

Showing resilience

EY UK Attractiveness Survey - Scotland
July 2024



Contents

Foreword

Viewpoint from EY Scotland: showing resilience



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I'm delighted to welcome you to our 2024 EY Scotland Attractiveness Survey. As in previous years, this research report examines Scotland's evolving performance and perceptions as a destination for foreign direct investment (FDI).

In introducing this year's survey, I'm equally pleased to report that Scotland has put in another very strong performance both in attracting FDI and retaining the confidence of investors. It's a better showing than I would have expected following last year's study, which showed a slight softening in Scotland's perceived attractiveness despite a continued rise in project numbers.

A year of powering ahead ...

Against this background, the good top-line news this year is that Scotland has once again powered ahead. A few headline figures tell the story. They include a 12.7% rise in FDI projects secured in Scotland in 2023, a higher market share of overall UK projects, a resurgence in both net new investments and FDI job creation, and a leap of more than 80% in utility supply investments.

Our annual survey of investor sentiment provides further grounds for optimism. A decade-high 69% of our 2024 respondents are intending to invest in the UK in the coming year, with 26% of those choosing Scotland, second only to London. And in terms of intended UK city locations, Edinburgh ranks second and Glasgow fourth.

... but with issues to address to sustain future project flows

So far, so positive. However, the challenge with any position of strength is how to maintain it and leverage it further. And our everyday interactions and discussions with clients across all sectors, including many inward investors, point to a number of issues and frustrations that Scotland must address if it is to sustain its strong FDI performance into the future.

One area for concern is the variances recently introduced into income tax rates. While the potential impact of these goes far beyond FDI, the fact remains that access to talent is a major driver of attractiveness and investment. With global talent becoming increasingly mobile, any risk of individuals' decisions to live and work elsewhere may gradually affect FDI sentiment and volumes.

A further issue is the visible deterioration of Scotland's inner cities. While both our FDI and perception figures suggest Scotland's major urban areas remain attractive, I think anyone who experiences them on a daily basis will feel there's a disconnect – or maybe a time-lag – between the figures and today's reality. To sustain their attractiveness, action is needed to raise the general quality of our inner cities, including the ease, transparency and efficiency of the planning processes. There's a growing sense that Scotland's cities may be losing out to rivals like Manchester on these grounds.

A third – related – issue is the need to invest in infrastructure more generally. Over the past decade or so, the massive expansion of Edinburgh Airport has had a phenomenally positive effect on travel and tourism. In 2012, Edinburgh handled 8.8m passengers per year but in 2024 that is expected to rise to 15m. Put simply, making Scotland more globally accessible boosts the incoming flow of people and capital. The key here is to use government involvement and collaboration to let private capital and entrepreneurship thrive.

Maintaining critical momentum ...

Drilling deeper, there are some specific areas where all of these issues converge. Take the dramatic leap in Scottish utility supply projects that I mentioned earlier. This has been spurred by lease arrangements for sustainable energy projects on Crown Estate property, and as such is a finite one-off boost. So, while welcoming the critical momentum Scotland has achieved in renewables FDI, we need to look beyond it to identify where the next wave of projects will come from.

A further priority is deciding the way forward for Scotland's planned [Green Freeports](#) in Inverness and Cromarty Firth and the Firth of Forth, and [Investment Zones](#) in Glasgow and the North East. While there's much debate over how such initiatives affect FDI flows, it's vital that Scotland keeps pace with the rest of the UK in this regard – something that will require continued collaboration between the Scottish and UK governments.

... will require Scotland to show even greater ambition

My overall message? Another strong year for FDI does not mean Scotland can rest on its laurels. And while Scotland has come second to London for projects in nine of the past ten years, this status can't be taken for granted. Instead, now is the time to capitalise on Scotland's strong historical performance by taking active steps to improve our offer and raise our ambition still further, setting the scene for the next wave of growth in projects.

In a competitive world for FDI, standing still is not enough. The only option is to keep forging ahead.

Executive summary

Scotland's FDI performance in 2023: a double-digit increase in projects secured, against the background of a smaller rise across the UK overall – resulting in an expanded share of UK projects

Sectors

The four leading sectors generating inward investments into Scotland in 2023 were utility supply, business & professional service, digital technology, and transportation and logistics. Utility supply projects surged by 81.8% to 40 projects from 22 in 2022.

Activities

Business services projects were the leading activity for Scottish FDI projects in 2023, followed by manufacturing projects, which rose by 28.6% to a decade high of 45 projects. Logistics projects more than trebled to 19. But research and development (R&D) projects fell by two-thirds to eight, putting R&D activity in joint fourth place with sales & marketing.

Origins

In 2023 the US remained the single biggest originator of FDI projects into Scotland, accounting for 27 projects or 19% of Scotland's total during the year – the lowest proportion in the past decade. Projects from Germany doubled to 20, a decade high, making it the second-biggest source of projects into Scotland, followed by France with 10.

Increasing UK and Scotland investment plans

Sixty-nine percent of investors participating in our UK survey are planning to invest in the UK in 2024 – up from 65% in 2023 and the highest level ever recorded in this research. Asked which part of the UK they're targeting as a destination for FDI, 26% cite Scotland – second only to London.

Scotland's top FDI cities

Scotland had three cities/towns ranked in the UK's top 19 urban locations for FDI outside of London in 2023, with Edinburgh placed second, Glasgow fourth and Aberdeen eighth.



Key findings from 2023

Scotland retained its position in 2023 as second to London among locations attracting new FDI projects into the UK, and ranked third on FDI jobs among the UK's regions and devolved administrations.

- ▶ 142 inward investment projects were secured in Scotland in 2023

FDI projects secured by Scotland increased by 16 projects from 126 the previous year.

- ▶ 12.7% rise in Scottish FDI projects

With projects into the UK as a whole rising by just 6%, Scotland's increased FDI flow saw its share of all UK projects rise for the fifth consecutive year to its highest in the past decade.

- ▶ 14.4% – Scotland's share of UK FDI projects, up from 13.6% in 2022

Scotland's 'big three' cities – Edinburgh, Glasgow and Aberdeen – remained in the UK's top 10 cities outside of London for attracting projects in 2023.

The top country for FDI in Scotland in 2023 was the United States, followed by Germany and France.



Investor perceptions

Sixty-nine per cent of investors are planning to establish or expand operations in the UK over the next year – and 26% are planning to invest in Scotland, second only to London.

In terms of planned investment in UK cities, 23% are targeting Edinburgh and 9% Glasgow – putting those cities second and fourth respectively in the UK.

A net 59% of investors expect the UK to become more attractive to FDI over the next three years, against only a net 11% who believe its attractiveness will decrease.

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

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



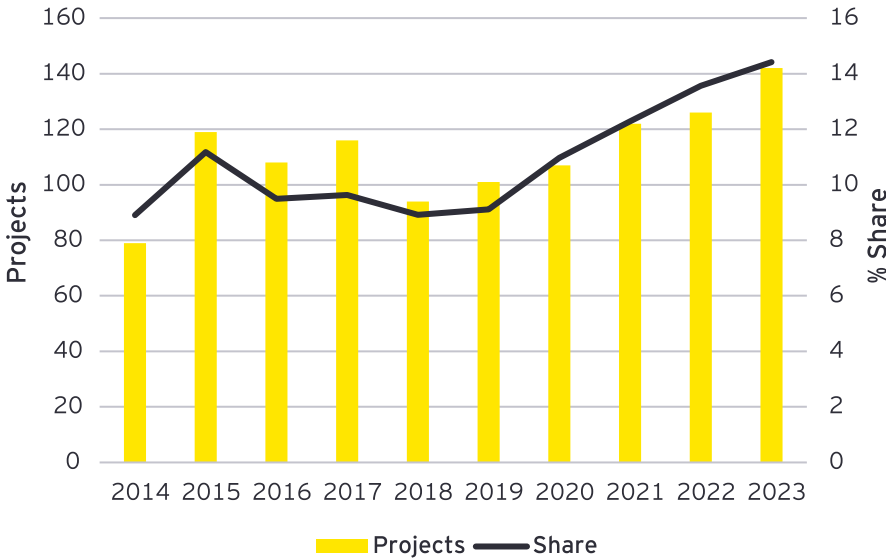
Scotland maintains its track record of investment success – increasing its project numbers and UK market share ...



