evidence that each of the many conversations was feeding into the next. **"There's no coordination between any department which touches anything commercial,"** said a leading media mogul. **"No 10, HMT, BEIS, DCMS – they're not talking."**

The consensus from our interviews, in other words, was not that we are not trying to woo investors, but that we are not trying as hard we as might. We do not commit as much time, energy and effort to this cause as we should, and have not developed a structure of government that delivers on this agenda most effectively – or at least that recent reforms have yet to overcome decades of inertia. There are too many parts of our governing architecture which are at best complacent in their approach and at worst actively operate as a brake on our attractiveness to investors.

"My advice to the Government is to be less British," said one interviewee. **"When we have companies that we could champion, we get nervous about whether to be associated, affiliated, champion or endorse them. There is always a lot of concern over 'what ifs'. We need to champion them more and help with their scaling journey. That has a knock-on effect with bringing investment from overseas."**

'There's no coordination between any department which touches anything commercial. No 10, HMT, BEIS, DCMS – they're not talking'

From those we spoke to, there was an appreciation that parts of No 10 were leaning into this agenda. Though it is fair to say that there is a widespread feeling that this administration is less business-friendly and less focused on investment than some of its predecessors. The British-born head of a global corporation told us: **"It's like no one in No 10 has looked at what they've done in the past, at what has worked. There is no institutional memory in the place."**

But the issues stretch beyond No 10. It is obviously impossible, given the complex nature of the economy, to map every firm and sector neatly on to a relevant department, and assign them an enthusiastic customer relations manager. But we could definitely make a great deal better a fist of it – for example by devoting more resources to wooing firms, both from the UK and abroad, that might be persuaded to base themselves here.

As the Centre for Policy Studies' Director recently wrote in The Sunday Times: "High-growth firms find themselves bounced between departments and regulators. The Department for International Trade has emerged as a vocal booster of business, and Lord Grimstone's new Office for Investment is widely praised. But the Treasury historically tends more towards beancounting than buccaneering. Digital and tech, the growth areas of the future, are bundled into an odds-and-sods department that also looks after football, newspapers and the opera – under a Secretary of State who, in her 16 years in Parliament, has used the word 'start-up' in the Commons chamber just once, in a debate on banking facilities in Ampthill."[117]

In that same article, he examined the department's annual report, which has "making the UK the best place in the world to work and grow a business" as one of its main strategic goals, echoing the language in the Conservative manifesto. But, as he pointed out, "the relevant sections of the 255-page document mention work to increase boardroom diversity, the raising of the minimum wage and a £15 million readiness fund for Brexit. But there is next to nothing about making life easier for firms."

117 Robert Colvile, "Tax or growth? Conflicting messages on the economy simply won't do the business", Sunday Times, October 2021

Kwasi Kwarteng, the current Business Secretary, is aware of this issue and committed to fixing it. But he faces an uphill struggle. One former Government employee told us that the Department for Business can often come across as purely a Department for Energy: **"Insofar as they think about business, they're thinking about how to regulate it, what conditions to put around it and the sorts of things which they want businesses to report on."**

Other departments also came in for criticism. A current Government insider told us: **"The bit of the Treasury that thinks about growth is actually pretty underpowered and not as effective as it should be."** The founder of one of the country's largest hedge fund put it more robustly, arguing: **"The Treasury are a bunch of bureaucrats."** One of the biggest names in the culture sector argued: **"DCMS is a global business department now, it's about exporting British culture. But No 10 don't care."**

It is because of accusations like this that the role of No 10 is so important – because some of world's leading investors and high net worth individuals currently believe that the Government is getting this wrong.

No 10 cannot do it all, of course, but they can concern themselves with how the rest of Government works and whether we have the right approach and the right structures. A number of people we spoke, for example, told us that it was clear that different parts of Government were not joined up. A leading representative body suggested **"it's obvious DIT, No 10, HMT and the OfI just aren't talking to each other."**

‘The bit of the Treasury that thinks about growth is actually pretty underpowered and not as effective as it should be’

And just as bad as a lack of communication, there was sometime a lack of clarity. As one investor lamented: **"I am reasonably well connected, but whenever I need help with an issue, I have no idea who to go to."**

Another criticism that came up repeatedly was about the calibre of the Civil Service. One hedge fund founder bemoaned the lack of expertise in this area, explaining: **"It's not about big Government, or small Government – it's about smart Government. Having the right skills in the right places."**

One of those who has worked in Whitehall believes that the problem in terms of business relations is structural and deep-rooted. The Office for Investment can focus on a few core cases, he argues, but **"BEIS doesn't have the people, doesn't have the culture, doesn't have the systems, and the Treasury just hate it."** The system by which generalist civil servants move jobs so frequently militates against our developing real skill in this area: **"Occasionally you get a good official, but they move on. In Germany or France, civil servants working on key sectors spend their whole life in that sector – they've been in the companies… To us it stinks a bit – it feels too cosy. But they have so much domain expertise."**

Having spoken to many people currently working in Government, we know that there is a very different view – there is a widespread feeling that they are doing a good job in terms of business relations and investment, and only small tweaks are needed. Based on the discussions we have had, we would respectfully disagree.

