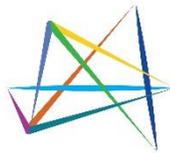


# Response to 'Building our Industrial Strategy' Green Paper

**April 2017**



**Centre for Progressive Capitalism**  
*dynamic markets, inclusive societies*

## Introduction

The Centre for Progressive Capitalism welcomes the government's industrial strategy green paper, and its ambition to improve living standards and economic growth by increasing productivity and driving growth across the whole country. The Centre agrees with the government's view that the UK needs to address the productivity gap with other leading countries to see faster growth in wages.

The green paper is extremely broad in scope, which is to be commended. However, to address the underlying causes of productivity growth will require a great deal more focus from government. The pillar that should take priority over all other pillars is 'developing skills'.

It is widely held that the inability of the UK to provide greater numbers of appropriately educated workers is the result of the failure to develop a coherent system of technical education. Addressing this issue has been the subject of numerous reports and reforms. As noted in the foreword to the latest review of technical education, led by Lord Sainsbury for the UK government: "It is over a hundred years since the first report was produced which highlighted the failures of technical education in the UK, and since the Second World War there have been very many attempts to reform the system. These have all been unsuccessful because they tinkered with technical education, and failed to learn from the successful systems in other countries."

As such, one of the major challenges for the British economy for some time has been the education system's inability to train a sufficient number of technicians to meet employer demand. This is now critical as technical roles make up the second largest segment of job vacancies across the UK after professional roles. Moreover, technical roles are central to manufacturing and therefore critical for driving up productivity.

In 2015/16 the Centre for Progressive Capitalism estimates that in total there were 462,200 technical job vacancies in the UK that were difficult to fill due to skills shortages. Addressing this shortfall for technical skills could have huge benefits for living standards and for social mobility by opening up well-paid jobs to people from all backgrounds. It would also offer major economic benefits through increased consumer spending and tax receipts. Based on the average salary for these roles, we estimate that if the UK addressed these shortages then in aggregate workers could get an uplift of £8bn alone by shifting people from low-paid jobs paying the National Living Wage. There would be numerous other economic advantages including rising aggregate demand and lower government benefits.

## Developing skills

The government is right to prioritise the poor performance in technical skills, which is central to the UK's persistently lower levels of productivity compared with other advanced economies. The Centre agrees that skills shortfalls are the biggest determinants of regional variations in productivity.

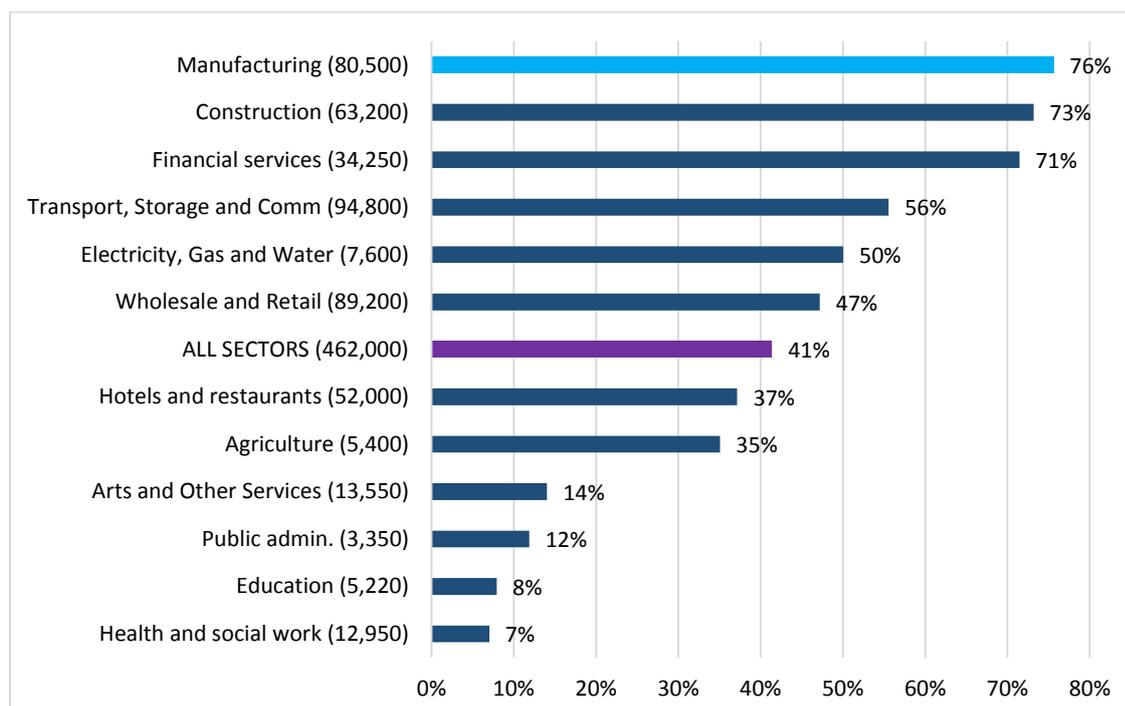
### ***A new system of technical education***