In 2023, Scotland secured 142 foreign direct investment (FDI) projects compared to 126 in 2022 – a rise of 12.7% in a year when total projects into the UK as a whole rose by 6%. This was the fifth consecutive annual increase in projects recorded by Scotland, and the country's 2023 total of 142 projects represented the largest number it has secured in any year across the past decade.

The fact that the rise in Scottish projects in 2023 far outpaced the rate of increase recorded across the UK as a whole meant that Scotland increased its market share of UK projects – pushing its proportion of all UK investments in 2023 to the highest level ever, at 14.4% of UK projects (up from 13.6% in 2022). As recently as 2018, Scotland secured just 8.9% of UK projects, and its share has been increasing in every year since then.

Figure 1: Scottish projects and market share of all UK projects 2014-2023



Source: EY European Investment Monitor (EIM), 2014-23

... while Scotland remains the clear second choice for investors outside of London, the gap is closing between Scotland and the rest of the UK ...

With projects in London rising by 20.1% from 299 in 2022 to 359 in 2023, the 12.7% rise in investments into Scotland was not enough to prevent London from extending its lead as the UK's leading region for FDI. However, Scotland's strong flow of projects during the year meant it maintained its position as the most attractive location for FDI outside the UK capital – a status it has held in every year of the past decade, with the exception of 2014.

That said, a powerful FDI performance by the West Midlands during 2023 meant that the gap between Scotland and the third-placed FDI location in the UK narrowed significantly. During the year, project successes recorded by the West Midlands rose by 71.6% to 127 – its highest haul in the past decade and just 15 projects behind Scotland's total for the year.

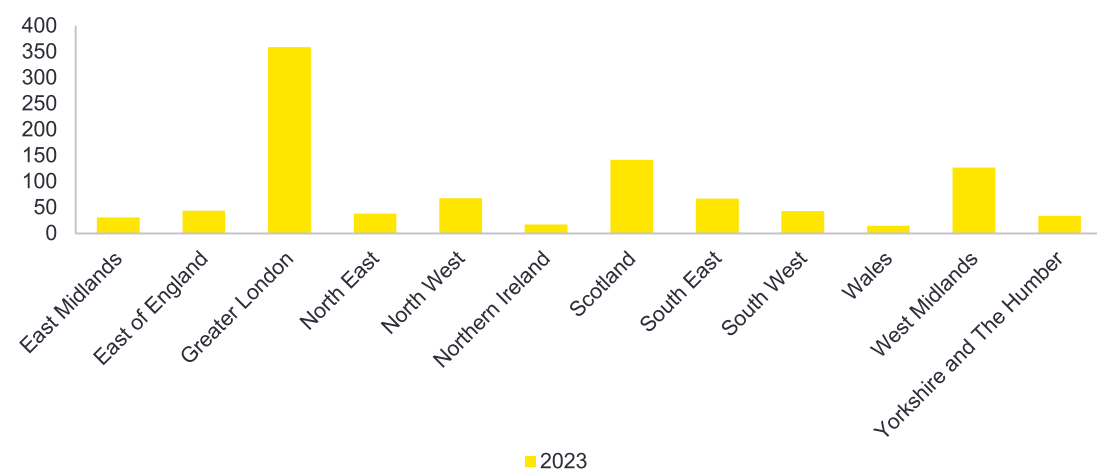
... however, Scotland has performed better at the headline level as opposed to individual cities – reflecting sustainable investments bearing fruit

In the past, Scotland's success in maintaining its long-standing position as the second-ranked 'region' of the UK for FDI has been largely built on the success achieved by its cities. Over the past five years the total number of projects recorded by Edinburgh and Glasgow has consistently placed them among the UK's top five cities outside London, and Aberdeen is also in the top 10. However, in 2023 a strong rise in sustainable utility supply projects – generally located in more rural areas - saw the balance shift slightly away from Scotland's cities.

Partly as a result, Scotland's strong FDI showing in 2023 came against the backdrop of a mixed performance from its cities. Edinburgh ranked equal first with Manchester in 2021 and second behind Manchester in 2022. It overtook Manchester in 2023 despite its projects numbers declining by 20% to 32. However, Edinburgh remained the second largest city recipient of projects outside of London due to a strong rise in projects into Birmingham, which took top place. Glasgow, ranked fourth, recorded a modest increase in projects during the year, while Aberdeen came eighth despite a small decline.

For Scotland to have two cities in the UK's top four for FDI, and Aberdeen also in the top ten, bears testament to Scotland's enduring attractiveness to inward investors. But its good performance in 2023, while its cities are largely marked in terms of project numbers, underlines that its appeal to investors extends beyond its urban areas.

Figure 2: FDI projects in the UK's regions and devolved administrations, 2023



Source: EY European Investment Monitor (EIM), 2023

Figure 3: Largest UK city recipients of investment (excluding London) 2019-2023

		2019	2020	2021	2022	2023
1	Birmingham	30	26	17	28	67
2	Edinburgh	22	36	31	40	32
3	Manchester	34	34	31	45	31
4	Glasgow	23	23	25	23	25
5	Bristol	15	12	19	13	17
5	Cambridge	10	12	14	9	17
7	Leeds	20	16	15	15	16
8	Aberdeen	16	13	14	15	13
9	Warwick	1	2	12	10	12
10	Newcastle	3		6	11	11
11	Belfast	22	25	24	15	10
11	Coventry	8	10	6	4	10
11	Reading	14	6	8	5	10
14	Cardiff	10	5	8	9	9
14	Liverpool	8	8	3	7	9
15	Milton Keynes	6	4	9	5	8
16	Leicester			2	7	7

Source: EY European Investment Monitor (EIM), 2019-23

Scotland records a resurgence in both net new investments and FDI job creation

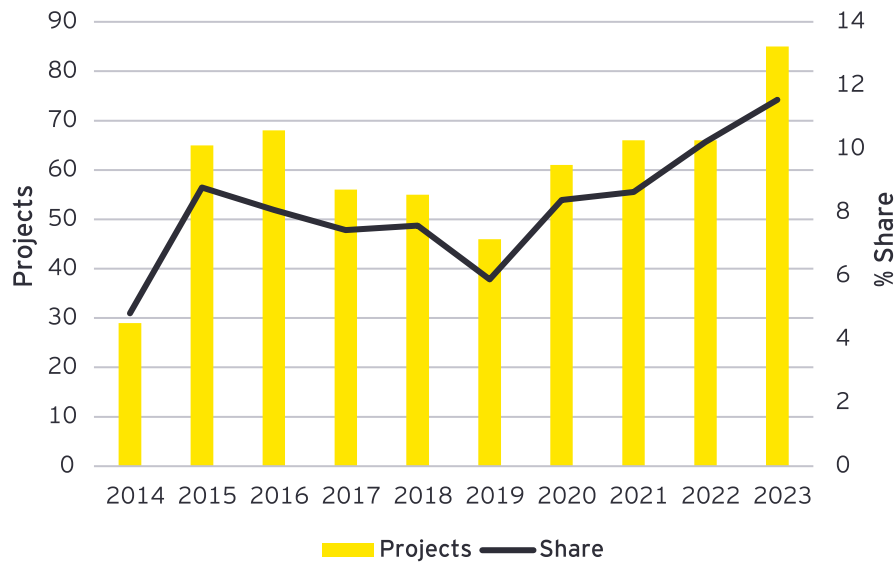
Scotland's strong year in attracting FDI projects in 2023 is further underlined by its impressive performance in attracting 'new' projects from first-time investors (as opposed to expansions of existing investments). New projects secured by Scotland during the year increased by 28.8% from their level in 2022, rising from 66 projects to 85 in 2023. New projects into Scotland have now either increased or remained stable in each of the past four years, and the number recorded in 2023 was both Scotland's highest across the decade and almost three times the total in 2014, when Scotland secured just 29 projects.