While we will save our specific policy recommendations for the final chapter, those we spoke to felt that there is a clear need to do three things. First, to strengthen the investor relations teams within No 10 and the Office for Investment, and ask the Prime Minister to lead from the front on the issue. Second, to develop much better systems for shepherding individual investors and companies through the system – pairing them with civil servants with genuine expertise, whose careers and promotion prospects depend on the level of customer satisfaction they generate. And finally, to really push forward with plans for devolution – including giving elected mayors genuine fiscal powers to make their areas appeal to investors.

> **‘Occasionally you get a good official, but they move on. In Germany or France, civil servants working on key sectors spend their whole life in that sector – they've been in the companies. To us it stinks a bit – it feels too cosy. But they have so much domain expertise’**

In today's global economy, as more than one interviewee pointed out to us, national investment policy is in fact local investment policy: **"Increasingly when you think about location decisions they are not about comparing one country to another,"** said one interviewee. **"It is about comparing one small region of a country to another small region of another country. It is not about comparing the UK to Germany, it is about comparing Silicon Fen to Massachusetts. It is about the competitiveness of these sub-national regions that have that mix of skills, know-how, eco-system, transport links etc. Global investment policy is really local investment policy."**

And as the CPS has pointed out in previous work, attracting private investment is the only way for the Government to deliver on its promises of levelling up those local areas.[118]

At a recent CPS seminar, Ben Houchen – the Conservative mayor of Tees Valley – spoke about how he had used free port status and other devolved powers to turn a neglected industrial site into one of the largest development areas in Europe.

Among the tricks he had used was to gain pre-emptive planning consent on the site, meaning that investors could start building within weeks rather than the more usual months, or even years. As Houchen said: **"When we speak to investors, one of the biggest problems we now have is to explain to an investor it is true that you can start building your factory onsite in 9 weeks. That's the biggest problem we have because of the history of the UK's regulatory framework, they just don't believe that we can do it in that timescale."**

118 Nick King and Jake Berry, "A Northern Big Bang: Unleashing Investment in the North", Centre for Policy Studies, February 2021

The quality of local government and local champions is obviously varied. The head of one of the country's best-known firms told us that some councils could not answer the question: "Why choose [their city]?" But others were far more on the ball. One Labour council offered his company a bigger site right next to the railway station – on condition that they put a large sign outside to show those arriving that the city was home to high-quality private-sector jobs.

One of the crucial advantages of this approach is that it gives businesses and investors the certainty that may be lacking at a national level. A Labour government may rewrite a Tory government's industrial policy. One Secretary of State may decide that his predecessor's commitment to the OxCam arc was foolish. But as a Treasury veteran says, there is rarely such short-termism in local government: **"The buy-in from (the) local business community to locally led economic plans is so strong that they almost never change even when you get a change of local leadership."**

There is a particular opportunity to get local actors involved in helping identify and bring to market the most investable propositions around the country. One regional champion told us how important it is to **"make it easy for investors"** and suggested the UK **"should look to develop a new Investment Plan for Britain and its constituent regions"**.

> **"Increasingly when you think about location decisions they are not about comparing one country to another. It is about comparing one region of a country to another. It is not about comparing the UK to Germany, it is about comparing Silicon Fen to Massachusetts"**

Again, the Office for Investment would argue that it is doing this work. But some of our interviewees felt – doubtless unfairly – that it had been co-opted as part of the Government's "levelling up" agenda, with investors strongly encouraged to look outside of London. **"London has become a dirty word,"** complained one representative of the capital, claiming that potential investors talking to government **"may ask about London and then be told what is great about Coventry"**.

More generally, there was definitely a belief among those we spoke to that the Government does not champion London enough, and a sense that there is some embarrassment within government about overtly cheerleading either for the capital itself, or for the UK's world-leading financial and professional services sector. As one of our interviewees highlighted, **"by getting international HQs in London, then the secondary bases can be elsewhere in the UK. If the HQs are in another European city, then the UK gets nothing."**

That said, those in Government insisted that the priority is to get investment into the UK, rather than trying to push it to specific places. The perception that officials favour the North may be because of the priority the Government puts on Net Zero as a source of new investment – an enthusiasm shared by much of the business community.

One of Britain's best-known hedge fund managers told us: "**Carbon capture, wind, energy storage etc are areas where we should be global leaders and address levelling up. The UK has natural advantages for some of these technologies and the ability to lead the way in regulating them.**" And of course, many of the sites where that investment will be best placed tend to be in former manufacturing areas.

