UK TRADE & INVESTMENT
AUTUMN PERFORMANCE REPORT 2008

UK Trade & Investment

Autumn Performance Report 2008

Presented to Parliament by the Minister for Trade, Investment and Consumer Affairs
and the Chief Secretary to the Treasury by
Command of Her Majesty

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Contents

Ministerial Foreword

I am pleased to introduce UK Trade & Investment's (UKTI) 2008 Autumn Performance Report. As the new minister for UKTI, I am strongly committed to championing the UK's trade and investment success both overseas and in the UK. I know UKTI well having worked closely with Digby, Lord Jones of Birmingham, and Andrew Cahn in representing the UKTI in the House of Commons since June 2007. Digby's enthusiasm for supporting UK business internationally has been quite infectious and I look forward to working with him and the other Business Ambassadors in the coming months. I am acutely aware, that UKTI's work has never been more important as we are now moving in a period of global economic uncertainty and slowdown.

UKTI has had very positive results in recent years. Our latest annual survey results showed that we assisted 18,600 UK companies to exploit opportunities in overseas markets in the year to 31 March 2008. It also showed an estimated total financial benefit to UK-based businesses of around £3 billion annually, across all UKTI trade services. This is an impressive return on a total investment of just over £200 million.

UKTI also exceeded its target of 525 involved inward investment project successes for 2007-8, with significant involvement in 549 projects, creating 14,274 new jobs and safeguarding 9,824. The UK still remains the number one location in Europe for Foreign Direct Investment and is second globally only to the US in attracting Foreign Direct Investment. In 2007-08 the UK as a whole, saw a 10 per cent increase in new investment projects and a record 1,573 UK investment projects won from overseas companies, marking a fifth consecutive year of growth. According to a UN report (UNCTAD World Investment Report), the UK also attracted a record $1.347 trillion inward investment in 2007.

Prosperity in a changing world, UKTI's five year strategy, published in July 2006, will continue to provide the framework for UKTI's work; to transform the marketing of the UK internationally, and to improve the effectiveness of government and business working together and to focus on where UKTI can make the most difference.

Responsibility for defence export support transferred successfully from the Ministry of Defence (MoD) to UKTI on 1 April 2008, and the new UKTI Defence & Security Organisation (UKTI DSO) was established. The UK defence manufacturing sector, and its continued export success, is vital to research and development, high skilled jobs, wealth creation and not least, national security. In 2007, this group achieved sales of £10bn, beating even the US. UKTI DSO will be working hard to continue to support this important part of the economy.

Now, as much as at any other time in the UK's history the challenge is for UKTI to help ensure UK business emerges from these difficult global conditions stronger, fitter and better placed. I look forward to playing my part in making this happen.

Gareth Thomas

Gareth Thomas
Minister for Trade, Investment and Consumer Affairs

Section 1: Introduction

1.0.1 This report constitutes the final outturn report against the UKTI legacy Public Service Agreement (PSA) from the 2004 Spending Review (SR2004) period and related efficiency targets (covering the period 2005-2008) and sets out what has been achieved in that period. It also sets out UKTI's Departmental Strategic Objective and targets, including value for money targets, for the 2007 Comprehensive Spending Review (CSR2007) period. It complements:

- UK Trade & Investment's Annual Report and Accounts 2007-08 (HC No. 851) published in July 2008, also available from The Stationery Office and on UKTI's website. This provides the information on UKTI's operations for the 2007-08 financial year.

This report is structured in the following way:

Section 1 Introduction covering UKTI aims, objectives and strategy.

Section 2 Details Performance against SR2004 Public Service Agreement objectives and targets.

Section 3 Details performance against SR2004 Efficiency Targets.

Section 4 Provides details of UKTI's CSR2007 Funding and the progress against its new Departmental Strategic Objective (DSO) and targets.

Section 5 Sets out the efficiency targets under CSR2007 and UKTI's progress to date.

1.0.2 The 2006 Budget Statement announced a new five-year strategy for the UK to respond to the challenges and opportunities of globalisation. This included a step-change in the Government's drive to market internationally the strengths of the UK economy; particular focus on high growth countries of strategic importance to the UK, such as Brazil, Russia, India and China; a focus on innovative and Research and Development intensive sectors; and through a cross-Whitehall Ministerial visits co-ordination committee, more effective arrangements across departments for maximising the commercial value for companies of Ministers' visits overseas. UKTI was given responsibility for this new strategy, and published its plans for delivering it in *Prosperity in a Changing World*, in July 2006.[1,2]

The Credit Crunch

The impact of the credit crunch and global economic uncertainty began to be observed, at least in terms of sentiment, during the course of the year 2007-08. The extent to which this might influence 2008-09 results is as yet unknown; however UKTI is carefully monitoring this risk.

1.0.3 The UK is well placed to meet the challenges and opportunities of globalisation. It offers a solid framework within which companies prosper. It is politically and economically stable with a well-established legal framework and a flexible workforce; it is open to competition and trade; its economic strength is underpinned by large investments in public services and infrastructure; and its science base is world class. Marketing the UK economy internationally, and ensuring that the UK derives maximum economic benefit from these strengths, is vital to securing an effective UK response to globalisation.

1 *Prosperity in a Changing World* is available at www.uktradeinvest.gov.uk

2 The evidence base for an enhanced role for UKTI, and for the business case for UKTI's new Strategy, is set out in BERR Economics Paper Number 18, *International Trade and Investment – the Economic Rationale for Government Support*, available on the BERR website at www.BERR.gov.uk

1.0.4 Since the launch of the strategy UKTI has restructured in line with its new areas of focus and it has developed new working targets to reflect these. These complement its SR2004 PSA target and indicators, as well as its CSR2007 DSO Objectives and targets.

1.0.5 The 2006 UKTI Strategy set out a programme of change designed to ensure that the organisation can meet the evolving needs of its customers in the context of globalisation, and that it delivers maximum value for the UK economy. This report sets out how the UKTI has delivered against its SR2004 targets, and how it will achieve and implement its strategy for the CSR2007 period.

1.0.6 In July 2007 the Prime Minister announced that responsibility for the promotion of defence exports would transfer from the Ministry of Defence (MoD) to UKTI. Responsibility for defence export support transferred successfully from MoD to UKTI on 1 April 2008, and the UKTI Defence & Security Organisation (UKTI DSO) has been established. The UK defence manufacturing sector, and its continued export success, is vital to research and development, high skilled jobs, wealth creation and national security. UKTI DSO will be working hard to ensure that the UK's defence businesses sustain this performance.

1.0.7 UKTI has continued to ensure it delivers for business with the context of its strategy and taking into account the changing economic climate. To that effect, during 2008 it launched new activities to further support and deliver targets. A key area was its contribution to the Government's new Manufacturing Strategy, *Manufacturing: New Challenges, New Opportunities*[3], published in September 2008 which addresses the popular misconception that UK manufacturing is in decline.

1.0.8 As part of the Manufacturing Strategy, a new £1 million package of UKTI support was announced to help UK companies of all sizes access manufacturing value chain opportunities in India and China. It also includes support for companies who already have export experience, to increase their international capabilities, and the strengthening of our "aftercare support" for high value inward investors.

1.0.9 The Prime Minister also announced on 3 October the creation of a Business Ambassadors network. This group of senior Business and University leaders will offer a wealth of business experience and knowledge gained across a range of sectors and geographical markets. Their role will be to work with Government to promote the UK's excellence and support the success of UK business in overseas markets, focusing on helping small and medium-sized enterprises (SMEs), which sometimes face greater barriers to accessing global markets than larger businesses.

1.0.10 UKTI is playing a key role in delivering two of the Government Olympic Legacy Objectives: 'to maximise the wider economic benefits of the Games across the UK, including those for tourism and business promotion'; and 'to promote positive images of the UK to international audiences'. We are developing delivery programmes including:

- **'Host2Host'** – a flagship programme which aims to maximise the economic benefits of hosting the Games in 2012 by creating trade, partnership and investment links with other nations and cities hosting the Games and other major sports events.
- **'CompeteFor'** – we are partners in the web-based electronic brokerage system designed to disseminate the business benefits of the 2012 Games nationwide and globally, allowing British and foreign-based companies to profile themselves to 'compete for' the supply chain opportunities arising from major 2012 contracts.