Significantly, Scotland's haul of new projects in 2023 increased at a faster rate than for the UK as a whole, pushing Scotland's share of all new UK projects up to 11.5% from 10.2% in 2022. This means Scotland's UK share has risen in four consecutive years, increasing from just 5.9% of new UK projects as recently as 2019. What's more, with Scotland securing 14.4% of all UK projects in 2023 but 11.5% of new projects, Scotland has also put in a stronger performance in securing project expansions than the UK as a whole.

The data on FDI jobs for 2023 provides further encouraging news. These numbers need to be treated with caution, as not all projects disclose employment figures. But allowing for this proviso, the fact remains that employment creation announced by FDI projects in Scotland increased by 27.8% from 5,205 in 2022 to 6,650 in 2023. This 2023 total represented Scotland's highest number of FDI jobs since 2021 and second highest in the past decade. Scotland's employment creation from FDI in 2023 also grew faster than that for the UK as a whole, boosting Scotland's UK share of FDI jobs from 11.1% in 2022 to 12.7% in 2023.

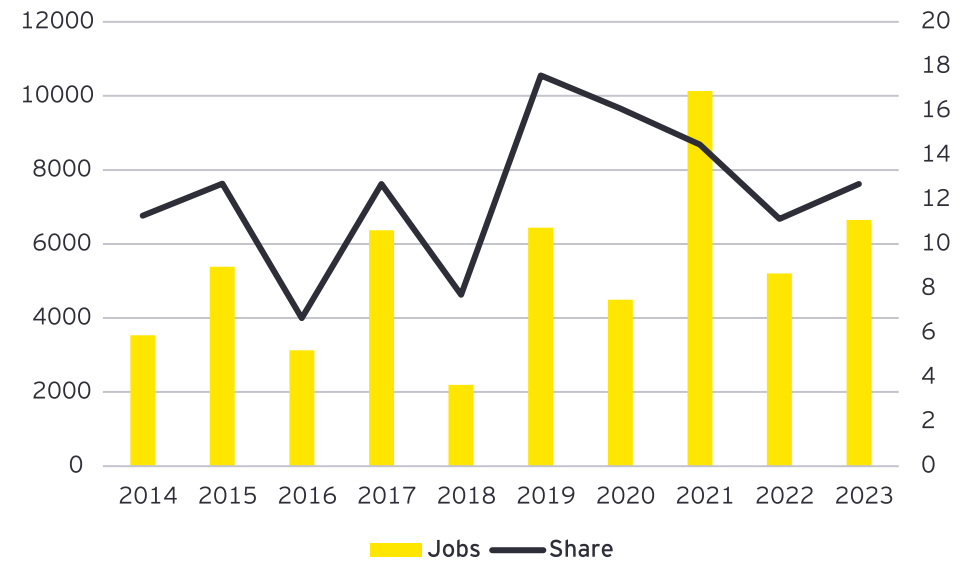


Figure 4: New FDI Projects recorded in Scotland and the share of new UK projects (2014-2023)



Source: EY European Investment Monitor (EIM), 2014-23

Figure 5: FDI employment creation recorded in Scotland and share of UK FDI jobs (2014-2023)



Source: EY European Investment Monitor (EIM), 2014-23

Sectors for projects in Scotland: a surge in utility supply investments boosts Scotland's fortunes – reflecting lease arrangements with Crown Estate land

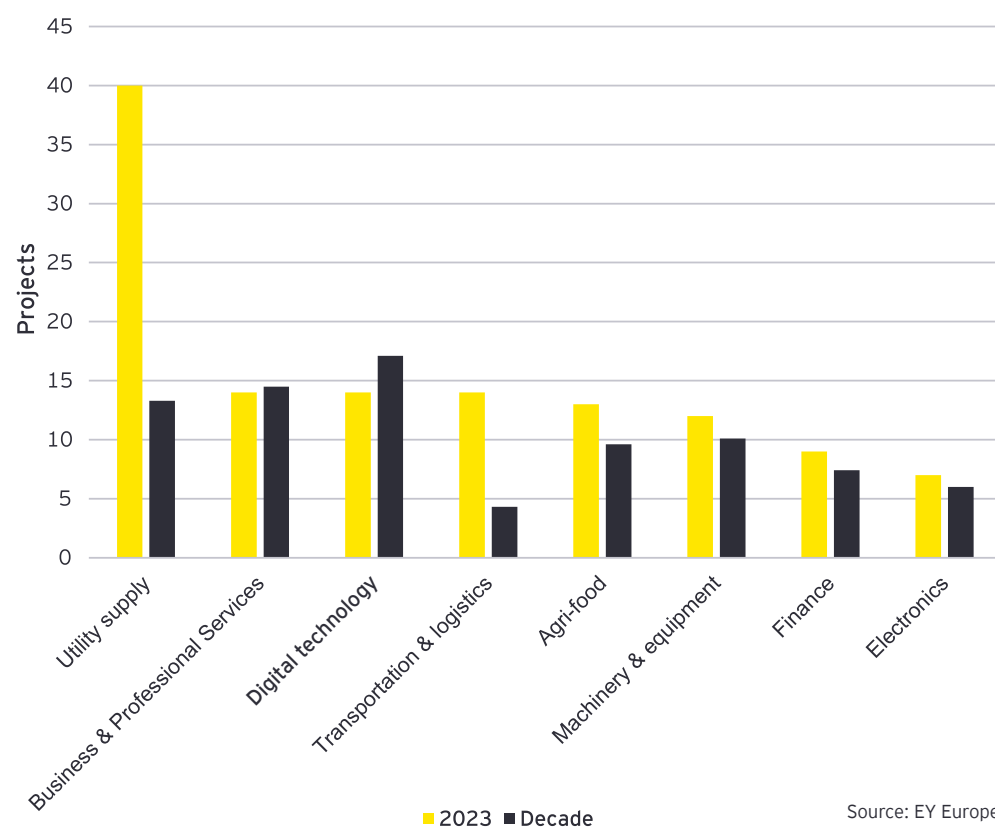
In contrast to the position in Europe and the UK as a whole, the leading sector generating investment projects in Scotland in 2023 was not digital technology. For the first time in six years, digital technology was supplanted as Scotland's leading FDI sector, and was overtaken by the utility supply sector – which saw increasing levels of low-carbon investment announced during the year.

In all, there were 40 utility supply investment projects recorded in Scotland in 2023, a rise of 81.8% on the 22 projects secured in 2022. Remarkably, this total of 40 projects was the highest recorded by any sector in any year of the past decade in Scotland. The sharp increase partly reflected new leasing arrangements for low-carbon energy generation projects on Crown Estate land.

Utility supply in first place was followed by three sectors that all ranked equal second with 14 projects recorded during the year. Digital technology's total of 14 projects in 2023 was down by 51.7% from its haul of 29 projects in 2022, and below its annual average over the past decade, at 18.2 projects. Business services' 14 projects was in line with its average annual number of projects over the decade, at 14.1 projects. And transport & logistics' complement of 14 projects was its highest total in the decade.

Lower down the ranking, it's noteworthy that the finance sector – in seventh place – saw its number of projects rise to nine in 2023. This was the sector's highest total in Scotland since 2015, and above its decade average of 7.4.

Figure 6: Leading sectors for investment in Scotland 2023 versus the long run average for the past decade



Source: EY European Investment Monitor (EIM), 2014-23

Activities generating investment in Scotland: R&D has taken a hit across the UK as whole in 2023 – but Scottish manufacturing and logistics investments have surged

In terms of the activities that investment projects in Scotland in 2023 were aiming to undertake, business services led the way, maintaining the recent trend. Business services has been the largest activity undertaken by projects in Scotland in every year from 2020. There were 59 business services investment projects recorded in 2023, representing a year-on-year increase of 15.7% from 51 projects in 2022.

The second largest activity for Scottish projects in 2023 was manufacturing. The number of projects focused on manufacturing increased by 28.6% from 35 projects in 2022 to 45 in 2023, the highest total in any year over the past decade. Tellingly, Scotland recorded the highest total of manufacturing projects of any UK region or devolved administration in 2023 – the third successive year in which this has been the case.