The recent policy proposals to develop a technical education system that sits on par with the academic track are welcome, as is the commitment to substantial additional investment made in the Spring Budget. In particular, it is encouraging to see the creation of 15 core technical routes, a central recommendation of the Sainsbury Review. As the green paper recognises, however, in terms of driving the development of inclusive local labour markets, it is important that these routes are defined in close collaboration with employers and prospective students.

### ***Identifying sector specific skills gaps***

The Centre agrees that the failure to identify and address sector specific skills gaps is central to Britain's sluggish productivity growth and ability for firms to expand and export. Plugging the gap for technical skills would particularly help UK manufacturers since they are disproportionately affected by the lack of technical skills. More than three out of four (76%) technical job vacancies in the manufacturing sector were proving difficult to fill due to skills shortages. This was a higher share than any other sector and far higher than the UK average of 44%. The construction and financial services sectors is also heavily affected by the lack of technical skills.

**Chart 1: Percentage (and annual number) of UK technical job vacancies that were difficult to fill due to skills-shortages, 2015/16**



The overwhelming issue for British industry is that there is a lack of education and training in the technical occupations most in demand and too much provision of courses with little demand from employers. Every year thousands of courses are completed in occupations with few job vacancies, whether nationally or in the local economy.

The 38 LEPs around England play a crucial role in bringing together local employers with councils, colleges and universities to work together on the economy. They should be a key part of the government's industrial strategy, given the diverse challenges faced around the country. As it stands though, many LEPs lack the capacity to perform what should be one of their core functions: to assess the local supply and demand for skills. They have the links with employers and local knowledge to understand in detail the local labour market, but this needs to be backed up by a stronger evidence base with hard data. Even those areas that are furthest on with devolution deals have challenges in understanding their local labour markets.

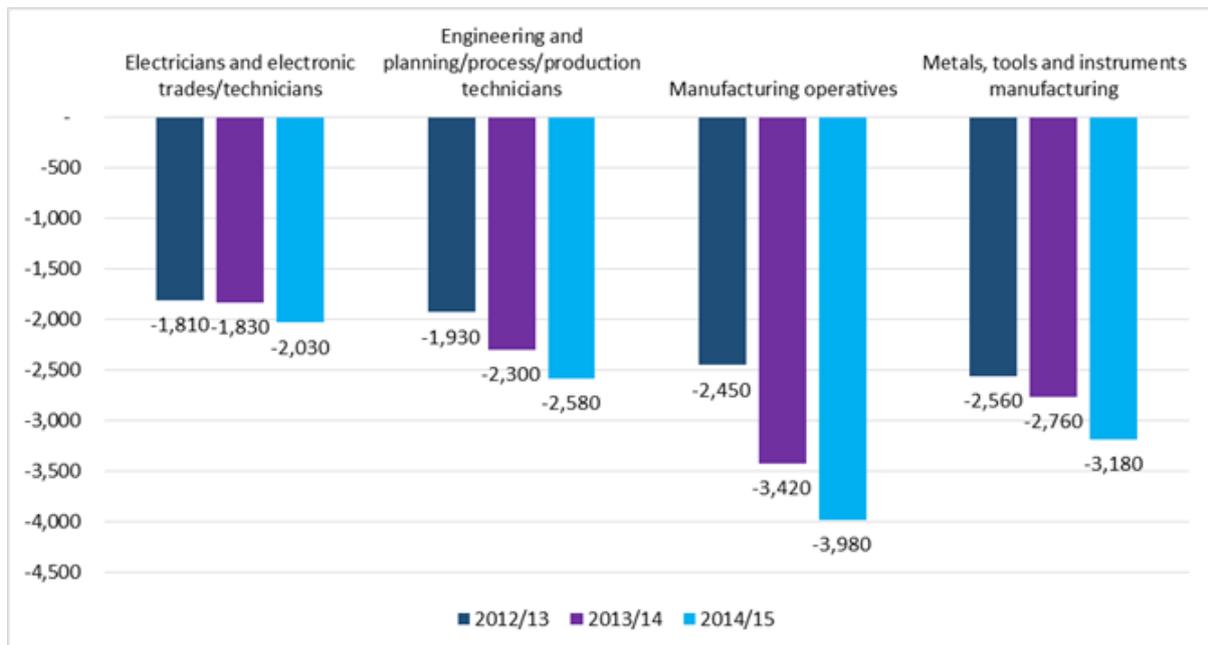
Many LEPs have not even been given the access they would like to data collected by government and skills providers. A LEP Data Cube has been made available by the Skills Funding Agency, but many LEPs would, for example, like to get access to the destinations data collected by individual colleges within their areas.