If you look at the 82 projects where the Government is actively seeking investment, according to its online "Investment Atlas"[119], there is certainly a geographical spread – and a heavy concentration on such technologies. But it is also true that those 82 projects barely scratch the surface of the investment potential this country offers.

The courage of our convictions

There is one final area in which we think the Government has an important role to play, and in which it is falling short of the high standards which it has set itself, and that is in terms of speaking up for entrepreneurs and wealth creators. If this country is really serious about investment, then it needs to be unapologetically on the side of the investors.

> **'Trump constantly talked about the stock market as a barometer of his popularity. You can't imagine Boris Johnson or Keir Starmer celebrating the stock market going up'**

Yet on countless occasions in our conversations, the UK was compared unfavourably to the USA in particular in terms of its attitude towards entrepreneurialism, wealth creation and capitalism. We were told by representatives of the American business community that "**lots of ministers are very friendly in private, but you would like them to stand up and talk a bit more openly about business being the driver of prosperity that it is.**" "**Trump constantly talked about the stock market as a barometer of his popularity,**" said one of our interviewees. "**You can't imagine Boris Johnson or Keir Starmer celebrating the stock market going up.**"

"**Europe generally, including the UK, is really bad at celebrating capitalism – especially compared to America,**" said another executive we spoke to, suggesting that "**if we want to attract more inward investment, we need to show we're ready to celebrate the wealth creators**". Another pointed out that the Americans "**celebrate financial success – they are an aspirational society**" whereas the British are far less likely to. Anoher said: "**We don't teach the entrepreneurial spirit in schools and we don't celebrate wealth creation like they do in the US. [Ministers] understand taxing it, but not how to grow it or the importance of it.**"

The issue is not just about the attitude in Westminster – though it is particularly disappointing how few of our elected politicians are willing to speak up for the businesspeople of our country – but also about the approach of our media. When discussing the relative appeal of the London Stock Exchange, a number of people

119 Department for International Trade, "Investment Atlas"

pointed to the particularly hostile treatment meted out to people like Matt Moulding of THG or Will Shu and Deliveroo following their listings. The suggestion was made that such coverage would be far less likely in the USA.

"Ambition and success are brushed under the carpet here," said one interviewee. **"They're treated almost as a dirty secret. And I do think the media doesn't help, it doesn't welcome foreign investment. Journalists don't understand what goes into building a business. It is okay to be David Beckham but not a business person or entrepreneur."**

"The press at times can be fairly negative and look to the downside in situations," said another. **"The US by comparison celebrates the success. We quite often beat people up."**

It was also striking that, when we began our work, multiple high net worth individuals signalled out the dilution of the non-dom regime as having damaged Britain's competitiveness – only for a row to erupt over the tax status of the Chancellor's wife in which almost nobody was willing to speak up for the simple idea that as an Indian citizen, with Indian assets, she was perfectly within her rights to pay Indian tax on that income. Nor was there much mention of the fact that she would pay tax on that income in Britain the moment she actually brought it to these shores.

> **"Lots of ministers are very friendly in private, but you would like them to stand up and talk a bit more openly about business being the driver of prosperity that it is"**

Perhaps this all reflects a wider British state of mind around wealth and success. At times it feels like there's a distrust – or perhaps even a dislike – of anyone who does well for themselves and makes money. As a politician we talked to said: **"Just look at the treatment Rishi has got. People don't like the fact he has made something of himself."**

We should not be too Eeyore-ish about attitudes towards entrepreneurialism in this country. Record numbers of companies have been started in recent years. **"We have developed a much better attitude towards entrepreneurship over the last 10 or 15 years,"** said one successful female entrepreneur. Another investor, generally critical of the current administration, acknowledged: **"To give government their due, some good initiatives started under Gordon Brown and were increased under George Osborne and again during the Covid period ... this has led to a lot of entrepreneurship."** Praise for schemes such as EIS and SEIS was widespread.

But for all the success in terms of numbers, there is a still a challenge in terms of attitude. We were told time and again that we still don't do enough to celebrate success.

Obviously, it is hard for any Government to change the weather on this – not least because politicians are among the few groups who are less popular with the British public than business leaders. But investors want to feel that the Government has their back: that they are going to be welcomed into Downing Street through the front door rather than scuttling in through the tradesman's entrance. And there was also utter unanimity among our interviews that any flirtation with retrospective taxation or regulation, or any temptation to bend the legal system to political ends, should be strictly off limits. The rule of law is an absolutely priceless asset for Britain – and a core part of the stability, predictability and certainty that is needed to attract them in the first place.

> **‘We have developed a much better attitude towards entrepreneurship over the last 10 or 15 years’**

Conclusion

Britain is a hugely attractive destination for investment – but that does not mean there is not more we could and should be doing. Indeed, the overall verdict of our interviewees is that we are punching significantly below our weight in the competition for global industry and investment. Some commented that a country with Britain's natural advantages, and France's determination to woo investors, would be a fearsome proposition indeed.