3 *Manufacturing: New Challenges, New Opportunities* is available on the BERR website at www.BERR.gov.uk

1.1 UK Trade & Investment Organisation

1.1.1 UK Trade & Investment (UKTI) has the lead role within Government for delivering trade development and inward investment services for business. It is a joint department of the Foreign & Commonwealth Office (FCO) and the Department for Business, Enterprise & Regulatory Reform (BERR) and consequently UKTI's funding and human resources reflect this framework. It works closely with the Regional Development Agencies (RDAs) in the English regions and with the trade promotion and inward investment organisations of the Devolved Administrations (DAs). Our other partners in delivering trade and investment services include Ministry of Defence (MoD), Other Government Departments (OGD's) and their agencies, and the numerous private sector bodies that are active in this field.

1.1.2 UKTI is the Government organisation that helps UK-based companies to succeed in an increasingly global economy. We also help overseas companies bring their high quality investment to the UK's economy – acknowledged as Europe's best place from which to succeed in global business. UK Trade & Investment offers expertise and contacts through its extensive network of specialists in the UK, and in British embassies and other diplomatic offices around the world. We provide companies with the tools they require to be competitive on the world stage.

1.1.3 UKTI is not an employer in its own right. For the majority of its human resource requirements it draws on civil service staff employed by one or other of its two parent departments. In the UK most of our staff are drawn from BERR while overseas most of our staff are drawn from the FCO. UKTI also draws on its parent departments for some business support functions including certain aspects of Human Resources (HR), Finance and related Information Technology (IT) support systems.

1.2 UKTI Services

1.2.1 UKTI offers services to all eligible companies seeking help in overseas markets where there is a UKTI presence. UKTI provides a range of services to businesses which fall under three headings:

- Developing your International Trade Potential
- Accessing International Markets
- Maximising Foreign Direct Investment

1.2.2 UKTI also targets the following groups of companies, which were identified in our 2006 Strategy, *Prosperity in a Changing World* as priorities for support:

- Innovative inward investors,
- UK based companies with capacity to develop their international trade potential and access overseas markets,
- Overseas-owned R&D-intense companies,
- UK-based companies where trade development work will boost their R&D output,
- Companies that we can help do business in selected high-growth markets,
- Top FTSE 100 companies
- Overseas-based entrepreneurs with innovative technology.

Just under 90% of companies UKTI assisted were Small and Medium-sized Enterprises (SMEs).

1.3 Trade Development Services

Developing Your International Trade Potential

1.3.1 Individually tailored packages of practical assistance to help companies develop the capacity needed to trade internationally. This includes the following services:

- An export health check to assess a company's readiness for exporting and help in developing a plan of action.
- Training in the requirements for trading overseas.
- Access to an experienced local International Trade Adviser (ITA)
- Specialist help with tackling cultural and language issues when communicating with overseas customers and partners.
- Advice on how to go about market research and the possibility of a grant towards approved market research projects.
- Ongoing support to help business continue to develop overseas trade and look at dealing with more sophisticated activities or markets.
- Advice on a range of international trade help available from UKTI and others.
- Supporting innovative companies through the R&D programme to conduct business overseas with a view to increasing their R&D levels back in the UK.

Accessing International Markets

1.3.2 Providing tailored help in accessing new markets and information about opportunities or specific products or services in particular overseas markets. This includes the following services:

- Information, contacts, advice, mentoring and support from UKTI staff based overseas
- Support to participate in trade fairs overseas.
- Opportunities to participate in sector-based missions and seminars to countries where the best opportunities lie.
- Access to major buyers, governments and supply chains in overseas markets.
- Exploratory visits to new markets.
- Political lobbying on behalf of UK companies.

1.4 Inward Investment Services

Maximising Foreign Direct Investment

1.4.1 Inward investment activities involve providing a free, bespoke and confidential service to potential inward investors on a range of issues. This includes the following services:

- Focus on key high-value investors to facilitate their continued growth/retention in the UK.
- Providing specific information on key commercial considerations. For example, on company taxation, immigration, financial incentives, labour, real estate, transport, utilities and regulatory issues.
- Providing comprehensive regional and local analysis, in order to help overseas companies choose the best location for them to establish their business.
- Introductions to sector networks, such as industry leaders, chambers of commerce, universities and other centres of R&D excellence.
- Introduction to a range of experienced business intermediaries and consultants with shared values to those of UKTI.

- Helping to build R&D partnerships between UK and foreign businesses through UKTI's *Global Partnerships* programme.
- Targeting multinational companies to invest in the UK's R&D infrastructure through the R&D programme.
- Assisting overseas entrepreneurs to develop UK business opportunities through UKTI's *Global Entrepreneurs* programme.
- Providing continued investor *'aftercare'* support through UKTI's *Investor Development* network, which offers assistance to companies once they have established a presence in the UK to encourage their successful development and expansion.
- Developing co-operation and operational guidelines between the principal bodies engaged in inward investment promotion, through chairmanship of the International Business Development Forum.

Section 2: UKTI's Public Service Agreement (PSA) Objectives and Targets for SR2004 Period (2004-05 to 2007-08).

2.1 SR2004 Funding

2.1.1 At the start of the Spending Review (SR2004) based on 2004-05, UKTI's funding was:

Programme: £100.5m in 2004-05, reducing by £11m over the SR2004 period (to 2007-08) as part of UKTI's SR2004 settlement. These funds were voted directly by Parliament. UKTI's Chief Executive was the Accounting Officer (AO) for this funding stream.

FCO Admin: In the region of £144m in 2004-05, reducing by £20m over the SR2004 period. The FCO's Accounting Officer was accountable and responsible for deployment of these resources, except for an allocated Head-Quarter (HQ) budget worth some £8m in 2004-05, over which UKTI had direct control.

BERR Admin: £36.7m in 2004-05, reducing by £4m over the SR2004 period. BERR's Accounting Officer was accountable for these resources, but they were ring-fenced and within UKTI's control.

2.2 PSA Objective

Under its Spending Review (SR2004) settlement, UKTI was committed to the following PSA objective:

> *"To enhance the competitiveness of companies in the UK through overseas trade and investments; and attract a continuing high level of quality foreign direct investment."*

This objective was underpinned by a PSA target, which for the SR2004 period (2005-06 to 2007-08) was:

> *"By 2008, deliver a measurable improvement in the business performance of UKTI's international trade customers, with an emphasis on new-to-export firms; and maintain the UK as the prime location in the EU for foreign direct investment."*

Following the publication of *Active Diplomacy for a Changing World: the UK's International Priorities*[4], this PSA target now links to the revised strategic priority 5: Supporting the UK economy and business through an open and expanding global economy, science and innovation and secure energy supplies.

OVERALL ASSESSMENT: Performance against PSA Objective

Final Assessment of Progress: PARTLY MET

UKTI fully met 4 out of 5 indicators and partly met one indicator due to a change arising from the 2006 Strategy.

4 *Active Diplomacy for a Changing World: the UK's International Priorities* is available to view on the FCO website. The full address for this publication is: http://www.fco.gov.uk/resources/en/pdf/pdf9/fco_strategy2006fulldoc

2.3 PSA Targets & Indicators

2.3.1 Both the objective and its associated PSA target were shared with FCO (PSA 6) and BERR (PSA 8), with UKTI delivering the target on behalf of its parent departments.

2.3.2 UKTI's performance in delivering its PSA target was measured against five PSA indicators. Three of these indicators covered trade development and two covered inward investment:

Indicator 1. At least a 30 per cent increase by 2007-08 in the proportion of UKTI's trade development resources focused on new-to-export firms.