Furthermore, the national infrastructure supporting LEPs has been weakened by the closure of UKCES. UKCES oversaw the Labour Market Information for all data sets that LEPs as well as schools and colleges relied upon. It led the largest survey of employers, the Employer Skills Survey (ESS), which surveys 91,000 businesses every two years. It also conducted detailed studies focused on particular sectors, something that was in need following the withdrawal of funding for many Sector Skills Councils. The level of detail required for these sector specific reports is something that LEPs would find difficult to replicate in all but a handful of sectors. The skills minister has confirmed the ESS will be continued by the Department for Education, but as yet there has been no confirmation on when the next one will be conducted.

The government should prioritise the funding of research that is relied upon by LEPs and organisations around the country since it could prove more costly for taxpayers in the long term if these organisations individually funded aspects of this themselves. Having reviewed how the data is used around the country, the government should quickly make clear what will and will not be continued so that LEPs and other users of the data can plan accordingly. LEPs also need the capacity to analyse complex data sets. Many LEPs rely on a single economic analyst, often working part-time and covering a broad range of policies beyond skills.

Work done by the Centre shows that analysis at the level of individual LEPs can provide valuable insight into the functioning of local labour markets and solving sector specific skills mismatches. Our analysis of one midlands based LEP highlighted a number of potential skills mismatches. It found that there were approximately 4,000 more manufacturing operative job vacancies than there were relevant FE course completions in 2014/15. Conversely, there were around 1,000 more FE course completions for sports and fitness instructor roles than there were job vacancies. The potential undersupply of many technical occupations has likely worsened for many technical occupations in the LEP between 2012/13 and 2014/15. The potential undersupply of engineering technicians has grown from just under 2,000 to over 2,500 during this period, and from 2,560 to 3,180 for metals, tools and instruments manufacturing roles.

**Chart 2: The undersupply of FE courses at levels 2, 3, 4 and 5 versus job vacancies in a midlands based LEP between 2012/13 and 2014/15**



This analysis was conducted using the Centre’s innovative Skills Mapping System. The system uses job vacancy data to gauge employer demand, UKCES’s Employer Skills Survey data to identify skills shortage vacancies, and LEP datacube data to analyse FE course competitions and apprenticeships. This is then triangulated with a number of other data sets, including the Labour Force Survey, the Business Register and Employment Survey and self-employment data, to provide greater insight. Utilising big-data mapping techniques, the Centre is able to help LEPs better understand the mismatch between supply and demand for technical skills in their local area.

There is clear potential for this system to be automated and subsequently scaled up so that it can provide insight for every LEP in the country. This would allow for many advantageous measurement capabilities, including the ability to track persistent skills gaps – and new ones as they emerge – in different local areas. Furthermore, a monitoring regime could be established, where how well each LEP is doing in closing their skills gaps could be scrutinised.

### **Careers advice**

The Centre agrees that the failure to provide quality careers information to students has been a major failure of public policy. Key to solving this challenge is to ensure that students have access to up to date information on the actual opportunities locally and across other regions. As it stands, this type of information is sorely lacking from the careers guidance process. Yet it could dramatically change the perception of students of the value in pursuing a technical career instead of attending university.

The technical skills mismatch data outlined above can be utilised to underpin an effective careers guidance tool for LEPs. To this end, the Centre has been asked by LEPs to develop a product to deliver local supply and demand information for technical skills directly to students. The product would translate the data into employment prospects for individual courses. For example, for roles with

significantly less job vacancies than relevant course completions, prospective students can be advised that their employment prospects would be low. Using our mapping model, this information can then be linked to FE college and apprenticeship courses that would lead to employment for each occupation.

Such an approach is consistent with the move towards a further education system focused on providing clear routes into employment for young people. The scalability of this approach, as outlined above, suggests it could provide a powerful solution to the 'patchy and inconsistent' provision that currently exists.