By contrast, R&D projects fell sharply from the previous year. In 2022, R&D was the third biggest FDI activity in Scotland with 24 projects – but in 2023 only one-third of that number were recorded, at eight projects. This total was the lowest number of R&D projects in Scotland in the past decade. However, R&D projects across the UK also took a hit, with the 71 R&D projects recorded in the UK in 2023 representing a 44% reduction on 2022, and the lowest number since 2016.

Figure 7: Activity of investment projects into Scotland 2014-2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Business Services	3	17	10	14	13	11	31	55	51	59
Manufacturing	31	22	24	30	25	32	17	35	35	45
Logistics	5	3	13	9	3	3	10	7	6	19
R&D	17	23	13	22	9	14	23	17	24	8
Sales & Marketing	23	51	41	35	42	32	21	7	3	8
HQ	0	3	7	6	2	9	5	1	7	3

Source: EY European Investment Monitor (EIM), 2014-23

Turning to Scotland's share of various project activities in 2023, the results show that Scotland secured 30% of all UK manufacturing projects, its highest share in the decade. The 19 logistics projects secured in Scotland made it the third biggest activity during the year, and represented the highest number of logistics projects recorded by Scotland in the past ten years. This propelled Scotland's share to 24.4% of all logistics projects into the UK, again its highest share in the past decade.

Meanwhile, the reduced number of R&D projects into Scotland resulted in Scotland only securing 11.2% of the UK's total R&D projects in 2023 – its lowest recorded share of R&D projects in the last ten years. The decline in Scotland's share was cushioned by the fact that R&D projects fell back across the UK as a whole.

Origins of FDI into Scotland: US investors continue to pull back across Europe, but remain top for now – while other European countries dominate non-US projects into Scotland

In terms of origins, the country generating the largest number of projects into Scotland in 2023 remained the US – a position that was mirrored both across Europe and the UK as a whole. The US has been the largest origin of investment into Scotland in every year of the past decade, and 2023 was no exception.

However, a closer look reveals some significant shifts. The figures for 2023 show a decline in the number of US projects recorded into Europe and the UK compared to 2022, and the situation in Scotland reflected the same pattern. The 27 investments that the US contributed to project flows into Scotland in 2023 represented a fall of 32.5% when compared to 2022, when Scotland secured 40 US projects.

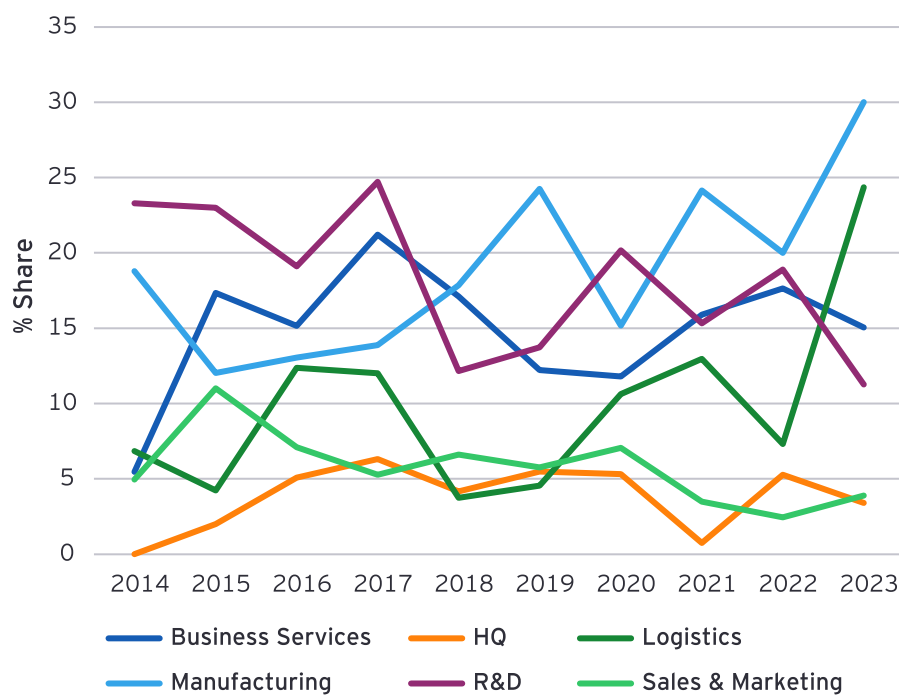
This decline meant that the total number of US projects recorded in Scotland in 2023 was the smallest in the past decade. Also, the US accounted for its smallest proportion of Scottish projects – 19.0% – than in all of the previous years in the decade.

More positively, while projects from the US into Scotland in 2023 were below their average for the past decade, the other seven leading origins of investment into Scotland recorded a higher number of projects than their decade-long average. In general, other European countries tended to dominate the project flows from origins other than the US.

Germany was the second largest origin of projects into Scotland in 2023, contributing 20 investments. This was double the number Germany recorded in 2022 (at 10 projects) and its highest number recorded in the decade. France was the third largest origin of investment into Scotland in 2023, and also recorded a higher number of projects than in 2022. France's 10 projects in 2023 was up from six in 2022, representing an increase of 66.7% and well above its decade-long average of 7.9 projects.

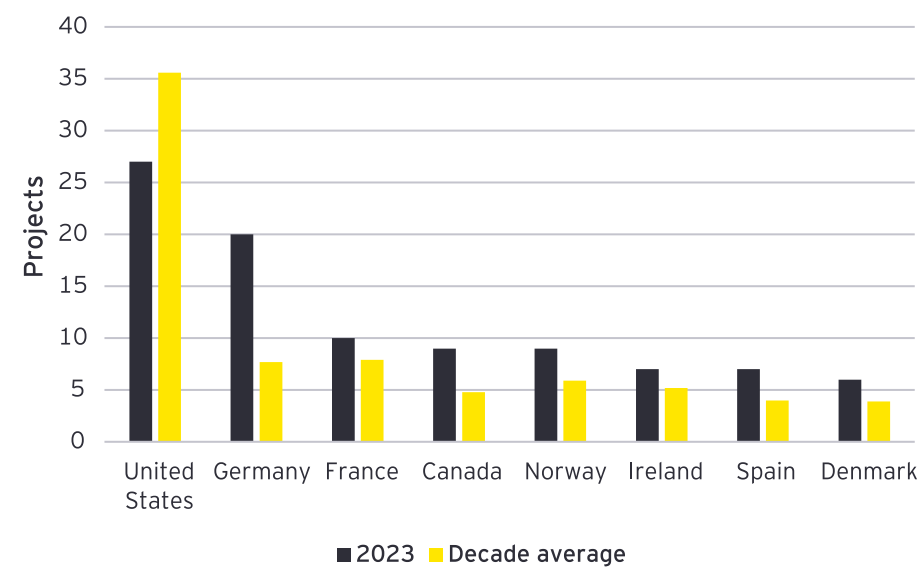


Figure 8: Scotland's share of different types of investment project activity recorded in the UK (2014-2023)



Source: EY European Investment Monitor (EIM), 2014-23

Figure 9: Leading eight countries of origin into Scotland in 2023 compared to their decade-long average