Indicator 2. At least 40 per cent of new-to-export firms assisted by UKTI improve their business performance within two years.

Indicator 3. At least 50 per cent of established exporters assisted by UKTI improve their business performance within two years.

Indicator 4. Improve the UK's ranking within Europe in terms of the GDP-adjusted stock of European Union (EU) foreign direct investment based on the United Nations Conference on Trade & Development (UNCTAD) World Investment Report.

Indicator 5. 374 (in 2005-06), 440 (in 2006-07) and 524 (in 2007-08) successful inward investment projects secured by UKTI in each year of the Spending Review of which 75 per cent are knowledge driven.

For more details see 'Quality of data systems used' at the end of this section, and also Annex A.

2.4 Performance Against Trade Development Indicators

Indicator 1 (shift in resources to support new-to-export firms' indicator)

> 'At least a 30-percentage point increase by 2007-08 in the proportion of UK Trade & Investment trade development resources focused on new-to-export firms.'

Assessment of progress: **PARTLY MET**

Factors affecting performance

2.4.1 At the start of the SR2004 period, 31 per cent of UKTI's trade development resources were deployed on new-to-export firms. At July 2006, internal management accounts showed an increase of ten percentage points from this baseline over the first year of the SR2004 settlement. Therefore, at the start of the second year of the settlement, April 2006, 41 per cent of total trade development resources were being deployed on new-to-export firms.

Prosperity in a Changing World charted a new direction for the organisation, one that required significant organisational change and re-distribution of resources to deliver new priorities. Although the outturn figures for 2007-08 only show a 12 percentage point increase (against a target of 30) in trade development resources focused on new-to-export firms, over the SR2004 period, the new strategy, *Prosperity in a Changing World* confirmed that new-to-export firms will continue to be an important client group for UKTI.

Indicator 2 (new-to-export' indicator)

> 'At least 40 per cent of new-to-export firms assisted by UK Trade & Investment improve their business performance within two years.'

Assessment of progress: MET

	2004 Annual Result	2005 Annual Result	2006-07 Result	2007-08 Result
	30%	31%	52%*	54%*

* For the bulk of the SR2004 period, from January 2006, reports switched to financial rather than calendar years.

2.4.2 This indicator covers firms that are seeking to enter overseas markets, who have little or no experience of doing business overseas. This is defined as firms having no more than 10 per cent of turnover resulting from proactive exporting activity, or a higher proportion (no more than 25 per cent) of turnover resulting from a combination of proactive and reactive export activity, within the previous 12 months.

2.4.3 The proportion of new-to-export firms reporting that their business performance had improved as a result of assistance from UKTI increased from an annual result of 31 percent for 2005 to 52 per cent for 2006-08 and 54 per cent for 2007-08. This shift upwards coincided with the introduction of a new approach to evaluating the impact of UKTI's services, the Performance and Impact Monitoring Survey ('PIMS') from Q4 2005-06. The new approach involved a substantially increased sample, and also covered a much wider range of UKTI trade services. Results have remained consistently at this higher level.

Indicator 3 (new-to-market' indicator)

> 'At least 50 per cent of established exporters assisted by UK Trade & Investment improve their business performance within two years.'

Assessment of Progress: MET

	2004 Annual Result	2005 Annual Result	2006-07 Result	2007-08 Result
	43%	54%	51%*	55%*

* For the bulk of the SR2004 period, from January 2006, reports switched to financial rather than calendar years.

Factors affecting performance

2.4.4 Evidence from PIMS shows that firms which reported improved business performance as a result of UKTI support had in most cases also reported one or more of the following:

- Gained access to customers, business partners, or networks they would not otherwise have been able to access;
- Gained access to information they would not otherwise have been able to access;
- Improved their profile or credibility overseas;
- Improved their knowledge of the competitive environment;
- Improved their overseas marketing strategy; and/or
- Gained the confidence to explore or expand in an overseas market.

2.4.5 Analysis of the PIMS data also showed that innovative businesses tend to report greater business benefits, and that SMEs continue to report similar levels of benefit and additionality across most impact measures until they have had 20 years or more of export experience. This appears to reflect the fact that firms tend to increase the range of markets in which they are active as they gain export experience, and continue to encounter barriers in this context. Large firms with 20 years or more export experience, less frequently report strong impact, but the evidence demonstrates that for this group there are circumstances in which support is needed to enable them to overcome barriers to business in new markets.

Quality of data systems used

'Shift in resources to support new-to-export firms' indicator

2.4.6 The shift in trade development resources dedicated to new-to-export firms is tracked by monitoring the resource budgets that support UKTI's trade development work.

'New-to-export' and 'New-to-market' indicators

2.4.7 Data for the 'new-to-export' and 'new-to-market' indicators are collected through a quarterly performance measurement survey and analysis carried out by external consultants, of a sample of companies that have used UKTI services.

2.4.8 For the three years ending 31 December 2005 the consultants were the Reading Business Group, Reading University, and the survey covered around 800 firms each year. From 1 January 2006, the introduction of a new extended performance measurement survey, PIMS (developed in collaboration with OMB Research, who now carry out the survey on behalf of UKTI), substantially increased the survey sample size to just over 3000 firms per year. The universe from which the survey sample is drawn has also been extended, and now covers virtually all UKTI trade services, the main exception being web site users who have not also signed up for the Business Opportunity Alert service. Businesses are not counted against the UKTI corporate target number of businesses to be helped unless details of the support are put forward for inclusion in the universe from which the PIMS survey sample is drawn. The sample structure is based on a stratified random sample which enables robust reporting both at the aggregate corporate level and at a disaggregated service level.

2.4.9 PIMS carries out interviews with companies at two stages after receipt of support, in order to allow outcomes to be tracked over time. The first interviews are carried out between 4 to 7 months after receipt of the support, and the second stage follow up interviews around a year later. Results relating to the second stage interviews for companies initially interviewed during 2006-07 show little significant difference across a range of measures, including the business performance improvement measure, when compared with the first round interviews. The main differences are:

- Respondents are slightly revising down their judgement about the extent to which they believe they could have achieved similar results without the support;
- Respondents, who had reported that the help had enabled them to gain access to contacts or information, or to raise their profile in the market, are on balance slightly more positive in the second wave than in the first round of interviews.

An overview of the PIMS system is available at Annex A.

2.5 Performance against Inward Investment Indicators

Indicator 4:

> 'Improve the UK's ranking within Europe in terms of the GDP-adjusted stock of EU foreign direct investment based on the UNCTAD World Investment Report.'

Assessment of progress: MET

2.5.1 The 2008 UNCTAD World Investment Report[5] reported that the UK's provisional Gross Domestic Product (GDP)-adjusted ranking within Europe was 11th in 2007. The UK was ranked 15th in 2004.

2.5.2 The UNCTAD Report confirmed that the UK remained the number one inward investment destination in Europe in 2007.

Indicator 5:

> '374 (in 2005-06), 440 (in 2006-07) and 524 (in 2007-08) successful inward investment projects secured by UK Trade & Investment in each year of the Spending Review of which 75 per cent are knowledge-driven.'[6]

Assessment of progress: MET

2.5.3 449 successes were delivered in 2005-06 and 496 successes in 2006-07; of these 75 per cent and 71 per cent respectively were knowledge-driven.

2.5.4 At the end of March 2008, 549 successes had been reported, of which 75 per cent were knowledge-driven

2.5.5 Cumulative achievement against the PSA indicator to date (April 2005–March 2008) is 1,494 successes recorded/reported, 156 ahead of target, of which 74 per cent were knowledge-driven.

Factors affecting performance

2.5.6 Macroeconomic policy and the performance of the UK economy are critical to inward investment success and hence to the achievement of these targets. These factors include:

- Economic stability such as growth, inflation;
- The tax and regulatory environment;
- Competition policy;
- Trade policy;
- Infrastructure;
- Skills and labour force.
- Transaction and business costs and the presence of well-developed business networks and clusters are also critical.