In the wake of the pandemic, our international competitors are working harder than ever to attract business growth and international investment. Britain can have absolutely no time for complacency, and no excuse for it. As a matter of priority, the UK Government needs to develop a much more concerted pro-enterprise approach. The key question investors ask themselves, as one put it, is: **"Does this country have momentum?"** It was hard, she suggested, to see where the UK's momentum is right now.

The Government therefore needs to ensure its policies and its messaging all pull in the same explicitly pro-business direction, and to focus the energies of the various parts of Whitehall much more effectively on these issues.

Developing a clearer sense of what Britain stands for; broadcasting that message as loudly as possible; ensuring the Prime Minister leads from the front, and that No 10 has a grip on the rest of Whitehall; making sure the right systems and structures are in place to pursue this pro-business, pro-investment agenda; and being unapologetically on the side of entrepreneurs and wealth creators. That is the recipe to ensure that the UK develops and maintains its reputation as the sort of place where companies will want to place themselves and where businesses will want to do businesses.

As we argue in the policy recommendations section of this report, it is not that we do not have good people working on these issues, or that there has not been significant progress. But those functions need to be seen as a core priority for government, with the institutional support to match. In conversation after conversation, the need for a more compelling, proactive and coordinated approach to business policy generally and investment policy specifically came up as both vitally important, and currently missing from the UK's armoury as a country.

Government may believe it is already shouting from the rooftops about its efforts, and its commitment to this agenda. But as the old saying about political campaigning goes, it is only when you are tired of saying something that your audience is actually starting to hear your message.

Part 5: A 10-Point Plan for a More Competitive Britain

In the course of this research, we have spoken to over a hundred major investors and business leaders, and discussed an extraordinary range of different issues. As a result, there are all sorts of policies we could recommend – from housing, to education, to infrastructure, and everything in between.

In what follows, however, we have tried to focus on ways the government could address the key themes that have emerged in our research – the things it could do that would have the greatest impact on investors and business leaders wondering whether they should choose Britain.

Each of our recommendations would, we think, be helpful by itself. But taken as a whole, we believe that the plan we outline below could fundamentally reshape the way businesses and investors see Britain.

We want the world to know that this country is well and truly open for business. And this is how we could do it.

1. Publish a plan to make Britain the most investment-friendly country in the world

"Tax is clearly a concern. It is not hard to move between tax locations."

One of the big problems with UK tax and investment policy has long been that it is made piecemeal, Budget by Budget, in pursuit of headlines as much as economic coherence. Over time, the system inevitably becomes more complicated and unwieldy, as one quick fix is layered on top of another.

For business and investors, the result is uncertainty – or even a semi-annual panic about what tax increase or policy change might be announced. This does little to make Britain a more attractive place to do business.

It's time for a better approach. On taxes, the Chancellor's Mais Lecture did a very good job of setting out a roadmap for business, and where the priorities for action would be. Likewise, at his Spring Statement he produced a Tax Plan, setting out his wider areas of focus.

We suggest that these should be brought together, and turbo-charged (to use the Government's favourite word), by setting out an ambition for Britain to have the most competitive and pro-investment regime of any large economy. It might not be realistic to expect a "Big Bang" that fixes every problem in our system overnight, but a clear and credible declaration of future intent would help businesses and investors to commit to Britain.

This roadmap should commit Britain to lowering and flattening taxes on income as fiscal conditions allow, and to the gradual elimination of very high marginal rates of tax. It should make clear that capital gains will continue to be taxed at a preferential rate to encourage entrepreneurship, and chart a course towards the elimination of damaging transaction and balance-sheet taxes. It should also enshrine the principle of tax simplicity – of making the tax system clearer, more rational, and more straightforward over time. **"One of the main issues is tax simplicity and the length of the tax book,"** said one of our interviewees. **"And the current direction of travel at the margins is not positive."**

But this is not just about tax, but our wider attitude towards investment. A frequent complaint we heard was that Britain has gone from having one of the most predictable business environments in the developed world to one of the least. Businesses prize stability and consistency. The example of offshore wind shows what can be achieved when we have stable and generous investment incentives, that are place over a prolonged period with consistent political backing. Businesses need to know that the Government means what it says, and will be on their side not just in the short term, but over the long haul.

2. Cancel the corporation tax rise

"Whitehall is completely missing the point on tax – especially corporation tax."

It is clear from our research that it would be a mistake to raise the headline rate of corporation tax from 19% to 25% next April, as is currently planned. The business and investor community has absorbed the fact that this change is happening – but sees it as illustrative of the fact the business is seen as an easy punching bag. Changing course would send an equally powerful signal that, in the midst of a gathering economic crisis, the Government sees business and the private sector as the path to growing our way back to prosperity.