Source: EY European Investment Monitor (EIM), 2024

Investor perceptions of Scotland give further grounds for optimism on future FDI



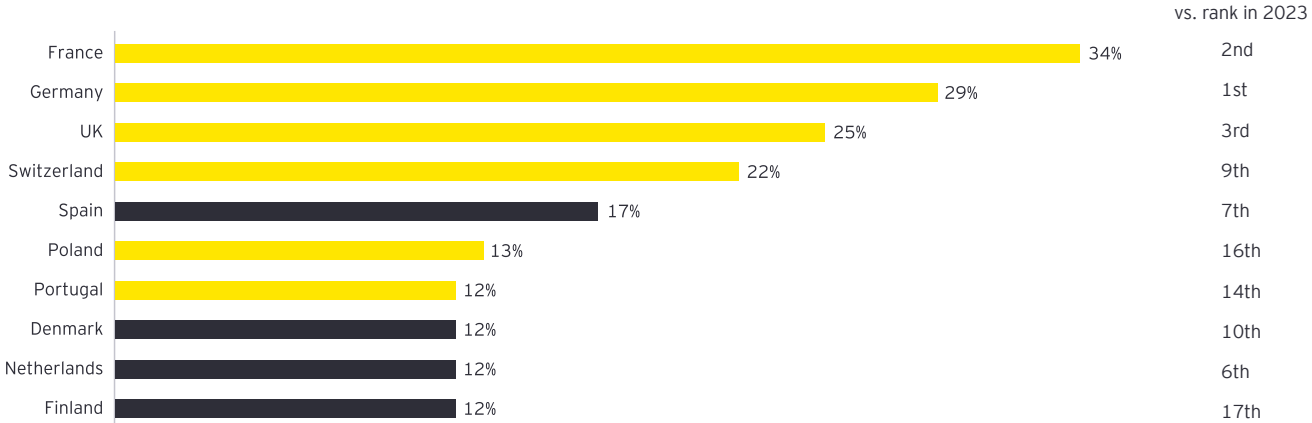
As we've highlighted in this report, Scotland put in another resilient performance in securing FDI projects in 2023. The number of investments into Scotland was up for the fifth year in succession, reaching its highest in the past decade, and Scotland's market share of all UK projects also increased once again. Further good news came with a strong rise in 'new' (as opposed to expansion) investments, and a rebound in job creation announced by FDI projects. What's more, in 2023 Scotland retained its long-standing position as the UK's leading FDI destination outside of London.

However, some of our datapoints underline that despite Scotland's continued strength, there's no room for complacency. One was the dramatic rise in projects in the West Midlands, which ran Scotland close for second place in the UK in terms of project numbers. Another was the sharp decline in R&D projects into Scotland – a pattern mirrored (to a lesser degree) across Europe and the UK overall.

More than a quarter of investors planning UK projects are targeting Scotland

Against this generally positive background, the findings from our 2024 survey of investor perceptions cast an interesting light on Scotland's consistent strength in attracting FDI, and suggest it can be sustained into the future. Asked to identify the European countries that will be most attractive to foreign investment in 2024, investors rate the UK third – the same position as last year – behind only France and Germany.

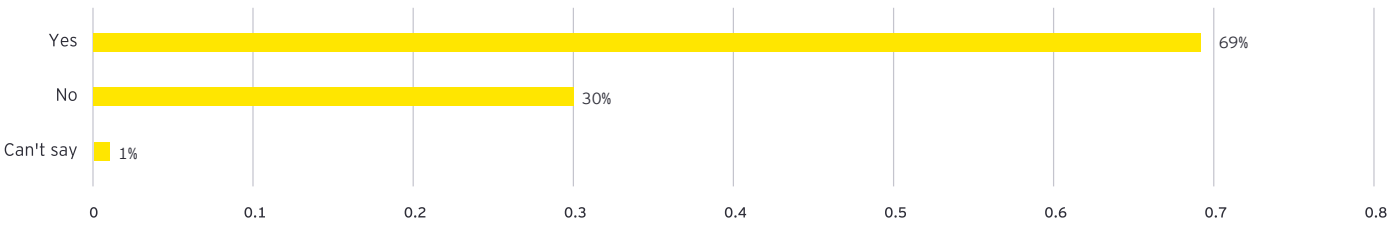
Figure 10: Which European countries will be most attractive for foreign investment in 2024?



Source: EY European Attractiveness Survey 2024

Even more tellingly, when we ask investors whether they are planning to establish or expand operations in the UK over the next year, 69% of them say yes. This figure represents a four percentage point increase from the 65% recorded in our 2023 study, which was already the highest level ever in this research.

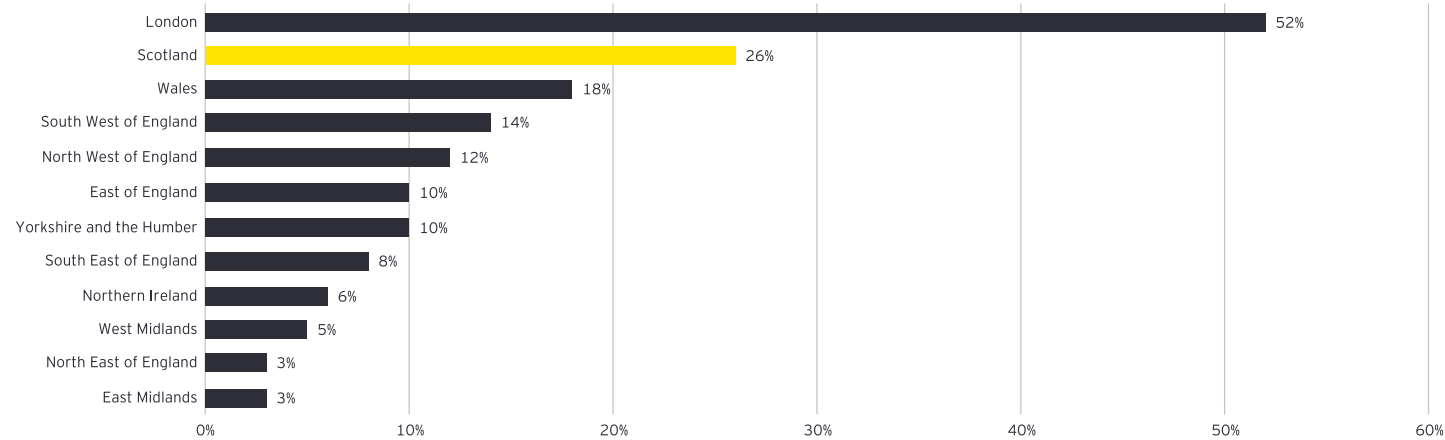
Figure 11: Does your company have plans to establish or expand operations in UK over the next year?



Source: EY UK Attractiveness Survey 2024 (400 respondents)

Moreover, a lot of those UK investment intentions are specifically focused on Scotland. Asked which part of the UK they're targeting as a destination for FDI, 26% cite Scotland. This figure is up from 19.2% in 2023, and ranks behind only London – as well as being well ahead of the UK's other regions and devolved administrations.

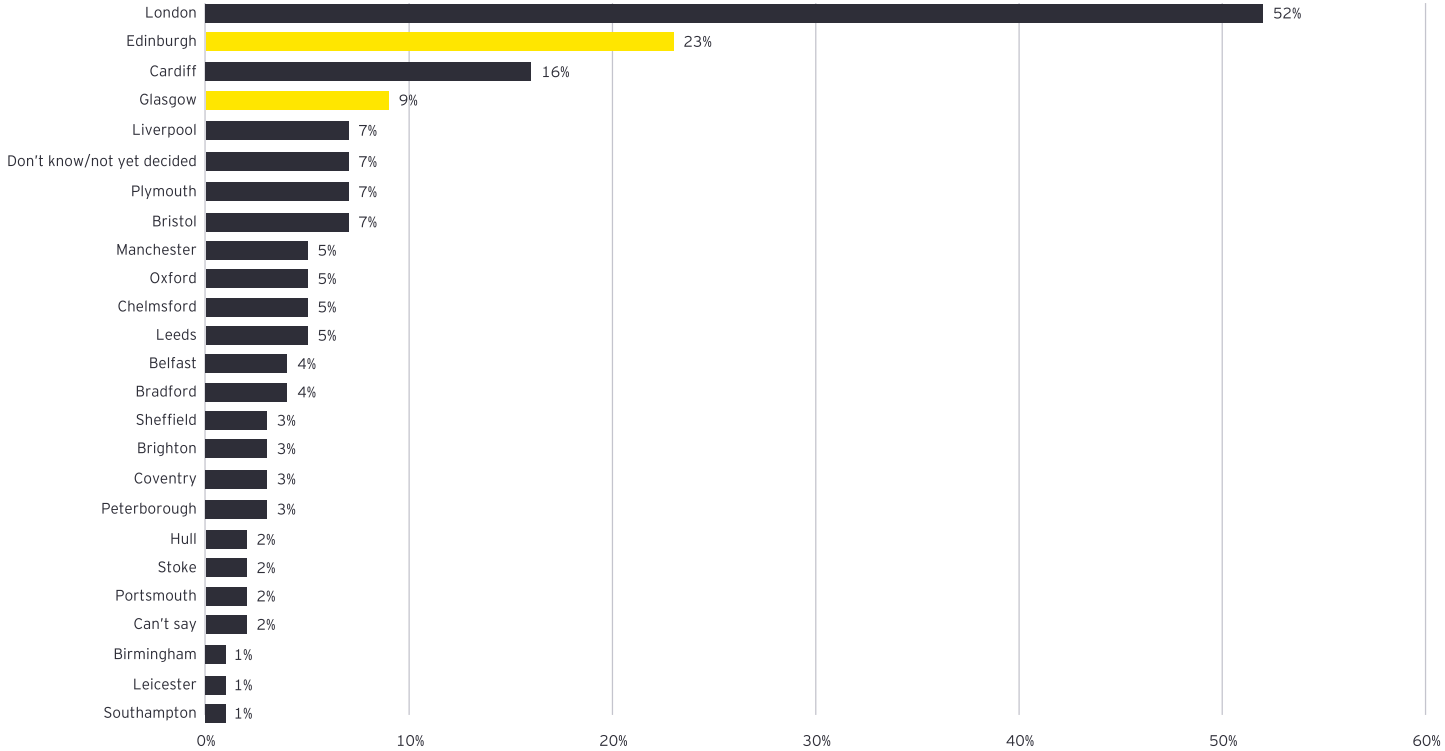
Figure 12: In which part of the UK are you planning to establish or expand operations?