### ***Testing new approaches to lifelong learning***

The Centre acknowledges that a potent system of lifelong learning will be essential for the UK economy to successfully – and inclusively – navigate the challenges of rapid technological growth. However, adult education will be most effective when it builds on a solid foundation of technical education for young people. It is important, therefore, that any approach to lifelong learning is not developed at the expense of effective provision for young people.

### ***Creating a course-finding process for technical education similar to the UCAS process***

The government is right to acknowledge that the complexity of FE course applications is a significant constraint on the smooth functioning of the process. A UCAS style course-finding system would go a long way towards simplifying the process, and it would also contribute to achieving parity of esteem between technical and academic routes.

However, this process must be underpinned by continuous skills mismatch analysis if it is to enable prospective students to make the best decisions. This should allow for meaningful comparisons with higher education, in terms of salary expectations and employment prospects.

### ***Actions already underway***

The government's pledge to create 3 million apprenticeships in this parliament is a commendable effort to boost the impact apprenticeships have on meeting the skills needs of businesses. However, a policy whose sole focus is on quantity puts at risk the quality of these new apprenticeships. The government must take steps to ensure that quality is safeguarded, even if this means it misses its target.

Furthermore, Centre analysis of skills mismatches across the country makes a strong case for a more nuanced, localised and evidence-led response to the technical skills deficit than that afforded by a broad, quantity-based policy. If apprenticeships are to help fill skills gaps, they must be better targeted at areas of under provision. For example, in one LEP, the data suggests that there were only around 180 apprenticeships completed in 2015/16 to counter a potential undersupply of 3,360 IT engineers and technicians left by FE courses relative to job vacancies. However, there were 440 apprenticeships completed for hairdressers and barbers roles, for which there were already almost 400 more FE course completions than job vacancies. Overall, an estimated 29% of all technical apprenticeships in the LEP were completed in areas that were already experiencing an oversupply of FE courses relative to vacancies. Given that – according to a 2012 government study – around two thirds of apprenticeships

lead to a job in the end, flooding the market with more and more apprenticeships without any regard for coordination, will almost certainly exacerbate the existing over provision of some FE courses.

The Centre welcomes the introduction of the Apprenticeship Levy as it provides large employers with a monetary incentive to engage with the apprenticeship system. However, there is a danger that the levy would exacerbate the issue of oversupply in some areas. Employers looking to recoup their levy payment could offer apprenticeships in areas that aren't suffering from skills shortages, or simply rebrand current existing training. The apprenticeships system would undoubtedly benefit from being better attuned to evidence on skills under and overprovision.

### **Questions for consultation**

*How can we make the application process for further education colleges and apprenticeships clearer and simpler, drawing lessons from the higher education sector?*

Any effective application process for further education colleges and apprenticeships must be underpinned by accurate data that allows for meaningful comparison of employment prospects and salaries across courses and between further and higher education options.

*What skills shortages do we have or expect to have, in particular sectors or local areas, and how can we link the skills needs of industry to skills provision by educational institutions in local areas?*

The government is right to recognise that analysis of skills provision must be done at the local level, as demand and supply of certain technical skills varies across the country. The Centre for Progressive Capitalism has developed an innovative approach to identify skills shortages in local areas. The Centre works with Local Enterprise Partnerships to pinpoint technical skills mismatches in local labour markets, by sector and by occupation, with the aim of influencing the delivery of local training to meet employer demand.