We therefore urge the Government to come up with a more attractive path for the headline rate, while also making good its intention to improve the UK's investment allowances regime – which our research has also highlighted as important.

The boldest step the Chancellor could take would be to not merely cancel the rise, but announce in his Autumn Budget that rather than corporation tax rising to 25% next April, it will actually fall to 15% – the soon-to-be global minimum level. This would send the clearest possible message about Britain's competitive intentions. The Chancellor would be declaring that no country would be able to have a more attractive corporate tax system than us.

We also need to improve the tax base, and in particular to make capital allowances permanently more generous, in order to promote business investment. Some will say that you can't do this while cutting the rate – that it would be too expensive to do both. However, a lower headline rate actually makes reform of investment allowances less costly. What's more, an approximation of full expensing could be achieved at limited up-front cost by combining a permanent £1m Annual Investment Allowance with a form of indexation for carried-forward writing down allowances.

Taken together, the combination of an ultra-competitive corporation tax rate and a capital-friendly investment allowances regime would give the UK the best possible chance of attracting business, boosting investment and increasing economic growth. This approach would also make it emphatically clear, after the uncertainty of recent years, that Britain is very much open for business.

3. Extend the special tax regimes that bring wealth and talent to Britain

"If we want to declare ourselves the planet's global business hub, we need to put in place fundamentally attractive individual tax incentives."

If the Government is serious about the best and brightest choosing Britain, it mustn't be shy about tailoring our tax system to give us a competitive edge.

The non-dom system is a case in point. It rests on a sound principle – that it makes sense to tax highly mobile foreigners on an essentially territorial basis – and produces important benefits for the British economy. Few would suggest that the current system is perfect. But the important thing is that any reforms advance rather than undermine the UK's appeal to high net worth individuals and the most desirable global talent.

The Enterprise Management Incentive, which helps UK start-ups compete with the global tech titans for talent, should also be enhanced. As others have suggested, limits on EMI should be relaxed so that larger companies (with gross assets up to £100m) with more staff (up to 500 employees) can take advantage of it. The government should also be conscious of the interplay between EMI and business asset disposal relief, and ensure that qualifying employees continue to benefit from an ultra-competitive tax rate on stock options.

Finally, the government should consider introducing a new incentive scheme for inbound workers, to counter some of the negative impressions that may inadvertently have taken hold in the aftermath of Brexit, and to make it absolutely clear that the most skilled and successful workers and entrepreneurs are wanted in Britain – no matter where they come from.

As well as setting up a bespoke immigration regime, in which anyone offered a salary above a certain threshold is guaranteed a fast-track visa within 10 days, we should create a special tax regime for high-earners who choose to move to the UK. We could, like the Netherlands, exempt 30% of earnings from UK tax for the first five years of residence. Alternatively, we could offer inbound workers an attractive "flat tax" regime (e.g. a single, combined tax rate of 25% over the personal allowance) for a limited period of time.

Special tax regimes like this are an important part of creating an international "buzz" around the UK – of making sure that the world's best and brightest have Britain at the forefront of their minds when they make location decisions. And they are cheap for the Treasury because they are attracting talent and workers to swell the tax base.

There is also a case for providing incentives for companies as well as individuals to relocate to Britain – such as tax discounts for firms that move their headquarters here, or set up significant operations, or bring in large amounts of money to invest. These would need to be squared with existing international tax treaties, but one option would be simply to offer the same terms to new domestic businesses. A special regime for start-ups, or allowing new firms to pay a simple, flat rate of tax based on revenue (as proposed by the CPS in our paper Think Small) would send a powerful signal to entrepreneurs at home and abroad that Britain is putting the private sector at the heart of its post-pandemic growth strategy.

4. Enhance tax breaks that boost investment

"EIS tax breaks work on small amounts – why not large amounts? If it makes sense to let people put in thousands, why not let them put in millions?"

As we argued earlier in this report, investment schemes like EIS, SEIS and VCTs are very important to the dynamism of Britain's entrepreneurial economy. And that dynamism is, in turn, one of the key things that makes Britain attractive to capital, talent, and business from around the world.

Those schemes are already a success – but they are a success that we can and should build on. For starters, EIS and VCTs are currently subject to a sunset clause that means they will cease to exist from April 2025, unless action is taken (this was a condition of state aid approval from the EU). The Government should act now to put these schemes on a permanent footing.

It should also take steps to simplify and rationalise the administration of EIS and SEIS in line with recommendations from the Office for Tax Simplification. This should include a solution to the "chicken-and-egg" dilemma surrounding Advanced Assurance that we identified earlier. Where possible, it should also introduce broader eligibility requirements so that fintech and sharing economy firms are more easily able to qualify. As things stand, concerns about abuse of the schemes shuts out too many legitimate entrepreneurial ventures.