Source: EY UK Attractiveness Survey 2024 (400 respondents)

There's further encouraging news on the outlook for FDI in Scotland when we ask investors which UK cities they're targeting for investment in the coming 12 months. While London – as ever – leads the way, Edinburgh comes a clear second on 23% ahead of third-placed Cardiff on 16%, and Glasgow ranks fourth in the UK on 9%. Combined with the proven strength of Scotland's cities as a magnet for FDI, these findings bode well for inward investment into Scotland in the future.

Figure 13: In which UK city are you planning to establish or expand operations over the next year?



Source: EY UK Attractiveness Survey 2024 (400 respondents)



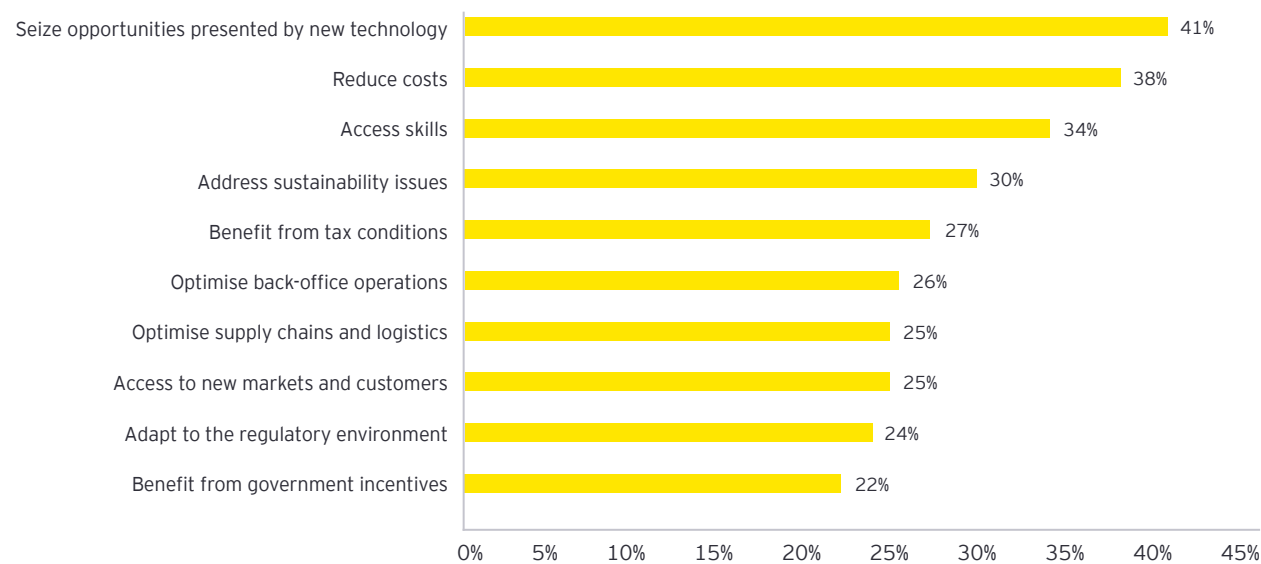
Investors want to establish or expand operations where they're incentivised to pursue R&D, seize new technological opportunities and reduce costs – but experiences vary by sector ...

As the responses to our diverse array of survey questions make clear, the effects of recent geopolitical and global macroeconomic headwinds have not disappeared entirely. However, it seems that these are now receding in favour of a competitive pursuit to seize new opportunities presented by new technology (41% of investors), reduce the impact of increased costs (38%), and - in an effort to tackle one of the perennial problems across all sectors - access the appropriate levels of skill in the labour market (34%).

Many European countries have highlighted the impact and importance of sweeping legislation that promotes incentives to investors, such as the Inflation Reduction Act in the USA. However, it's notable that while 'benefits from government incentives' does feature among the reasons for establishing or expanding operations, it still comes relatively low in investors' overall ranking of importance. Fundamentally, investors undertaking due diligence care much more about the fundamentals of investment – such as gaining access to a skilled labour market, improving margins, and achieving competitive advantage. Subsidies are a factor, but not the deciding factor for many.



Figure 14: What are the main reasons for establishing new or expanding existing operations?



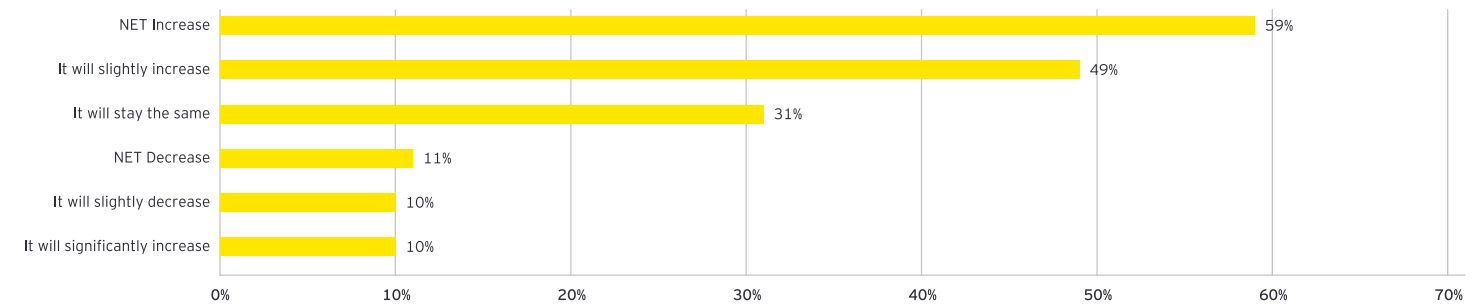
Source: EY UK Attractiveness Survey 2024 (400 respondents)



... as further findings indicate a bright outlook for FDI, with key policy areas to home in on ...

Together, these findings point to the likelihood of another buoyant year for Scottish FDI in 2024. And further positive indicators are forthcoming when we ask investors how they expect the UK's overall attractiveness to FDI to evolve over the next three years. A net 59% of investors expect the UK to become more attractive during that timeframe, against only a net 11% who believe its attractiveness will decrease. Given that Scotland is already a highly attractive environment for FDI, this is an encouraging finding.