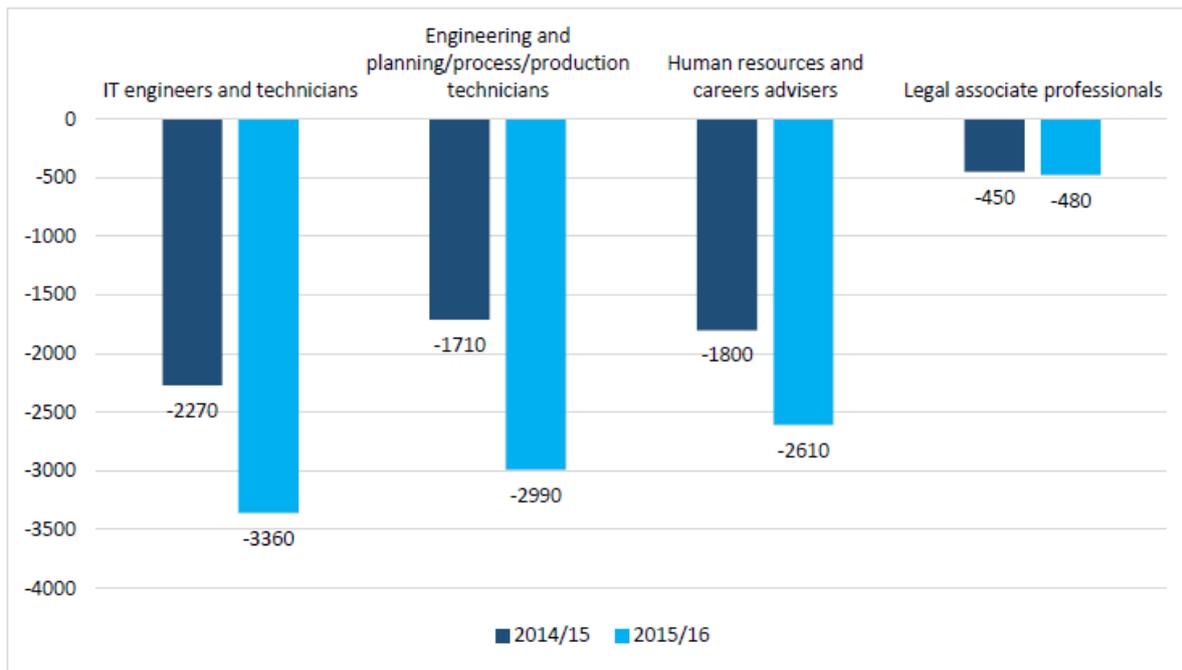
The approach uses job vacancy data to gauge employer demand, UKCES's Employer Skills Survey data to identify skills shortage vacancies, and LEP datacube data to analyse FE course competitions and apprenticeships. A number of other data sets are also comingled to provide greater insight, including the Labour Force Survey, the Business Register and Employment Survey and self-employment data. Utilising big-data mapping techniques, the Centre is able to help LEPs better understand the potential mismatch between supply and demand for technical skills in their local area. This approach not only highlights undersupply of certain skills, but also any oversupply, enabling local economies to potentially reprioritise course provision.

In one LEP, for example, the data suggests a possible undersupply of course completions relative to job vacancies for IT engineers and technicians, growing from around 2,270 to more than 3,300 between 2014-15 and 2015-16. Another possible area of undersupply highlighted by the data was for engineering technicians, which increased by as much as 75% over this period, from 1,710 to 2,990.

This contrasts with a possible oversupply for occupations such as artists and designers, fitness instructors and media production officers, operators and producers. However, it is important to note that occupations highlighted as being in probable oversupply are often prone to higher levels of self-employment. Government research shows that the estimated median earnings of a self-employed person is 46% lower than those in full time employment. Concern regarding any increase in over

provision of these types of courses relative to job vacancies should be tempered by the possibility that this could at least partially be absorbed by the increasing levels of self-employment in the country.

**Chart 3: The undersupply of FE courses at levels 2, 3, 4 and 5 versus job vacancies in another midlands based LEP between 2014/15 and 2015/16**



The ability of the Skills Mapping System to measure potential skills mismatches through time presents policymakers with an effective means for measuring how well a skills policy is being implemented, particularly if scaled up to the national level. Aiding an evidence based approach to policymaking, the effects of local and national interventions could be assessed across all LEPs and by occupation groups as they are introduced. This demonstrates that investment in accurate, up-to-date data at the local level will be key if the government wants firstly to identify and then to tackle the UK's skills shortages.

*How can we enable and encourage people to retrain and upskill throughout their working lives, particularly in places where industries are changing or declining? Are there particular sectors where this could be appropriate?*

Encouraging people to retrain and upskill throughout their working lives is especially important as the UK seeks to navigate the challenges of the fourth industrial revolution. The government should look to successful and innovative schemes being developed around the world on this matter. For example, the SkillsFuture initiative in Singapore will provide all citizens over the age of 25 with S\$500 credit to be spent on skills training. A similar skills credit system could place individuals at the heart of adult skills provision and empower them to take ownership of their own lifelong learning.

However, as argued above, a system that retrains and upskills adults will be most effective when it is built on a solid foundation of technical education for young people. As such, if the government is first

able to get provision right for young people, it will find it easier to develop a complementary system of lifelong learning.