5 The 2008 UNCTAD report is available at: www.unctad.org/en/docs/wir2008_en.pdf.

6 First time direct investment or expansion by a foreign owned firm; or joint ventures and acquisitions where a foreign owned company has more than a 50 per cent stake.

Quality of data systems used

2.5.7 Data on the UK's ranking within Europe is taken from the UNCTAD World Investment Report and online Foreign Direct Investment (FDI) database. Year to year movements in FDI inward stock as a percentage of GDP as calculated by UNCTAD can be influenced by a number of factors. The percentage is calculated in US dollars and involves two exchange rate conversions – an end year conversion for FDI inward stock and an average for the year for GDP – and differences between them can affect the year on year movements. The relative size of GDP in the different countries within the European Union (EU) may also influence the rate at which the percentage changes from year to year.

2.5.8 Data on successful inward investment projects secured uses definitions of success agreed by the UK-wide International Business Development Forum (IBDF), a joint UKTI, RDA and DA Body. (The IBDF was set up in 2007 and supersedes the Committee on Overseas Promotion, a joint UKTI, RDA and DA committee.) BERR's Internal Audit Team and the National Audit Office (NAO) are the relevant auditors; and UKTI's PIMS mechanism provides subsequent evaluation.

2.5.9 As was noted in UKTI's 2007 Departmental Report (paragraph 2.22), from April 2007 UKTI's inward investment teams overseas, working with the London-based International Sales Teams, adopted a new approach to securing inward investment that concentrates on high-value added projects. This involves segmenting inward investment clients into three categories – 'high value', 'good quality' and 'RDA priority' – to seek to match the amount of inward investment network effort to the anticipated contribution to the UK economy of specific investments. The categories of 'high value' and 'good quality' investments (as well as appropriate investments facilitated under UKTI's Global Entrepreneurs Programme) equate broadly to what was previously counted as 'knowledge-driven'. UKTI has exceeded its 2007-08 target (524) achieving 549 significant assists.

Section 3: Performance against SR2004 Efficiency Targets

This section sets out the efficiency savings delivered under the Spending Review 2004 (SR2004) and the efficiency target commitments under the Comprehensive Spending Review 2007 (CSR2007).

3.0.1 The details in this chapter are drawn from UKTI's Efficiency Technical Note, which can be accessed via https://www.uktradeinvest.gov.uk

3.1 Efficiency Savings Delivered Under SR2004

3.1.1 UKTI agreed to deliver a total of £35 million efficiency savings from its three funding streams over the SR2004 period (Q1 2005-06 to Q4 2007-08):

Funding stream	UKTI Programme	FCO Admin	BERR Admin	Headcount Reductions
2004-05 baseline	£100.5m	c. £144m	£36.7m	–
Efficiency saving	£11m	£20m	£4m	200
Target delivered	✓	✓	✓	✓

UKTI Programme

3.1.2 The efficiency savings on UKTI Programme spend were made up of:

- **E-business savings** from closure of UKTI's Sales Lead Service (SLS). The contract for this was £1.7 million a year paid quarterly (£425k/quarter). The SLS was run down during 2004-05 and the business services it provided are now delivered through UKTI's other web-based services. **Final savings are £5.1 million.**
- ***Pro rata* claim on RDA efficiency savings.** In November 2005 DTI (now BERR) made other Departments aware that they could report a share of Regional Development Agency (RDA) efficiency savings, in proportion to their contribution to the RDA 'single pot'. For UKTI this amounts to a 0.7 percentage share of these savings, based on our Programme budget input to the RDAs. **UKTI can claim final savings of £3.1 million.**
- **Procurement.** UKTI currently has eight framework contracts in place, covering services such as publicity and marketing, design and print and accountancy services. In total, these have a value of more than £35 million. Actual spend against them to end-Q4 2007-08 was £11.8 million. The Office of Government Commerce (OGC) acknowledge that using framework arrangements produces a 6 per cent cost saving, therefore **final savings are £0.7 million.**

The total efficiency savings on Programme based on these activities is therefore **£8.9 million.**

3.1.3 Budgets for UKTI Programme are £11 million below the start of the SR2004 period. PIMS data confirms that the service quality was maintained over the SR2004 period and critically demonstrates efficiencies have been delivered over the three years to the end-March 2008. The 'new-to-export' and 'new-to-market' indicators, which measure how many companies improved their business performance as a result of UKTI, were at 54 and 55 per cent respectively for new and experienced companies, which meant that UKTI met their target over the SR2004 period. Quality and satisfaction ratings of 75 and 76 per cent respectively, also show that UKTI has maintained an equivalent level of service quality over the SR2004 period.

[Note: The examples used above illustrate that UKTI has maintained service delivery despite reducing its inputs by £11 million. This clearly represents an efficiency saving.]

FCO Admin (also reported in FCO's Annual Report)

3.1.4 Efficiencies were delivered by transferring the budget for vacant positions (slots) to the FCO in our lower priority markets; at the same time, greater focus was given with our remaining resource to those markets that were of greatest importance to our business customers. As a result, we achieved savings of £20 million by March 2008. It is important to note that the slots given up by UKTI were handed back to the FCO for re-deployment on other FCO priorities, and hence this does not represent an additional overall saving of £20 million.

BERR Admin

3.1.5 BERR actual admin outturn for 2007-08 was £30.1 million. This represents the SR2004 commitment to generate savings of £4 million, mainly arising from headcount reductions.

Headcount

3.1.6 Over the SR2004 period the BERR full time equivalent (FTE) reduction of permanent staff was 200.

Additional Savings (also reported in BERR's annual report)

3.1.7 In addition to the savings outlined above, UKTI delivered accommodation savings that counted towards BERR efficiency targets. UKTI reduced its Kingsgate House floor area from 8,403 square metres to 3,634 square metres. The additional space was let, resulting in savings of £3.4 million. This is outside UKTI's efficiency targets but counted towards BERR's.

Section 4: CSR2007 Funding (2008-09 to 2010-11)

4.0.1 In October 2007 the Chancellor of the Exchequer announced the outcome of the 2007 Comprehensive Spending Review. A summary of the settlement for UKTI covering the financial years from 2008-09 to 2010-11 is given below.

4.0.2 At the start of the Comprehensive Spending Review (CSR2007) funding streams were as follows:

Programme: Baseline resources for the three years covering 2008-2011 were flat profiled at £89.3m. These funds are voted directly by Parliament. UKTI's Chief Executive is the Accounting Officer for this funding stream.

FCO Admin: Estimated baseline £56.0m in 2007-08, reducing by £2.4m over the CSR2007 period. The FCO's Accounting Officer is accountable and responsible for deployment of these resources.

FCO Programme[7]**:** Estimated baselines for the three years covering 2008-2011 were flat profiled at £83.2m. The FCO's Accounting Officer is accountable and responsible for deployment of these resources, except for an allocated HQ budget now worth some £19m in 2008-09 following increased delegation, over which UKTI has direct control.

BERR Admin: Baseline £33.5m in 2007-08, reducing by £2.4m over the CSR2007 period. BERR's Accounting Officer is accountable for these resources, but they are ring-fenced and within UKTI's control.

This CSR2007 settlement requires UKTI to prioritise and deliver the outcomes of our high level targets whilst at the same time delivering real Value for Money savings. Value for Money savings are explained in more detail in Section 5.

4.0.3 Since agreeing the CSR2007 in October 2007, there have been a number of changes to the estimated resource available. From 1 April 2008 responsibility for the Defence Export Service Organisation (DESO) support transferred to UKTI from the Ministry of Defence (MoD) under Machinery of Government changes which resulted in the following 2008-09 baseline transfers from the MoD:

UKTI Programme £2.2m; BERR Admin £15.2m (of which £12.7m is under UKTI direct control); and FCO resource £2.1m (of which £0.7m is under UKTI direct control).

4.0.4 In addition the FCO have revised the estimated overheads attributed to UKTI which increased the total resource from an estimated £139.2m to £168.2m in 2007-08. The figure for 2008-09 is estimated to be £167.4m.