The most fundamental change the Government should make, however, is to significantly increase the permissible investment size – from the standpoint of both the investor and the business. At a minimum, all applicable limits should be doubled. The Government should also consider whether it would be practical to go further – even to the point of abolishing investment limits altogether.

There is obviously a degree of uncertainty here because the existing limits on EIS and VCTs were a condition of EU state aid approval. There is surely scope for some relaxation now, but quite how far we can go under the terms of the EU-UK Trade and Cooperation Agreement isn't entirely clear. We urge the Government to be as ambitious as possible, within the confines of the law.

Another measure that could aid investment in start-ups and scale-ups, and make the UK a more attractive destination for entrepreneurs, would be to allow funds held in ISAs to be invested in unlisted private companies. With hundreds of billions of pounds in stocks and shares ISAs, and assets in ISA portfolios often retained indefinitely, such a move could significantly boost the UK's supply of patient capital for firms with high growth potential. These less liquid investments wouldn't be right for all savers, but a straightforward "appropriate investor" standard could be applied to make sure only those who understood and could handle the risk were allowed to put their money in.

5. Reform the regulations that hold back our financial ecosystem

"The UK becomes more vibrant as you create a larger pool of patient capital and free up the money stuck in DC pension funds and Solvency II."

Britain is fortunate to have a successful and sophisticated financial sector. Both directly and indirectly, financial services make a huge contribution to the British economy and to our attractiveness to business and investment. Yet many of the people we spoke to in our research identified an important weakness in our offer – a lack of patient growth capital (especially compared with the US) and a financial ecosystem that doesn't necessarily support, let alone celebrate, the industries of the future.

The problem is a multifaceted one that necessitates a range of reforms. As noted above, investment-boosting tax schemes have an important role to play. The government could also do more to promote Britain as a destination for high-growth business in general. However, a big part of the solution is a regulatory reform strategy specifically designed to free up and generate more growth capital.

This agenda isn't about boosting the international competitiveness of the UK financial services industry – although that may be a welcome side-effect. The goal, rather, is to help make Britain the most attractive place in the world to start and grow a business. Getting the financial ecosystem right is a vital part of this – and is central to making Britain the kind of thriving, entrepreneurial place that business leaders and investors want to commit to.

Good work is already underway in Whitehall on many of the necessary reforms, with the Government keen to fully implement the Hill and Kalifa reviews (of capital markets and fintech, respectively), and now consulting on changes to Solvency II – which it believes could unlock tens of billions of pounds of growth capital for investment. Getting that reform right, and implementing changes as soon as possible, is essential. As, indeed, are reforms to the pension fee charge cap so that retirement funds can put more money into high-growth private equity investments. Changing the MiFID II regime, to restore the City's diminished research capability, is also very important.

Of course, there have been a variety of reviews and consultations going on for some time now. While we recognise the complexity of modern government, our research has left us with the overwhelming sense that now is the time for concerted action with clear and ambitious objectives firmly in mind.

6. Introduce cutting-edge regulatory frameworks to capture new markets

"A lot of growth will come in areas where we have not yet regulated. The challenge is putting in place flexible, attractive regimes for the future so that we can get ahead."

The investors and business leaders we spoke to in our research were also impatient for regulatory reforms that would allow Britain to take advantage of emerging opportunities, and position us as the natural home of the industries of the future.

On cryptocurrency, for example, the government should press ahead with plans to introduce a supportive regulatory regime, both by ensuring that crypto exchanges can function effectively as UK-regulated entities, and by developing a robust framework for stablecoins and the wider application of blockchain technology. The UK should similarly look to be the global leader in green finance and carbon markets – Britain's financial markets should be at the heart of the big changes coming our way in the 21st century, just as they have been in the past.

Data is another huge issue. The sweet spot between the EU and US approaches (not to mention China) is one that ensures a high level of security, but is also very permissive in terms of how data can be used. People we spoke to in our research noted that Britain was also well-placed to a world leader on autonomous vehicles – provided we get the regulatory framework right.

This is not the place for a long list of specific regulatory changes that Whitehall ought to make. We do want to be clear, though, that based on what we have heard, the Government cannot afford to hang around as it seeks to turn the opportunity into reality. For example, the announcements made on financial services by Rishi Sunak and John Glen have been more than welcome, and there is eagerness to find out more about the Government's plans on a range of fronts. But there is also a perception among business leaders and investors that Britain has failed to move rapidly enough over the past six years to carve out future advantages.

As we seek to develop attractive regulatory regimes for the future – and so encourage cutting-edge businesses and people who want to invest in them to choose Britain – there are a few things to bear in mind.