## Upgrading infrastructure

### ***Are there further actions we could take to support private investment in infrastructure?***

The Centre agrees with the government that investment in economic infrastructure is a key part of an industrial strategy. Higher investment plus a better framework for planning indeed creates the opportunity to address the UK's historic weaknesses on infrastructure. Although the announcement in the 2016 autumn statement to boost infrastructure investment from 1.7% of GDP to 2.0% of GDP in 2020-21 was welcome, this still falls well short of the OECD's recommendation for 3.5% of GDP. Moreover, the UK has a significant shortfall from generations of underinvestment resulting in the UK's stock of infrastructure of GDP languishing at only 57% versus 71% in Germany.

To meet the OECD targets would require the UK to spend an additional £30bn on infrastructure per annum. The government is right to seek private sources of investment given the still worrying levels of public debt. However, the government must learn from how other countries fund their infrastructure without worsening the public finances. One of the most widely used infrastructure mechanisms in developed economies is land value capture.

Land value capture works as a result of the new infrastructure supplying the offices and houses to meet pent up demand. Once the scheme has been designed, a city region authority generally raises long term finance in the form of bonds from the capital market. The jump in price from the land's original use value to residential value provides the revenue stream to pay back the bond holders.

However, in England and Wales, this rarely occurs because instead of the jump in land values flowing to the municipality to pay for infrastructure, the 1961 Land Compensation Act asserts that landowners should receive the windfall instead.

The Centre estimates that the annualised uplift in land values for England alone for new house building is £9.3bn. This excludes the uplift on existing assets, commercial property and residential conversions.

The Centre recommends that the most appropriate way to reform the 1961 Land Compensation Act in order to boost infrastructure by £185bn over the next 20 years is to amend it in the following way;

1. **No account is taken of any prospective planning permission in land designated by combined authorities for infrastructure including housing**
2. **Section 17 is amended so certificates of appropriate alternative development would cease to apply in those areas designated by combined authorities for development**

### ***How can local infrastructure needs be incorporated within national UK infrastructure policy most effectively?***

It should be a requirement that LEPs or combinations of LEPs that cover an entire economic geography draw up their transportation plans incorporating housing plans in conjunction with local authorities. Undertaking projects at scale is key to both resolving the housing crisis and ensuring that there is an

appropriate transportation network for each local economy. The teams responsible for infrastructure planning should be given better guidance in terms of the budgets they potentially have to invest. Our experience of discussing these kinds of projects within local economies is that there is a tendency to default to small scale projects. However these fail to address the underlying connectivity issues across their economy, in addition to housing pressures.

Should the government decide to utilise land value capture, each city could be provided with indications of the scale that could be self-financed. Recent analysis by the Centre for Progressive Capitalism demonstrates that the 8 English Core Cities between them could raise an additional £45bn over 20 years based on current house building rates. These figures dwarf the current scale of infrastructure that is currently being considered.

***What further actions can we take to improve the performance of infrastructure towards international benchmarks? How can government work with industry to ensure we have the skills and supply chain needed to deliver strategic infrastructure in the UK?***

The Centre for Progressive Capitalism has the capability to run skills mismatches by each local economy to highlight the current mismatch between supply and demand for technical skills including detailed analysis for the construction sector. As long as the new projects are specified in such a way in terms of the incremental occupations needed, this is reasonably straight forward to understand. However, the key to resolving this is to ensure that careers guidance reflects the variety of opportunities on offer for students and that career paths and salary expectations are clearer upfront. The Centre for Progressive Capitalism is able to provide this kind of information into each local economy's careers guidance ecosystem.

## Supporting businesses to start and grow

***What are the most important factors which constrain quoted companies and fund managers from making longer term investment decisions, and how can we best address these factors?***

The lack of scale in the UK pensions sector has created a major obstacle to long term investment in the United Kingdom. The real returns to investors in UK equities over the last 10 years of only 2.3% per annum are well below long run historic averages of 5.6%. Some of this poor return is due to the financial crisis. However, the change in shareholding structures in addition to the rise of intermediation in the investment process - as noted by the Kay Review - may also be partially responsible for some of this poor return. These changes have led the underlying owners of companies to become increasingly divorced from executive management teams. This dynamic has been characterised by Andy Haldane as an era of the “ownerless corporation”.

In terms of trying to change the behaviour of corporations to invest for the long term in order to raise the rates of return, there is a general consensus that this should be the role of the underlying shareholders. Legislation introduced by the Coalition government has provided shareholders with a great deal of power to vote on corporate governance issues. However, these steps have not been sufficient to ensure that fund managers are holding executive teams to account. This should not come as a surprise as corporate governance is expensive which would increase fees, and may require the business model of investment firms to change. Moreover, those firms who do decide to play an active role end up sharing the rewards with others who chose to do nothing.