4.0.5 The total resource in support of UKTI's activities for 2008-09 is therefore estimated at just under £315m. This budget can be analysed as follows:

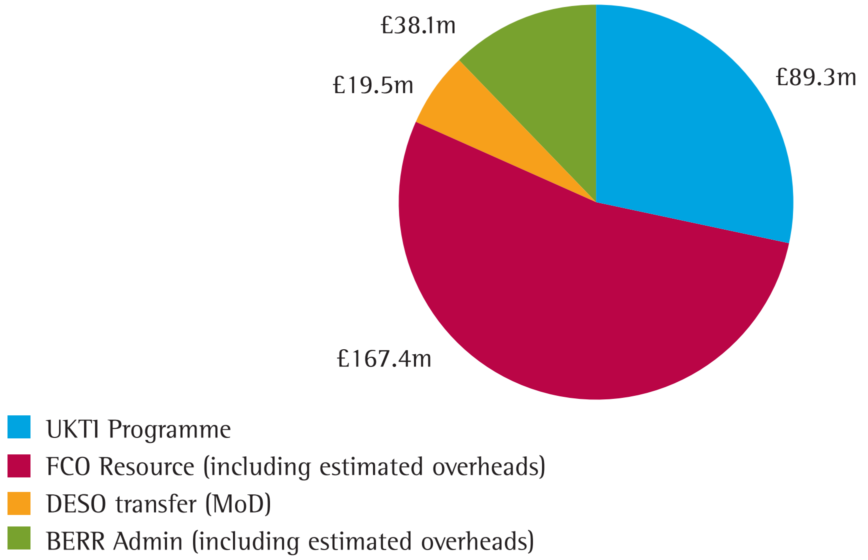
Table: UKTI 2008-09 Activity

Funding Stream	£m
UKTI Programme (net)	89.3
FCO Resource (including estimated overheads)	167.4
MoD (DESO transfer)	19.5
BERR Admin (including estimated overheads)	38.1
Total	**314.3**

The figures above include overheads apportioned by BERR and the FCO.

7 At the commencement of 2008-09 part of the FCO Admin allocation was reclassified as FCO Programme. In addition, the FCO resource was estimated based on previous year's attribution of costs. The UK Trade & Investment, Annual Report and Accounts 2007-08 gives a detailed breakdown on pages 90 – 92.

UKTI 2008-09 Budget Allocation by Source:



4.1 CSR2007 Targets

4.1.1 Over 2007-08, in addition to continuing to deliver on its existing Public Service Agreement Targets for the SR2004 period, UKTI put in place new high-level targets to drive successful implementation of its new Strategy. These new targets were confirmed, in a slightly modified form, in UKTI's 2007 Comprehensive Spending Review Settlement and form UKTI's Performance Management Framework for the three years from 2008-09 to 2010-11.

4.2 Departmental Strategic Objective

4.2.1 The Departmental Strategic Objective for UKTI over the CSR2007 period is:

By 2011, deliver measurable improvement in the business performance of UK Trade & Investment's international trade customers, with an emphasis on innovative and R&D active firms; increase the contribution of foreign direct investment to knowledge intensive economic activity in the UK, including R&D; and deliver a measurable improvement in the reputation of the UK in leading overseas markets as the international business partner of choice.

OVERALL ASSESSMENT of PROGRESS:

Progress to Date: SOME PROGRESS

UKTI has shown strong progress against 1 out of 5 targets.

4.3 Departmental Strategic Objectives Targets & Indicators

Delivery of this objective will be tracked via the following targets:

4.3.1 Target 1: Attract high value foreign direct investment to the UK.

Annually, over the 2008-2011 spending review period, to achieve at least 525 involved inward investment project successes, of which: (a) at least 125 should be high value; (b) at least 285 should be good quality; and (c) at least 70 per cent should agree that UKTI or its RDA delivery partner had significant favourable influence on the decision to locate or expand in the UK, or on the scale or scope of the project. At least 30 of the good quality or high value projects should involve additional R&D activity in the UK. The profile of the remaining involved successes will be determined by RDA regional priorities.

Progress Report (covers period Start Q1 2008 – End Q2 2008):

To end September, UKTI has delivered 192 involved successes of which 96 were high value projects recorded as successful or success pending, and 73 were good quality projects.

Assessment of Progress: **SOME PROGRESS**

4.3.2 Target 2: Improve the performance of UK businesses by helping them internationalise.

Annually, over the 2008-2011 spending review period, to help at least 20,000 businesses to exploit overseas business opportunities, of which (a) at least 12,000 should be innovative; and (b) at least 50 per cent of all business groups, including the sub-group of businesses helped to enter high growth markets, should improve their business performance as a result of UKTI support.

Progress Report (covers period Start Q3 2007 – End Q2 2008):

UKTI's most recent performance and impact monitoring survey (PIMS) shows that over the past year, 18,600 businesses have been assisted and, of these, 15,200 were innovative businesses. For the improved business performance element of this target, the outturn was 54 per cent overall, and 54 per cent in high growth markets.

Assessment of Progress: **SOME PROGRESS**

4.3.3 Target 3: Increase the quantity of R&D activity in the UK through business internationalisation.

Annually, over the 2008-2011 spending review period, at least 1,000 businesses increase their R&D activity in the UK as a result of UKTI support, including at least 70 foreign direct investment (FDI) R&D projects.

Progress Report (covers period Start Q3 2007 – End Q2 2008):

In the past year 3,086 businesses have increased R & D in the UK as a result of UKTI trade support

Assessment of Progress: **STRONG PROGRESS**

4.3.4 Target 4: Improve the UK's reputation as the international business partner of choice.

To achieve a measurable improvement over 3 years in the reputation of the UK's business strengths, in particular in a defined set of sectors and in a set of named markets.

Progress Report (covers period Start Q1 2008 – End Q2 2008):

This target will be measured through an annual reputation survey to measure UK reputation in the US, China and India, in the financial services, Information and Communication Technologies (ICT), life sciences and energy sectors. A benchmarking survey has been completed and the annual surveys will need to show an improvement on this for this target to be met. The first annual survey will commence in 2009.

Assessment of Progress: **SOME PROGRESS**

4.3.5 Target 5: Improve UKTI's Operational Performance.

Increase Professionalism

To achieve 80 per cent Quality Ratings and 80 per cent Satisfaction Ratings across both trade and inward investment services.

Increase Charging

To increase UKTI's revenue from charging to £2m in FY 2007-08, to £4m per annum by the end of the CSR2007 period (FY 2010-11).

Progress Report (covers period Start Q1 2008 – End Q2 2008):

This is an operational target. The current performance is 75 and 76 per cent respectively for quality and satisfaction against a target of 80 per cent for both. Charging revenues to end of September are approximately £2.2million.

Assessment of Progress: **SOME PROGRESS**

- Delivery of all of these targets will contribute to the delivery of BERR's Departmental Strategic Objective (DSO) 1, ***'Promote the creation and growth of business and a strong enterprise economy across all regions'***, and also deliver the FCO's DSO 2, ***'Support the British Economy'.***
- During 2007-08, UKTI has put in place the measurement systems to track achievement of these targets.

More details on our plans for achieving these targets can be found in the 2008-09 Corporate Plan and accessed via UKTI's website **https://www.uktradeinvest.gov.uk.**

Annex B has a breakdown on the UKTI CSR2007 Performance Framework Agreement: Technical note on definitions and measurement of the high level targets.

Section 5: CSR2007 Efficiency Targets

5.1 CSR2007 Funding

UKTI estimated funding over the CSR2007 period:

The Value For Money (VFM) target for UKTI over the CSR2007 period is to make VFM savings of £0.3m against UKTI Programme; £4.4m against FCO Admin & Overseas Delivery and £2.4m against BERR Admin. This is illustrated in the table below with the relevant baseline figures.