Regulation should be straightforward and unambiguous, should focus on outcomes rather than processes, and be permissive rather than prescriptive. And while regulators can be useful sources of expertise, we should not expect them to drive this agenda themselves. Sustained impetus must come from government, and regulators should be made subject to clear objectives to support innovation and growth, to ensure that their objectives align with what the state is trying to achieve.

As one might expect, we encountered plenty of scepticism about Brexit during our research. But almost everyone agreed that when it came to regulating the industries of the future, being outside the EU and its deeply precautionary approach could be an enormous advantage. Seizing that opportunity is one of the biggest tasks facing government – and also key to answering the question "Why choose Britain?" over the decades to come.

7. Put a new competitiveness unit at the heart of government

"The UK is not benchmarking its competitiveness against others. You need a competitiveness intelligence unit to put you ahead of the curve."

Our research predictably threw up a variety of specific tax and regulatory changes that we think would encourage business and investors to choose Britain. As we have seen, however, a big part of what needs to happen actually concerns the attitude and operation of government, rather than specific policy reforms.

Put simply, government needs to focus far more sharply on the UK's attractiveness to business and investment, be far more cognizant of how our competitive standing is evolving over time, and have a much clearer strategy for keeping us at the head of the global field. That strategy needs buy-in across Whitehall, and must form a central part of the government's communication with the private sector.

The difficulty is that governments have all kinds of different interests and objectives, and can easily be buffeted from one initiative to another by events, media narratives, and public opinion. That makes developing and sticking to a clear, coherent strategy much harder for government than it might be for a high performance business.

What we need, then, is some institutional or structural way of embedding both the idea of competitiveness and the strategic focus it entails right at the heart of government. One option that we think could work is to establish a UK competitiveness unit in Downing Street, reporting jointly to the Prime Minister and Chancellor, staffed by a mix of civil servants and political appointees.

The key task of this unit should be to continually benchmark the UK against other large economies on a variety of measures, and to provide a steady stream of advice to those at the head of government on how we can improve our offer. It should also be empowered to work across Whitehall, flagging departmental initiatives that might compromise the UK's competitiveness, and trying to encourage a shared focus on the Government's overriding business strategy.

It will obviously take more than just setting up a new unit to fundamentally change the way Whitehall approaches the issues we have outlined in this report. Ultimately, there is no substitute for unwavering political buy-in from the Prime Minister, Chancellor and other senior ministers. Nevertheless, those who have worked in government know that structures matter a lot. Ensuring that we put ones in place that support a renewed focus on competitiveness – on getting people to choose Britain – is an important first step.

8. Renew No 10's focus on business and put in place a new support structure

"Cameron had business in all the time. May shut that down and it hasn't really got up and running again."

One of the key themes to emerge from our research is that investors and business leaders expect the Prime Minister to set the tone when it comes to dealing with the private sector. While recognising that he has a huge amount on his plate, the people we spoke to believed that he needed to be Britain's "booster-in-chief" – to maintain an unashamedly pro-business outlook and to play a key role in courting business and investment. We were told repeatedly during our research that the current Prime Minister played this role extremely well when he was Mayor of London – but also that the current No. 10 operation just can't compete with, say, the Elysée Palace on this front.

We already demand a great deal of our Prime Minister – especially during periods of crisis and uncertainty when a lot of executive decision-making is required. So this is not so much a call for him to raise his game as it is for us to put a much more supportive structure in place around him, so that he can do more of something that he is naturally very good at.

Generally, Britain often seems reluctant to give its leaders the help they need to do their job effectively. The typical CEO of a major company is, for example, much freer to focus on his or her "core business" than a prime minister is. The unusually informal nature of No 10 might be part of the problem: how well a given function is carried out can depend almost entirely on the individual responsible, with performance waxing and waning with inevitable staff turnover.

There may be a case for a wider overhaul of the centre of government, establishing a significantly upgraded "Office of the Prime Minister" modelled on the executive offices of other leaders of major economies. That debate is probably beyond the scope of this report. What we do recommend, however, is that whatever the surrounding institutional architecture, the business relations function in No 10 be significantly expanded and formalised, and put on a more secure long-term footing. Its role would be to work with the Office for Investment (and its parent trade department), as well as with the Treasury, BEIS, and DCMS, to break down Whitehall silos and help the government to speak to business with one voice.

Having a more significant business relations function in No. 10 would create some institutional pressure towards greater focus on enterprise and competitiveness – and, crucially, would enable the Prime Minister to play a more central role in persuading business and investors to choose Britain.

9. Empower cities and regions to promote themselves as investment destinations

"We just do not have the capacity in Whitehall… You need powerful local leaders with genuine ability to coordinate and real fiscal powers."

While the UK's headline international competitiveness is crucially important, investors often aren't primarily investing in the UK a whole, but rather in a specific part of it. Regions are not merely competing with their neighbours, or with London, but internationally. Increasingly, then, the UK's investment proposition is as much local as it is national. As Lord Grimstone told the International Trade Committee last year: "The essential thing about investment is that it virtually always has a place attached to it – investment does not float around nebulously in the cloud."