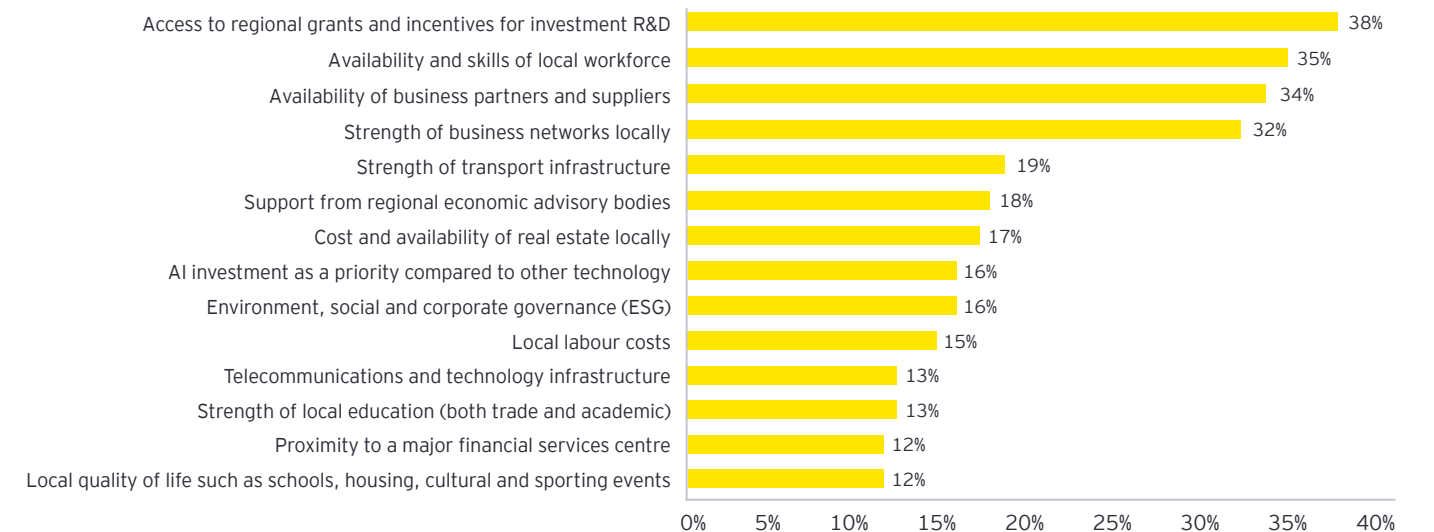
Figure 15: How do you expect UK's attractiveness to evolve over the next three years?



Source: EY UK Attractiveness Survey 2024 (400 respondents)

Investors' main criteria when considering investing in UK locations outside London also play to Scotland's strength. At the top of the list are factors such as access to regional grants and incentives, the local skills base, and the availability of business partners and suppliers. Scotland is well-placed to compete strongly on all of these criteria. What's more, in Scottish Development International it has a trade and inward investment agency with the proven commitment and ability to fight Scotland's corner and respond to investors' needs, goals that are also actively supported by the Scottish Government.

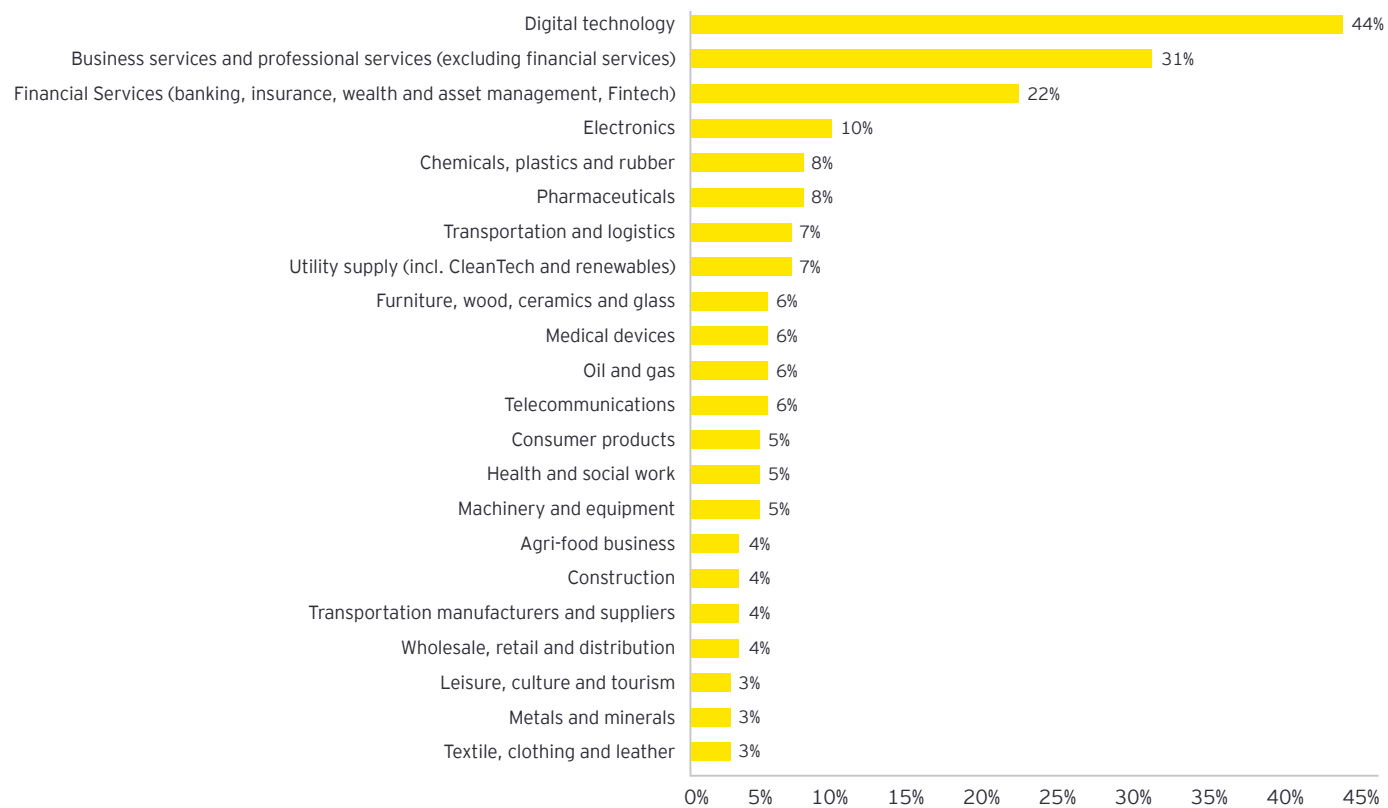
Figure 16: What are your investment criteria when considering investing in the regional locations outside of London in the UK?



Source: EY UK Attractiveness Survey 2024 (400 respondents)

A wider look at the investor perceptions across sectors and sources of growth provides further encouragement for Scotland. The top five sectors that investors expect to drive the UK's growth in the coming years are digital technology, business and professional services, financial services, electronics, and chemicals, plastics and rubber. These are all sectors where Scotland has proven strengths. And with 85% of investors saying that the UK offers the right environment for their investment from an ESG perspective, it seems that Scotland's sharp rise in "cleantech" utility supply projects in 2023 can be sustained into the future – with Scotland's leading position in sustainability and low-carbon power generation offering a real competitive advantage.

Figure 17: Please rank the top two business sectors that you expect to drive the UK's growth in the next three years.



Source: EY UK Attractiveness Survey 2024 (400 respondents)



... and investors tell us that in order to stay competitive globally, the UK (- including Scotland) – need to focus heavily on providing support for R&D-intensive and high-tech industry ...