Funding stream	UKTI Prog	FCO Admin & Overseas Delivery	BERR Admin
Baseline	£91.5m*	£169.5m*	£53.3m*
VFM Target	£0.3m	£4.4m	£2.4m

*The figures above include estimated BERR and FCO overheads. They also include the DESO transfer, effective from 1st April 2008.

Value for Money savings have been hard-wired into the department's settlement as a part of the CSR and delivering them is now a core part of UKTI's mainstream business. UKTI has achieved VFM savings of £1.8m up to the end of Q2 2008 and fully expects to achieve the VFM targets set.

UKTI Programme

5.1.1 UKTI programme is devolved to us on a flat cash basis. This means we need to live with inflationary pressures to meet the target. These funds are voted directly by Parliament.

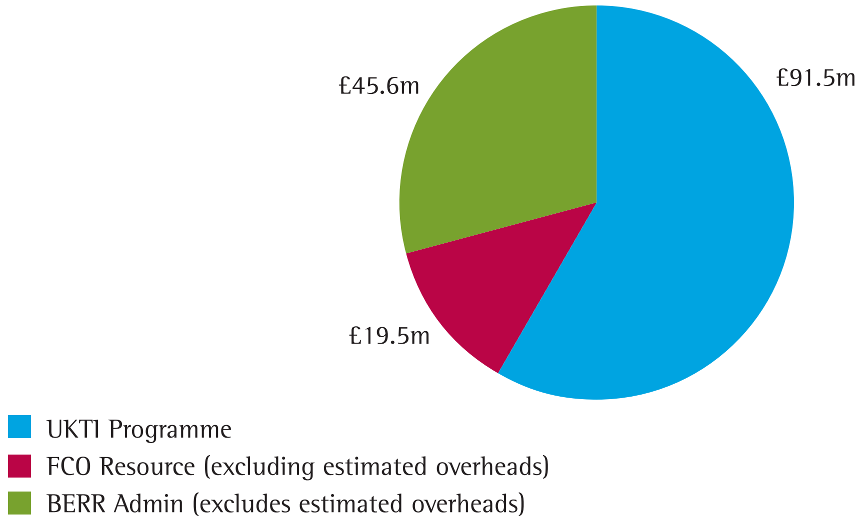
FCO Admin & Overseas Frontline Delivery

5.1.2 UKTI will live within flat-cash funding on its UK-based and Locally Engaged staff pay bill. This will remain at £41 million over the CSR period. This means that our gross pay bill will not increase despite inflationary pressures but will still require UKTI to maintain the overall output of the network. This will produce efficiencies totalling £3.4 million. We will also deliver £1 million of additional efficiencies linked to some flat-cash funding of the £42 million for non-pay bill front-line costs.

BERR Admin

5.1.3 UKTI has agreed to a BERR admin settlement that requires savings of 5 per cent real cost reductions per annum over the period.

UKTI 2008-09 Direct Budget Allocation by Source:



The chart above shows budgets which include DESO transfers and are either, in UKTI direct control or for which UKTI Accounting Officer has responsibility.

5.2 Key Value for Money Delivery Risks

5.2.1 As an organisation that delivers much of its business overseas, the combination of the low value of sterling and high overseas inflation is a continuing delivery issue, and one set to remain as a constant risk over the CSR period. The ability to manage this risk, without cutting activity and maintaining and improving output and outcomes is a significant delivery issue.

As an organisation we also need to be able to react to the changing economic environment and to key policy decisions and ensure that our resources are moved to high priority markets and high priority policy areas. In a tight resource environment, the achievement of this remains a key delivery issue.

Initiatives to deliver efficiency savings

5.2.2 The following table summarises the main initiatives through which UKTI will deliver its efficiency savings.

Table: Main initiatives for achieving CSR2007 efficiency savings period

Funding stream	Initiative
Programme	Better procurement ensuring economy, effectiveness and efficiency through the following programmes: • Harnessing framework agreements. UKTI currently has eight framework contracts in place, covering services such as publicity and marketing, design and print and accountancy services.
FCO Admin & Overseas Frontline Delivery	Driving network efficiencies through the following programmes: • Localisation of UK-based slots overseas to drive down the cost of front-line operations and harness local expertise; • Hub and spoke operations to rationalise how UKTI delivers its services. Lead Posts work with Satellite Posts to deliver more flexible and efficient customer support; • More effective and efficient use of UKTI ring-fenced budgets through monthly reviews. More challenging targets based on flat-lined resources.
BERR Admin	Improved staff capabilities and professionalism, and refining Headquarter (HQ) business processes through the following programmes: • Implementation of the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Model and the Audit Agency Value for Money indicators to generate a single improvement plan. This will also help to inform the degree of progress in modernising and professionalizing finance functions; • All corporate service functions are being asked to benchmark their respective functions.

To reinforce these initiatives, we have the following internal controls in place:

- **Business Planning:** to track delivery of these targets, we monitor our performance using a 'Scorecard'. The Scorecard sets out key activities from the Departmental Strategic Objective and Group Business Plans that are regularly monitored and discussed by the Executive Board.
- **Financial Reporting:** the Central Finance Team report on a monthly basis to the Executive Team across all budgets. Supporting narratives draw out any pressures and discuss our ability to live within the budgets voted to us.

5.3 Quality Measures

5.3.1 UKTI is committed to achieving efficiencies by reducing input costs whilst delivering improved customer services. Re-prioritising resources to where it is most needed will ensure better quality outputs.

UKTI has a programme of external evaluation on the quality of its services. The Performance and Impact Monitoring Survey (PIMS) provides quantitative and qualitative measures of UKTI's performance in delivering its targets, including data on customer satisfaction with service outputs and quality. Management information generated by PIMS is used to inform decisions on further improving the quality of service delivery and achieve further productivity gains, backed up by improved staff capabilities and professionalism, and refining Headquarter (HQ) business processes.

An overview of the PIMS system is available at Annex A.

5.4 Plans and Prospects for Delivering Value for Money Savings over the Next Six Months

5.4.1 In the first period of the CSR2007 programme we are bedding in new budgets and workstreams to deliver efficiencies as an organisation.

UKTI's CSR07 VFM Programme Senior Responsible Officers (SROs) will undertake a systems audit of their programme during the first year of its operation (by end-March 2009). This will be done either by internal or external audit professionals.

We have in place both external and internal control mechanisms that will allow us to meet our targets and express our efficiencies as an organisation. We will continue to monitor risks to delivering our agreed efficiency targets and ensure we are hitting our priorities – that we have the right resources in the right places where they are most needed.

We want to deliver, and exceed the targets, whilst also moving forward as an exemplar in Whitehall for innovative and cost-effective delivery.

ANNEX A: The Performance and Impact Monitoring Survey (PIMS)

PIMS is a central monitoring survey of users of UKTI's business services. It measures the performance and impact of UKTI support.

PIMS covers all significant customer-facing trade services and provides evidence about service quality and about what difference UKTI makes to businesses. It uses a range of measures, including information on the overall performance of UKTI against its 'new-to-export' and 'new-to-market' PSA indicators.

The percentage figures in these indicators reflect those firms reporting that they have achieved sustainable (i.e. longer-term) improvements in productivity and profitability, after they have secured additional export business as a result of support from UKTI. Measures of a range of other business activities that are covered by PIMS have improved UKTI's measurement of other aspects of its impact on business capabilities.

PIMS quarterly surveys are based on telephone interviews with a sample of users of UKTI's principal services. The interviews are carried out in two waves.

The first wave provides an initial assessment of the difference that UKTI's support has made, taking into account changes the business may have made to its products, practices or marketing strategies, or impact on other business decisions. These interviews are carried out 4 to 7 months after support has been provided.

Subsequent waves of interviews are designed to assess the longer-term impact of UKTI services. These secondwave interviews are carried out 12 months later, with a smaller sample of users.

The surveys concentrate on gathering information on business performance and processes; how these have changed over the period since service delivery; and the factors which lie behind the reported changes, such as improved knowledge and capabilities, or help with overcoming other barriers to overseas market entry. The emphasis is on factors affecting business competitiveness, and the measurement methodology aims to capture sustainable rather than unsustainable increases.