Around 20 per cent of the UK stock market is owned by domestic pension and insurance funds or individual investors who are investing for their retirement. A 20 per cent stake in a business provides shareholders with a great deal of power to direct the corporate governance of firms, and ensure that they are better run and can generate good long run returns. However, the way the investment industry is structured means that savers, who are the actual owners of firms, have almost no voice in how companies are run for their benefit.

An analysis of the structure of the UK pensions industry today shows just how limited an impact most of these funds can realistically have on corporate governance. There are currently in the region of 46,000 workplace pension schemes in both trust-based and contract-based schemes (defined benefit and defined contribution). Trust-based schemes are run by a board of trustees who have a fiduciary duty to the scheme to act in members' best interests. Contract-based schemes are mostly run by product providers themselves, usually insurance companies. In terms of size, nearly 60 per cent of these schemes have fewer than 100 members.

This lack of scale not only means there is less scrutiny of a firms' management team by the direct representatives of savers, but it also leads to substantially higher costs than other pension systems. These costs have brought down pension returns even more.

The Centre is looking to undertake a detailed empirical analysis of pension fund returns by country and size and to disentangle the sources of returns to understand to what extent scale improves returns and what impact it can have on governance. This research is expected to be published in early 2018.

***Given public sector investment already accounts for a large share of equity deals in some regions, how can we best catalyse uptake of equity capital outside the South East?***

The Centre agrees with the government that ensuring high growth firms have access to the most appropriate finance is key to an industrial strategy. Employment growth is increasingly coming from a small cohort of fast growth firms. These firms are often knowledge intensive and generally do not have the appropriate characteristics for debt financing. Hence, equity finance is critical to the success of these firms in attempting to scale up.

However, scaling up is an extremely risky process. For every success story, many firms fail in their attempts. Therefore, without sufficient numbers of firms being financed, an economy is less likely to create successful fast growth firms and jobs. Although the green paper rightly seeks to address concerns around scale-up finance, it is also critical that there is a steady stream of firms actually reaching this phase.

The UK has had considerable success in this area via its use of tax incentives in the form of the Enterprise Investment Scheme (EIS) which encourages investment into earlier stage companies. Since the scheme was launched in 1993-94, over 24,620 individual companies have received investment and nearly £14.2bn of funds have been raised. Data for 2014-15 shows that the scheme raised more than £1.8bn of funds for investment – up from £400m in 1994-95. Under EIS, firms with fewer than 250 employees can raise up to £5m each year, with a lifetime limit of £15m pending EU state aid approval. Growth achieved by investment made under both schemes is exempt from capital gains tax.

More recently the Coalition government set up the Seed Enterprise Investment Scheme (SEIS) with income tax relief at 50%, higher than the EIS at 30%, reflecting the higher risk of investing at an even earlier stage of a company's development. An individual investor can invest up to £100,000 in SEIS and £1m in EIS per annum.

In addition the UK has a Venture Capital Trust (VCT) scheme which was introduced in 1995. Under the scheme, investments in firms are made by fund managers rather than business angels. To date, this scheme has raised £6.4n for investment. This scheme has a maximum investment limit of £200,000 per year.

To date, research has indicated that between 52% and 87% of the funding provided through the EIS and VCT schemes would not have been invested in small unquoted companies in the absence of the schemes. Analysis of firms listed on the UK's AIM market, which can take advantage of EIS, shows that AIM firms in 2009 created 250,000 jobs, generated £12bn of GDP and paid £1.8bn in tax revenues. In general the EIS scheme appears to have been more successful than the VCT scheme. On top of raising almost double the amount, the EIS scheme has raised over four-times the tax liability compared to just over two for VCTs. 80% of business angel investment in the UK utilises the EIS and SEIS schemes, and private investors account for up to £1bn of early-stage investment per year.

Although these figures are extremely encouraging, there still remains no definitive analysis as to just how valuable these schemes have been in net terms to the British economy. The Centre is currently undertaking an analysis of firms who have received EIS funding and firms that have not, to quantify the value to the economy of these schemes. This is extremely important for two reasons:

1. How can the various schemes be improved or expanded to boost the economy?
2. In light of the UK's pending departure from the European Union, what additional policies might be introduced to improve the outcome to the British economy given that the General Block Exemptions Regulation will cease to apply?

We expect this research to be published early in 2018.

