Department for International Trade

Inward Investment Results 2017-18 Technical Annex

Contents

Preface

This technical annex has been published to accompany the main DIT Inward Investment Results Report and aims to provide technical details to help interpret the results.

Official statistics in the report include FDI projects landing into the UK over the 2017–18 tax year and the estimated jobs created or safeguarded as an outcome of these projects landing. These are further broken down by the type of investment, region of the UK where the project has landed, market origin, and project sector.

Detailed breakdowns can be found in the “Department for International Trade inward investment results tables 2017 to 2018” supporting document.

This annex outlines the definitions, data collection process, eligibility, verification process and comparability that underpin the publications.

Changelog

The following changes have been made in the “DIT Inward Investment Results 2017 to 2018” publication from last year’s iteration.

“Department for International Trade Inward Investment Results Tables 2017 to 2018”

Additions

- Time series have been expanded with 2017-18 figures.
- Addition of tables with a UK regional breakdown where multiple UK site projects have been redistributed to each individual region for FDI projects over 2017-18. These can be found in tables 4.3 and 4.4.
- Addition of table with a UK regional breakdown split by projects that have originated from the European Union over the period between 2013-14 to 2017-18. This can be found in table 4.5.
- Addition of tables with Commonwealth and European Union FDI projects and job figures over the 2016-17 and 2017-18 tax years. These can be found in tables 5.1 and 5.2.
- Accessible CSV files have been supplied. These break down the main tables publication into 8 separate CSV files.

Corrections

- Expansion and Mergers & Acquisition figures for all and involved FDI projects over the 2016-17 tax year found in tables 1.1 and 1.2 have been corrected.

1. Introduction

1.1 Relevance

Foreign direct investment is considered to deliver economic benefits to the UK by improving economic competitiveness and enabling improvements in productivity for both new and existing firms. FDI can create an important positive contribution to an economy by generating employment, increasing tax revenue, and by providing external resources such as capital, technology and managerial know-how that can substantially aid productivity and economic growth.

1.2 What is FDI?

From a UK perspective, inward foreign direct investment (FDI) is an investment from a foreign investor into a UK enterprise. The UK entity then becomes what is known as an affiliate enterprise, which is either a subsidiary, branch, or an affiliate company of the parent company – the foreign investor. In practical terms, this can either happen where a foreign company sets up a version of itself in the UK, or where it acquires an existing UK company.

The parent company needs to own at least 10% of the shares or voting power in the UK entity for it to classify as FDI. Direct investments include not only the initial operation establishing the relationship between the two units, but also all later capital operations between them and between related institutional units, whether incorporated or not.

1.3 Measures of FDI

There are three main measures of FDI: FDI Stock, FDI Flow, and FDI Projects.

FDI flow measures the net movement in inward direct investments made during any reference period. FDI Flows comprise of: (i) acquisitions or disposals of equity capital (which includes M&As); (ii) reinvested earnings; and (iii) inter-company debt.

FDI stock measures the total financial value of foreign direct investment in the UK at a point in time. FDI stock has the following main components: (i) Foreign companies' share capital and reserves; (ii) Net amount due to foreign parents on the inter-company account; and (iii) Net amount due to foreign parents on the branch head-office account. It is a statistical measure that is directly linked with the FDI flow. The annual FDI flow contributes to the change in the inward FDI stock.

Investment promotion agencies, including DIT, are focused on and measure their operational performance based on the number of specific individual investment decisions - **FDI Projects**.

1.4 Types of FDI Projects

FDI can come in different forms depending on the characteristics of the investment project and the nature of actual engagement of the investor in the UK. For the purposes of DIT definitions and this publication, FDI transactions take three main forms: New Investments, Expansions on an existing investment, and Mergers and Acquisitions.

New investment projects are a type of FDI where a foreign investor starts a new business by establishing a new entity, setting up new offices, building, production or operational facilities in the UK. This type of investment directly contributes to capital formation through new capital expenditures, increases the output and generates employment and other benefits. New investments can be made by either an existing investor or a new investor.

Expansion investment projects are a type of FDI where an existing investor expands the production or operational facilities of an existing UK foreign direct enterprise with additional investments. For the purposes of this publication, retention projects have been grouped together with the expansion category. **Retention investment projects** are a type of investment where a foreign investor agrees to make an additional investment in an existing foreign direct enterprise with the purpose of preventing the enterprise from rationalisation or closure.

Merger and Acquisition (M&A) projects are a type of FDI made by foreign investors to either merge with or acquire at least 10% of existing equity or assets of an existing UK company. A merger occurs when two or more companies agree to merge into a new single company rather than remain separated for creating business synergies. An acquisition is a transaction between two companies by which the acquiring company purchases the existing assets and liabilities of the target company. M&As are a common mechanism for entering a new market and are usually followed by new additional investments. For the purposes of this publication, joint ventures have been grouped together with the M&A category. **Joint Ventures** are agreements between a foreign enterprise and an existing UK enterprise to invest in a joint project. These are usually short-term focused.

2. Methodology and Production

2.1 Data Collection

As the government department responsible for the promotion and facilitation of inward investment, DIT aims to record and report information on all FDI projects successfully landing in the UK. This includes projects assisted by the DIT network teams (involved projects) and those which land without the DIT network's involvement (non-involved projects). DIT aims to capture all those FDI projects which meets DIT definitions and standards and those that can be verified as having landed in the tax year.