Other issues covered by the survey questions include:

- New business, both in the target market as well as any new sales in any other market, and any (positive or negative) effects on domestic sales.
- Impact on skills and on business behaviour, including improvements in products, processes or strategies, and impact on investment in research and new product development.
- Quality, relevance, and usefulness of information, advice, or contacts provided by UKTI.
- The extent to which similar benefits could have been achieved through other means, including the availability of any private sector sources of advice or information.
- Business profile characteristics and strategic motives for exporting.

Data gathered on business profile characteristics and strategic motives for exporting are used in analysis of the survey results, to help identify characteristics of businesses most likely to benefit from UKTI support. The questions also contain crosschecks, including data about actual performance, enabling the consultant carrying out the interview to identify inconsistent responses. The follow-up interviews provide a further opportunity for crosschecks with firms' initial responses.

The results indicate how UKTI's assistance has improved firms' performance, especially productivity and profitability, and enable a judgement to be made as to whether UKTI has met the 'new-to-export' and 'new-to-market' indicators. Results from the initial wave of interviews also provide UKTI managers with early indications of how well different services are performing, so that any necessary adjustments can be made to drive up service quality.

ANNEX B: CSR2007 Performance Framework Agreement: Technical note on definitions and measurement of high level targets

Definitions and measurement mechanisms

Target 1: Attract high value foreign direct investment to the UK.

(a) Number of involved inward investment successes:

Measurement mechanism: Project records on UKTI's Client Relationship Management system (CRM).

Definition: Criteria defining an involved inward investment success were set out by the International Business Development Forum (IBDF) and agreed by IBDF members including the Regional Development Agencies, Development Agencies and UKTI. The IBDF was formerly known as the Committee on Overseas Promotion (COP).

(b) Number of "high value" and "good quality" projects:

Measurement mechanism: Via independent survey of a random sample of the reported involved successes. The survey collects data on project characteristics which are used to classify the projects as "high value", or "good quality", or other. The fraction of projects classified in each category is then grossed up to provide estimates of the total number of involved successes which are "high value" and "good quality".

Definitions: The project characteristics which are used to classify the projects as "high value", or "good quality" capture features of projects which have been identified by academic research as likely to be associated with positive impact on UK productivity, in particular through knowledge spillovers and increases in knowledge intensive economic activity in the UK. Project characteristics are classified as high, medium, or low indicators of value, and projects are then classified according to the number and quality of these indicators which are present. Indicators include: having R&D as the main focus of a project is classified as a high indicator of project value; having new to the world, new to the sector, or new to UK business models or technical processes at the site.

Background: Identification of project characteristics likely to be associated with positive impact on UK productivity and knowledge spillovers benefited from advice provided by Professor Richard Harris, of the University of Glasgow. Professor Harris carried out a project for UKTI in this context to analyse characteristics of inward investment projects using data from the Community Innovation Survey, and make recommendations about indicators which should be used to classify projects as "high value" and "good quality". These indicators were then tested for practical use through a pilot survey of involved inward investment successes, carried out by OMB Research during 2006-07. Recommendations from the pilot were then used to refine details of the methodology, in particular to ensure that the required data could be captured without undue interview length. UKTI continues to monitor developments in the academic literature with respect to factors associated with productivity growth and knowledge spillovers, and would expect to review the set of value indicators periodically, to take account of relevant new evidence.

(c) Percentage agreeing that UKTI or its RDA delivery partner had significant favourable influence on the decision to locate or expand in the UK, or on the scale or scope of the project:

Measurement mechanism: Via the same independent survey of a random sample of the reported involved successes as is used to measure project value.

Definition: Respondents are asked about the extent to which the support provided had influenced the project with respect to decisions on a number of project features, including aspects of project scope such as increased the amount of research and development at the site, as well as the decision to go ahead with the investment at all. A 1 to 5 rating scale is used, where 1 = no influence, and 5 = very significant influence. Performance against the target is measured as the percentage rating the influence at 4 or 5.

Background: A former UKTI PSA target on major projects focused on "the percentage of firms reporting that UK T&I support was a significant factor in their performance." The target level was 70 per cent. A higher level is not realistic, because experience of previous research has demonstrated that the extent to which businesses are willing to attribute influence to support reflects variable subjective judgments by individual business people about the relative significance of internal vs. external influences on their business's management decisions. Given that decisions relating to inward investment projects are likely to be of substantial strategic importance to the company concerned, scores against this target as defined above could be seen as conservative estimates of influence.

Target 2: Improve the performance of UK businesses by helping them internationalise.

(a) Number of businesses helped to exploit overseas business opportunities

Measurement mechanism: Via independent analysis of data from UKTI's CRM and from the administrative records of businesses that have paid for trade development support under the Overseas Market Introduction Service (OMIS). The analysis is carried out by the market research specialist who also uses these data to conduct the Performance and Impact Monitoring Survey (PIMS) for UKTI trade services.

Definitions: Businesses are counted against the target only once in the year, even if they have received support relating to more than one overseas market during the year. A business is defined as a separate legal entity. Businesses are only counted against the target for which details of support have been provided to the independent market research specialist for inclusion in PIMS. All such businesses are eligible for interview, and are selected for interview at random.

(b) Number of innovative businesses helped to exploit overseas business opportunities

Measurement mechanism: Via independent survey of a random sample of businesses who have received help from UKTI to exploit overseas business opportunities (PIMS).

Definition: PIMS respondents are asked about characteristics of their business including R&D activity and other key indicators of innovation, and are classified as innovative if they report such characteristics. The indicators used for this classification are based on relevant questions from the Community Innovation Survey, and are defined to capture innovation in services sectors as well as in manufacturing. Full details are published in the annual reports on PIMS on the UKTI web site at www.uktradeinvest.gov.uk/UKTI/pims. The fraction of respondents classified as innovative is grossed up to provide an estimate of the number of innovative businesses helped. A business is counted against the target only once in the year, even if they have received help in more than one market.

Background: Details of the methodology for capturing data about R&D and other key indicators of innovation activity were tested through a number of waves of PIMS, seeking to ensure that the questions used would capture innovation activity in services sectors as well as in manufacturing. Analysis of responses by sector suggests that services sector respondents are somewhat less likely to be classified in PIMS as innovative. It is not clear whether this reflects a true picture, or perhaps a slight remaining bias in the methodology which may not fully capture innovation in services sectors. However, analysis of PIMS results has consistently shown that businesses classified as innovative are more likely to derive substantial benefit from UKTI support, as measured by the percentage reporting improved business performance. This is consistent with recent academic research which shows that innovative companies have greater capacity to identify and benefit from new ideas and knowledge from external sources, or 'absorptive capacity'.[8]

(c) Percentage improving business performance as a result of UKTI support

Measurement mechanism: Via independent survey of a random sample of businesses who have received help from UKTI to exploit overseas business opportunities (PIMS).

Definition: The definition used for this measure was developed by a team of academic researchers at the University of Reading, and focuses on capturing medium term impact on overall business productivity and profitability, rather than on additional sales or exports. In order to be counted against the measure, the respondent must report impact on both productivity and profitability. In addition, as a robustness and consistency check, the respondent must also have reported evidence of new business having been won as a direct result of the support.

8 A discussion of the concept of 'absorptive capacity' is provided in Harris and Li (2006) and (2007), together with quantitative evidence showing clear links between levels of absorptive capacity and innovation, as well as links to export activity.