Consequently, it seems obvious that those who know a city or region most intimately should play a central role in promoting it as an investment destination. This decentralised approach has the added benefit of mitigating against the business uncertainties that come with potential changes in national government, and its endlessly rotating cast of secretaries of state.

The government has already made some progress on this front, establishing investment hubs in Darlington, Cardiff, Edinburgh and Belfast, and granting increased power to metro mayors over issues such as planning. But more needs to be done to get cities and regions effectively promoting themselves as investment destinations. Regional investment policy will function most effectively if it is spearheaded locally, and supplemented by central government – not the other way round.

Part of this approach will involve simplifying the structure of English local government. The bodies that currently exist are complex and there is huge asymmetry between different regions. For example, London & Partners has had success promoting the capital globally. Scotland Development International, Trade & Invest Wales and Invest NI also show the benefits of empowering devolved regions. Yet these agencies often lament not being granted enough resources. And many economically significant regions of the country do not enjoy the same funding or freedoms at all.

Of course, a decentralised investment policy is not just about getting cities and regions more involved in the investment process – or, indeed, letting them lead it – but rather about giving local leaders tangible powers to attract and incentivise investment. The government should capitalise on the freedom Brexit gives it to allow more local-based investment incentives (building on the freeports model) and generally give more economic development responsibility to local areas.

10. Revive the OxCam arc and promote business-finance-university clusters across the UK

"Not doubling down on the Oxford-Cambridge arc – sidelining it – is a good example of the inconsistencies of levelling up."

The government's failure to follow through on plans for the Oxford-Cambridge arc is emblematic of the complaints that the business leaders and investors we spoke to as part of this research have about Britain. A failure to champion the excellence of UK universities, a failure to liberalise the planning system (at huge economic cost), a tendency to abandon long-term policy commitments for short-term political reasons… Here it all is, wrapped up in a single, behind-the-scenes decision with potentially huge long-term consequences.

Abandoning OxCam also speaks to a misunderstanding of how investment policy should work. If we want businesses and investors to choose Britain, we need to build on our strengths. In the OxCam arc, we have an economic constellation that is hard to replicate and is envied internationally. Businesses already want to be part of it and in many cases have invested significant sums of money to do so.

Choosing not to prioritise OxCam's development is wholly at odds with the UK's declared ambition to become a "science and technology superpower" and thus demonstrates a failure of joined-up thinking across Whitehall. But it is not too late to change course – even if involves abandoning some of the more extravagant ambitions around housebuilding, which generated local resistance. Doing so would provide a strong signal to investors that the government was serious about economic growth, and about honouring its long-term policy commitments to business. Renewed impetus on the OxCam arc should therefore be a priority.

The government should also think about how the OxCam model could be mirrored in other parts of the country. Its levelling up programme could seek to exploit the UK's elite regional universities, with efforts to encourage OxCam-esque clusters of researchers, businesses, and financiers across the UK, potentially including via the creation of opportunity zones. Such a move might help address the UK's longstanding productivity challenges outside London and the South-East. Reviving the development corporation model that worked so successfully in rejuvenating Canary Wharf could also be a key part of this strategy.

A big part of this agenda would be building better links between higher education and enterprise, with researchers encouraged to spend time outside academia in spin-out businesses or industry, and universities themselves incentivised to pursue greater commercialisation of their intellectual property – by incubating start-up businesses, and so on. This might even help to address the anti-business culture that some of our interviewees felt was growing in the UK.

Conclusion

In the section above, we outlined a 10-point plan to persuade investors to choose Britain. But it doubles as a 10-point plan to make Britain more friendly to business full stop. Because, as we have stressed throughout this report, giving people better answers to the question "Why choose Britain?" also makes Britain a better place.

There is therefore one more recommendation we would make, and it is the most important of all. Let us make Britain once more a place that genuinely celebrates entrepreneurship, business and investment. Let us make the argument that it is only the private sector that can deliver growth, wealth, jobs and prosperity. Let us respond to our meagre rates of growth and the awful impact of the pandemic and the cost of living crisis by putting the country on the side of the only people who can actually get us out of this mess.

'We need to give a great collective answer to the question of "Why choose Britain?" – and that answer is that it is the best possible place in the world for a business to be'

Part of this is about the tone set by Government – about telling the world through its messaging that Britain is a business-friendly country, and showing it through its policies. But much of it is about how the rest of us respond.

The many, many investors that we interviewed agreed that Britain is becoming a worse place to do business. But most still felt that it could yet become a great one again. We have so many advantages. It is up to all of us to use them. We need to give a great collective answer to the question of "Why choose Britain?" – and that answer is that it is the best possible place in the world for a business to be.

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