New jobs created and safeguarded are estimates over a three-year period. Job numbers are sourced from interactions with businesses and public announcements, and in the case of non-involved projects, calculated through algorithms used in external databases.

Data and information related to involved projects are self-reported by the DIT network and are recorded on an internal database. All parties involved in a project are responsible to enter the necessary data on to the system following agreed operating principles and eligibility criteria. The eligibility criteria for FDI projects can be found in the section below.

The overall process for recording and checking non-involved projects is managed centrally. As part of the process, regular checks on external databases to source information about investments are completed. These include the Financial Time's fDi Markets, Ernst & Young's European Investment Monitor, and the ONS. In addition, DIT network teams are asked to identify any other non-involved projects in their markets or sectors through local sources (e.g. media, events).

2.2 FDI Project Eligibility

FDI Project Eligibility Tests
1. There must be a new, additional financial investment in the UK foreign direct enterprise as part of the FDI project. Each FDI project must demonstrate it is bringing in some financial investment into the UK.
2. To qualify as an FDI project, the foreign ownership or voting power in the UK company as a result of the new equity investment must be at least 10%.
3. The business activities supported by the investment project is expected to last at least three years. DIT supports those investments that create or expand long term businesses in the UK.
4. The new investment must create one or more new permanent (i.e. expected to last for at least 2 years) jobs in the UK. DIT only supports those projects that directly create (or safeguard) jobs. Total jobs expected to be created or safeguarded in the UK cover the first three years of each project.
5. (Applicable only for Retention and M&A projects claiming safeguarded jobs) There must be sufficient evidence that without new additional investment the UK based company would potentially reduce its production capacity, and/or employment level and could ultimately result in the closure of the UK business.

Projects that are characterised by any of the following elements are not treated as an FDI project for the purposes of this publication:

- A project that does not involve new (or additional) financial investments or capital expenditure.
- A project that has short term business objectives (e.g. fewer than three years), which do not make it qualify for the 'lasting interest' test of the FDI definition.
- Contract agreements, collaboration and partnerships (except when they involve R&D) that do not involve any financial investment and creation of new businesses for production of goods or services in the UK.
- Franchise contracts under which a UK company will sell or provide products or services produced by a non-UK entity.
- Investment in UK residential property (e.g. purchasing houses or flats in London) without creation of new long-term businesses and associated jobs in the UK.

2.3 Project Involvement

One of DIT’s key ambitions is to generate increased international awareness of the benefits of investing in the UK and provide information and advice to investors, both in the UK and overseas, that helps them prosper and succeed investing and re-investing in the UK. DIT collaborates with the Devolved Administrations and local partners to achieve this.

In order for a project to be recorded as an involved project, there must be sufficient evidence that the DIT network has provided significant assistance to the foreign investor in the delivery of the investment project. There must be evidence that the assistance and advice was essential for the delivery of the investment project in the UK. Where no substantive assistance has been provided to land an FDI project into the UK, the project is recorded as a non-involved success. Similar to involved projects, non-involved projects are individually verified and undergo quality assurance processes.

3. Verification

3.1 Verification and Accuracy

Each project undergoes an independent verification process prior to confirmation as a success for official reporting in the DIT Inward Investment publication.

Along with confirming the eligibility of projects, additional objectives of the verification process are to ensure that investment projects are genuine, and to assess the robustness, accuracy and consistency of the project data reported by the DIT network. The tests applied on each project in the main verification stage is mapped out below.

FDI Project Verification Tests
1. The UK foreign direct enterprise must be registered in the UK. This is sourced through Companies House.
2. The UK foreign direct enterprise must be occupying or legally committed themselves to taking premises in a specific physical business address. This is sourced through confirmation of the UK business address on the company's website or through official documentation.
3. There must be evidence that the investment funds have been secured, that at least one person is working or is in the process of being recruited to work, and that activities planned as a result of the investment have commenced. Evidence is sourced from public announcements, investor confirmation; or through a note from the DIT officials' visit to the UK company site.

In addition to the main verification process, prior to publication, an end-of-year verification exercise takes place whereby quality assurance checks are performed to ensure consistency and accuracy, and identify any irregularities within the data set.

4. Comparability

4.1 Comparability with other UK FDI Publications

Similar to DIT's Inward Investment Results publication, the Financial Times and Ernst & Young both report the annual amount of FDI projects landing into the UK. However, each have their methodological differences that explain the variation in reported projects compared to the DIT publication.

The DIT publication reports on new investment, expansion, and mergers & acquisition FDI projects into the UK over the tax year. Projects that have been publicly announced and those that have not both feature in the data set. On the other hand, both the Financial Times and Ernst & Young report on new investment and expansion FDI projects over the calendar year. While the Financial Times report on publicly announced projects, Ernst & Young report on both publicly announced projects and projects sourced from external databases.

Whereas these sources record the number of FDI projects, the Office for National Statistics (ONS) are the official source for the value of FDI flows on stocks and earnings at the UK level. For more information, see www.ons.gov.uk.

This publication is available from www.gov.uk/dit

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