Background: This definition has remained unchanged from the previous Spending Review period, in order to ensure continuity and comparability of results over time. Details of the data collection methodology changed on 1 January 2006, when OMB Research took over responsibility for the survey from the University of Reading, and the scale of the survey was also substantially increased. Prior to the change, a large scale pilot survey was carried out to test details of the new methodology; full details are described in the report on the pilot, available on the UKTI website at www.uktradeinvest.gov.uk/UKTI/pims. As another approach to testing the validity of the measure, analysis has been carried out to investigate the specific mechanisms through which the support leads to impact on business performance. For each trade service, the most frequently reported mechanisms of impact are reported regularly in the PIMS results. These show that impact on business performance results from enabling the client to overcome key barriers to overseas markets, and/or to up-grade their approach through learning more about how to go about overseas business. The most frequently cited mechanisms of impact are:

- Gained access to customers/business partners not otherwise available
- Gained access to information not otherwise available;
- Improved profile or credibility overseas;
- Improved knowledge of the competitive environment;
- Improved overseas marketing strategy; and
- Gained the confidence to explore or expand in an overseas market or markets.

Target 3: R&D activity

Measurement mechanism: Via independent survey of a random sample of the reported FDI involved successes, and a separate independent survey of a random sample of businesses who have received help from UKTI to exploit overseas business opportunities.

Definition: Respondents are asked about additional R&D activity as a result of the support provided. The fraction of respondents reporting such additional R&D for involved inward investment projects, and the fraction of businesses who have received help to exploit overseas business opportunities, are then grossed up, respectively, to provide estimates of the total number of businesses increasing R&D activity in the UK.

Background: Details of the methodology for capturing data about additional R&D activity were tested through a number of waves of UKTI's Performance and Impact Monitoring Survey. In addition, follow up qualitative research was conducted to investigate interpretation of the R&D results, and to explore the mechanisms which were generating influence on business R&D. A full report on this research, *Internationalisation, Growth and Novel Product Development in Young Innovative Businesses*, is published on the UKTI web site. The research found that trade development support generates additional business investment in R&D through a combination of learning benefits, which give rise to ideas for new R&D, and business performance benefits, which enable the firm to afford the increased investment. The findings are consistent with recent quantitative academic research[9] which demonstrates that exporting and investment in R&D are closely linked.

Target 4: UK reputation

Measurement mechanism: Via independent survey of businesses and opinion formers in four key sectors and three major overseas markets, USA, China, and India. A baseline survey was carried out by RSM during 2007-08, and change will be monitored by annual replication of the baseline survey.

Definitions: As the target relates to impact over the Spending Review period, success will be measured by comparing the results of the survey in the final year of the period with those of the baseline. Success is defined as an increase in a range of Key Performance Indicators (KPI) which capture the various aspects of UK reputation. The indicators are:

9 Reports for UKTI on this issue are available on the UKTI web site, and include: Harris and Li (2006) [Establishment Level Empirical Study of Links between Exporting, Innovation, and Productivity]. Reports to UK Trade & Investment including [Participation in Export markets and Productivity in Uk Manufacturing] (2004) and Harris and Li (2007) [Firm Level Empirical Study of the contribution of Exporting to UK Productivity Growth]

KPI 1: UK FAVOURABILITY

Measure (QC1): Increased mean favourability score for UK relative to average score for comparator countries

KPI 2: UK REPUTATION MEASURES

Measure (QC4a): Increase in one or more of the four reputation measures (RM1 – RM4) compared to 2008 benchmark

RM1 = Average score across all Business Environment indicators

RM2 = Average score across all Innovation, Creativity indicators

RM3 = Average score across all Connections indicators

RM4 = Average score across all Quality, Value and Delivery indicators

KPI 3: OVERALL UK REPUTATION

Measure (QC4b): Increased mean score for UK compared to 2008 benchmark

KPI 4: CURRENT/INTENTION TO INVEST/SOURCE

Measure (QA1/2/7/8): Increase in those currently, or very likely to invest in/ source from the UK in the next 5 years

KPI 5: POSITIVE ASSOCIATIONS

Measure (QC5): Increase in scores relative to one or more comparator countries in the number of attributes associated with the UK

Background: A review of literature on measurement of reputation could not identify any examples of research which had very similar objectives, although some examples of academic research in broadly related areas were found. In order to inform development of methodology, UKTI hosted a seminar in September 2007, which included presentations from a number of these researchers. One of these, Dr Nicolas Papadopoulos from Carleton University, Ottawa, Ontario, Canada, also contributed more detailed advice on the methodology for the baseline survey during the course of its development. A pilot qualitative survey was conducted by RSM prior to finalising details of the methodology for the main baseline survey.

Target 5: Improve UKTI's Operational Performance.

(a) Increase Professionalism

Measurement mechanism: Via independent survey of a random sample of businesses who have received help from UKTI to exploit overseas business opportunities (PIMS).

Definition: Quality and satisfaction ratings are measured as the percentage of respondents giving scores of 4 or 5 on a 1 to 5 rating scale, where 1 = very poor and 5 = very good, in response to a specified set of questions. The quality measure, PIMS measure A09, is defined as the average score across ratings for a number of specific aspects of service quality, details of which vary by service. Satisfaction is defined as PIMS measure B10, and is based on a single question, which is the same across all services. Full details are provided in PIMS reports available at www.uktradeinvest.gov.uk/UKTI/pims.

Background: For purposes of comparability, the PIMS quality and satisfaction measures are based on measures which were used in the BERR Business Support Cross-Product Monitoring Survey (BSMS), and which can be identified in reports on these surveys by the same reference numbers. Variation in the detailed set of questions used to measure quality allows the surveys to capture ratings on the specific aspects of service quality which are most relevant in the business context. Analysis of PIMS data shows that quality scores are significantly correlated with impact scores, particular on aspects of service which relate most closely to the mechanisms of impact on business performance, such as the quality and relevance of information and advice provided.

(b) Increase Charging

Measurement Mechanism: via actual revenue, received into UKTI's OMIS account on a monthly basis.

Definition: customers pay for OMIS services on line. Revenue is received via Worldpay and credited to UKTI's OMIS account after reconciliation. The final figure for each month is available around the 3rd day of the following month.

Background: the work that the staff in UKTI's overseas network achieves for private sector companies is charged for via OMIS – the Overseas Market Introduction Service. Companies and groups of companies can commission work on-line through International Trade Advisers (ITA) in the English regions, equivalent staff in the Devolved Administrations or direct from posts overseas. Charges are based on the amount of time estimated to complete the work requested. Work covered includes market information, contacts, face to face advice, programme arranging, product launches, organisation of receptions etc. UK does have other income sources but OMIS is by far the largest. UKTI Income has grown from under £1 million per annum in 2006-7 to £2.2 million in the first 6 months of 2008-9. This has been achieved by:

- Highlighting the flexibility of UKTI services available from the network
- Spreading best practice in the overseas network
- Targeting overseas network and English regional network
- Introducing changes to the OMIS system to enable greater volumes of work to be delivered more efficiently.

Glossary

AO	Accounting Officer
BERR	Department for Business, Enterprise & Regulatory Reform
CIPFA	Chartered Institute of Public Finance and Accountancy
COP	Committee on Overseas Promotion
CRM	Customer Relationship Management
CSR	Comprehensive Spending Review
DA	Devolved Administration
DESO	Defence Export Service Organisation
DSO	Departmental Strategic Objective
e-CRM	Electronic Customer Relationship Management
EU	European Union
FCO	Foreign & Commonwealth Office
FDI	Foreign Direct Investment
FTE	Full Time Equivalent
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product
HR	Human Resources
HQ	Headquarter
IBDF	International Business Development Forum
ICT	Information and Communication Technologies
IT	Information Technology
ITA	International Trade Advisor
MoD	Ministry of Defence
NAO	National Audit Office
OGC	Office of Government Commerce
OGD	Other Government Department
OMIS	Overseas Market Introduction Service

PIMS	Performance and Impact Monitoring Survey
PSA	Public Service Agreement
R&D	Research and Development
RDA	Regional Development Agency
SLS	Sales Lead Services
SME	Small and Medium-sized Enterprises
SR	Spending Review
UKTI	UK Trade & Investment
UKTI DSO	UKTI Defence & Security Organisation
UNCTAD	United Nations Conference on Trade & Development

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