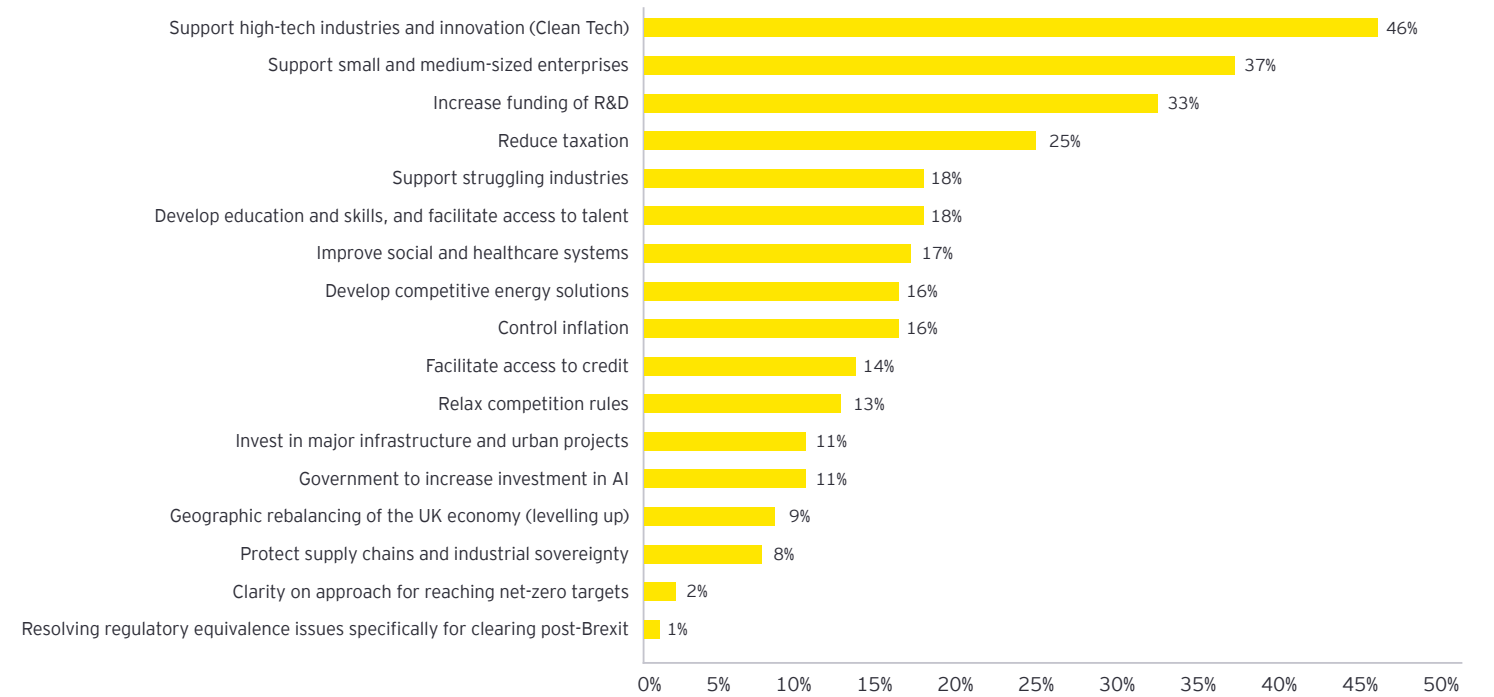
In our perception surveys over the past few years, we have consistently argued that the sector priorities for the UK should be viewed through the lens of investors' evolving views on the UK's policy responses to major geopolitical and macroeconomic events. For 2024, we asked investors what they thought the UK government should focus on to maintain the country's competitive position in the global economy – a question that represented a departure in tone from some previous years, when we've tended to focus more on policy within the domestic setting.

What did investors tell us in response? Whereas they ranked the geographic rebalancing of the UK economy top last year as a way to improve the UK's future attractiveness, cited by more than 30%, the shift in focus onto the globally competitive backdrop has resulted in investors pointing strongly to support for high tech industries and innovation (at 46%). However, particularly given commitments and constraints around government spending, the reality is that national policy can only achieve so much – and other actions and actors will be needed to drive activity in local economies and accelerate growth in key sectors.

With investors also signalling the need for support for SMEs (37%) and a focus on R&D (33%) to maintain the country's competitive position, it's clear that policymakers should explore which options are feasible – beyond blanket transactional support through funding – to drive activity in these areas. In Scotland – as in the UK – this might possibly involve exploring the potential for relief through the tax system, amending regulations to make them less cumbersome, and focusing on developing the pipeline of talent that ultimately fuels these areas of strategic focus.

Looking at the second tier of policy actions that investors think will fuel the competitive position of the UK globally, we find that these include many of the 'usual suspects' in terms of bread-and-butter issues that consistently appeal to investors. Examples include reducing taxation (25%); controlling inflation, which has moved up the agenda in recent years, with 16% mentioning it in 2024 – although this figure can be expected to decline as inflation has now normalised in the UK; supporting access to credit (14%); and some emerging concerns amid a global context of rising protectionism, with investors citing a need to relax competition rules (13%) and protect supply chains and 'industrial sovereignty' (8%). It's worthwhile for policymakers to keep a temperature check on these types of concerns, as the UK seeks to develop strategic responses to mood swings that favour protectionism in other capitals worldwide.

Figure 18: Where should UK concentrate its efforts in order to maintain its competitive position in the global economy?



Source: EY UK Attractiveness Survey 2024 (400 respondents)

Conclusions: Scotland must seize opportunities beyond its historical areas of strength



Seeking out new avenues and origins of investment will be key to sustaining Scotland's competitive position as the UK's second most attractive FDI location after London

The period covered by our UK Attractiveness Survey 2024 has seen a creditable return to strength by the UK as a whole after a challenging time during the previous year. However, Scotland has recorded year-on-year growth in investment projects in every year since 2018, a performance that sets it apart from other FDI locations across the UK. And while it should be celebrated that 2023 saw the positive benefit of historic investment in renewables and leasing arrangements with Crown Estate Land, these investments will eventually hit a ceiling over a finite period – and therefore cannot be relied upon to bolster investment flows into Scotland over the longer term.

Scotland invariably benefits from many of the “softer” qualities that international investors prize when conducting due diligence: attributes such as a strong sense of culture and belonging, good public services compared to international peers, solid infrastructure, and access to talent. It is easy to see why Scotland is viewed as one of the most attractive places to invest in the UK – and why it consistently performs well, ranking second only to London.

That said, there are certain characteristics of the Scottish landscape that require some deep reflection from policymakers – and some action to ensure Scotland retains its historically strong competitive position. For example, as shown at the start of this report, Scotland's origins of FDI remain overwhelmingly hedged towards Europe and North America – a pattern that is now shifting elsewhere in the UK. Parts of England, for instance, are benefitting massively from highly strategic investment from the likes of India, Australia and Turkey – and are reaping the rewards brought by a more diverse portfolio in terms of origins.

In the context of the wider UK investment landscape, we've noted in our UK report that this year's successful performance has been achieved at a time when many of the equivalent analyses across Europe are looking much gloomier. With projects in Europe as a whole falling back, Scotland and the UK as a whole have done well both in terms of attracting projects and protecting their reputations as attractive FDI locations in the eyes of the large cohorts of C-suite investors

surveyed by EY. Yet, as we have stressed in this report, one year of solid performance does not give the Scotland (or the UK) any grounds for complacency. To help ensure that this performance is sustained into the future, our close examination of the data has enabled us to identify and highlight areas to prioritise, re-group, or – in some cases – start afresh.

The overall goal for Scotland and the UK? After a number of years of volatility and occasional turmoil within the UK's political landscape, as well as across Europe and even at a global level, investors are now craving certainty and predictability above all. As part of this, they're urgently seeking clarity on the policy direction, rules and regulations for the strategic sectors and activities that Scotland and the UK want to prioritise – the likes of digital tech, renewables, pharma/life sciences, finance, manufacturing, and R&D. Having gained this clarity, it's then key to ensure that the UK's FDI incentives and wider offer, both at a national and regional level, are fully aligned with what those investors are seeking.

As our perception findings confirm, a vital aspect of what investors are seeking – in combination with continuing certainty and stability – is positive reasons to locate here, including the right infrastructure, skills and business-friendly regulation. Mirroring our conclusions in the UK national report, we believe Scotland has a golden opportunity to build on the solid performance we've showcased this year. Pivotal to this will be reinforcing and promoting the reputation of both Scotland and the UK as a whole for stability and business-friendly policies – a task that we hope the new UK Government will rise to with enthusiasm.

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