## Encouraging trade and inward investment

***What can we learn from other countries to improve our support for inward investment and how we measure its success? Should we put more emphasis on measuring the impact of Foreign Direct Investment (FDI) on growth?***

The Centre welcomes the government's rethink on developing a new, more strategic approach to inward investment. Analysis by the Centre for Progressive Capitalism shows that utilising blunt measures such as total FDI as a proxy for a successful industrial strategy are potentially highly damaging to the UK's industrial base.

The Centre for Progressive Capitalism has undertaken extensive analysis to disentangle FDI flows to facilitate such an analysis. One of the major drivers of FDI is M&A transactions. Between 1987 and

2003, there was an average net outflow of £16.9bn per annum. However, from 2004 to 2015 there was an average net inflow of £14.6bn per annum, which accounts for 54% of all net FDI since 2004.

The reason for this was that at the end of 2002, the Labour government introduced the Enterprise Act. The Act removed the public interest test from the minister, and only permitted specific industries such as defence and media to be subject to a public interest test. The net result of this was that the UK overnight was transformed into the most liberal M&A regime in the world.

The question that needs to be answered is whether the large scale acquisition of UK owned firms is beneficial for the economy or not. Firstly, the actual value that M&A brings to an economy, beyond large fees for corporate advisors, appears limited. According to the Harvard Business Review the failure rate of M&A is somewhere between 70% and 90%. Given this failure rate is so high and M&A so prevalent in the UK economy, this may well be another reason why productivity in the UK has failed to budge that much. Furthermore, research by Cass Business School on 3,272 acquisitions of UK targets between 1997 and 2010 highlighted that the majority of transactions are unsuccessful in adding value.

More importantly though, there appear to be broader economic effects when a large firm at the summit of a successful industrial cluster is acquired. These firms support a myriad of suppliers and sub-contractors and are central to the ongoing success of the cluster. When these firms are acquired as part of a global consolidation strategy, this can lead to the decline of the cluster and the loss of industrial capacity.

The statement from the prime minister that all foreign takeover bids will be assessed to determine whether they are in the national interest is to be welcomed. However, care needs to be taken that the system does not revert to a broader public interest with the minister attempting to prevent small transactions in marginal constituencies. Although there may be benefits in preventing the acquisition of successful UK firms that result in a loss of jobs, R&D personnel and industrial capacity, many firms and particularly high growth ones, do require international capital to expand.

The Centre recommends that the government beef up the competition and markets authority to block M&A activity that reduces competition through consolidation at the national regional or global level when a UK firm is targeted by an international firm.

The next most significant share of FDI inflows after M&A is the investment in existing property assets. Between 2004 and 2015, the annualised average net inflow into UK property was £6.7bn which accounts for 25% of all FDI inflows since 2004. Crucially, 97% of these inflows acquire existing assets as opposed to directly financing the creation of new assets.

These inflows have had a considerable impact on driving demand for both commercial and residential assets, which have supported higher prices thereby making offices and homes increasingly unaffordable for many segments. Hence encouraging the ongoing sale of existing UK property assets may in fact reduce productivity by increasing rental costs, and also reduce real incomes as the cost of housing rises.

The portion of FDI flows that most economists would agree is beneficial for an economy is actual capital investment. Although the gross flows seem impressive which in some years can be in excess of £20bn, when the net is estimated by subtracting the UK net outflows, it appears that net capital investment into the UK averages only around £100m per year.

If the government wishes to target FDI measures, then it should really be targeting capital investment. Targeting total FDI may lead to the acceleration in the sale of UK firms and property - yet these add

very little to the productive capacity of the economy. Indeed, some evidence suggests they exacerbate existing imbalances.

## Driving growth across the whole country

***What are the most important new approaches to raising skill levels in areas where they are lower? Where could investments in connectivity or innovation do most to help drive growth across the country?***

The key challenge for the government is to ensure that the local skills ecosystem is able to respond to the demand for skills from employers. Analysis by the Centre for Progressive Capitalism shows that there is widespread systematic failure to meet the demand for technical skills. Technical skills are most in demand from manufacturing companies which affects the Midlands and the North of the country disproportionately. Central to resolving this issue is to ensure that each local economy has the ability to understand the local mismatch, and to work with firms and colleges to ensure there is adequate capacity for courses and apprenticeships. Above all, local areas must ensure that careers advice provides the necessary information highlighting occupations that are more or less in demand. Central government also has a key role to play in measuring the success of local skills strategies and to ensure that corrective action is taken where local stakeholders have been unable to close the mismatch between supply and demand.