

# UK Trade & Investment: Trade support

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# SUMMARY

**1** UK Trade & Investment is the Government body which provides expert advice and support to UK based businesses wishing to trade internationally, as well as support to businesses based overseas wishing to locate in the UK. This report looks at the trade aspect of its work, including its High Growth Markets Programme.

**2** In 2007 UK exports totalled £368 billion and represented 26 per cent of the UK's Gross Domestic Product. The United States and the European Union remained the UK's principal markets, together accounting for 68 per cent of total exports. Export performance has been particularly strong in a number of sectors, notably financial services, media and the creative industries, and the manufacture of advanced technology products. The emergence of high-growth markets, such as China and India, offers an opportunity for UK businesses to increase their

international presence and thus improve the UK's trade position. However, they also present a challenge to many businesses and in some of these markets the UK's performance is lagging behind that of other Western countries.

**3** In July 2006 UK Trade & Investment published *Prosperity in a Changing World* which set out its five-year strategy to implement Government policy. The strategy is intended "to deliver, by 2011, measurable improvement in the business performance of UK Trade & Investment's international trade customers, with an emphasis on innovative and R&D firms; increase the contribution of foreign direct investment to knowledge-intensive economic activity in the UK, including research and development; and deliver a measurable improvement in the reputation of the UK in leading overseas markets as the international business partner of choice."

**4** UK Trade & Investment has set a series of output targets intended to deliver benefit to UK businesses. It delivers these through 19 core services. Annual targets include: to support at least 20,000 businesses in exploiting overseas opportunities, of which 12,000 businesses should be innovative, and at least 50 per cent of supported businesses should improve their performance as a result; to achieve quality and satisfaction ratings in excess of 80 per cent; and to increase its revenue from charging users of its services by £2 million to £4 million in 2010-11.

**5** Total expenditure in 2007-08 was £297 million, of which £218 million (74 per cent) was in support of trade and £77 million (26 per cent) related to encouraging inward investment. From 2005-06 to 2007-08 the percentage of total resources assigned to inward investment increased from 15 per cent. Our review excludes the absorption into UK Trade & Investment of the Defence Export Services Organisation in April 2008 as it is too early to evaluate the resultant Defence and Security Organisation.

**6** UK Trade & Investment has an unusual governance structure amongst government organisations: the Chief Executive, as Accounting Officer, is responsible for grants made to businesses and expenditure on work contracted out to private providers. The costs of directly employed staff, together with their overheads and accommodation, are funded by the Department for Business, Enterprise and Regulatory Reform (BERR) and the Foreign and Commonwealth Office (FCO) and remain the responsibility of the Accounting Officers of those Departments.

## Key findings

**7** **Since 2006, UK Trade & Investment has re-focused its resources towards 17 (out of 99) markets it believes offer the greatest opportunity for increasing trade,** including China, India and Turkey. The total number of staff providing trade support in these priority markets increased by 21 per cent from 399 in July 2006 to 483 in July 2008, representing 36 per cent of total staff overseas. The volume of services delivered in these markets also increased. For example, the number of commissions delivered under the Overseas Market Introduction Service, one of the principal support services, increased by 179 per cent in the high growth markets compared to 92 per cent in the remaining markets.

**8** **UK Trade & Investment is making good progress against its targets and has in place a robust system of assessing delivery.** Performance data reported in December 2008, covering the 12 months to June 2008, demonstrates it has come close to, or hit, most of its key targets:

- The total number of businesses supported was 19,300, some 44 per cent above the figure for the previous 12 months although short of its target of 20,000. The number of innovative businesses assisted increased to 16,100, exceeding the target of 12,000 by 34 per cent.
- Based on feedback from business, it achieved a quality rating of 76 per cent and a satisfaction rating of 75 per cent, against a target of 80 per cent.
- 52 per cent of businesses felt they had improved their performance as a result of the support received, against a target of 50 per cent.
- Some 3,000 businesses reported an increase of research and development activity as a result of UK Trade & Investment support, against a target of 1,000.
- As at 31 December 2008, its revenue from charging had reached £2.9 million for 2008-09, against a target of £2.5 million, primarily through its Overseas Market Introduction Service.

**9** **UK Trade & Investment has put in place extensive arrangements to obtain regular and systematic feedback on the quality of its services.** The current arrangements have been in place since 2005 and involve a rolling survey of businesses using UK Trade & Investment's services. The survey is conducted by a contractor and provides a regular and comprehensive assessment of client views and forms the basis for reporting against targets. Some 70 per cent of businesses surveyed reported a qualitative benefit as a result of the assistance received. Some of the benefits cited include access to information, customers and business partners not otherwise available; and gaining the confidence to explore or expand overseas.

**10** **UK Trade & Investment has sought to measure the financial benefit of its intervention. It shows that most perceive little financial benefit, but some perceive a large benefit.** UK Trade & Investment regularly asks its users to estimate the financial benefit arising as a result of its support: in the 12 months to June 2008 it reported that this was £229,000, on average, per business. This figure is used to derive the organisation's reported benefit to cost ratio which was 15:1 in 2007-08. There are, nevertheless, important caveats. The underlying survey data shows that 29 per cent either did not know or declined to provide an estimate, 30 per cent forecast some financial benefit and 40 per cent forecast no financial benefit. The survey focuses on forecast impact rather than actual financial impact which may, in practice, be achieved some years later. There is, at present, comparatively little information on UK Trade & Investment's longer term impact on business performance.

**11 UK Trade & Investment needs to set out more explicitly, on a market by market basis, the significant market access barriers and its plans for overcoming them.** It has business plans in place in each of the markets in which it operates and specific activity plans for each of the priority sectors in each market. The business plans include: overarching targets; resources; a risk assessment; a balanced scorecard of delivery; barriers to trade; and a marketing plan. These plans do not always set out which barriers to trade are most significant, the potential benefits to UK business that might accrue from overcoming them, the chances of success and hence the priority with which they should be tackled.

**12 UK Trade & Investment lacks clarity on the objectives governing the charges it makes for its services.** UK Trade & Investment has an annual revenue target agreed with Treasury. For 2008-09 this target is £2.5 million, to be earned through charges to businesses for some of its services. We found a lack of clarity in the financial objectives related to each of UK Trade & Investment's services, such as those that should be subsidised, and by how much; and those which should be subject to full cost recovery.

**13 UK Trade & Investment has taken some steps to determine the unit costs of its services, but it lacks a sufficiently robust method to enable it to judge the efficiency with which services are delivered.** UK Trade & Investment does not accurately calculate the costs of providing the different services and the relative contribution made by different parts of the organisation. It cannot therefore assess the efficiency with which it achieves its outputs, nor the level of subsidy it is providing to businesses and whether it is compliant with Treasury guidelines on full economic cost recovery. A model for assessing costs has been in place since late 2008 but it needs significant refinement.

**14 Some businesses were confused about how the services provided by UK Trade & Investment sat alongside services provided by other organisations.** UK Trade & Investment research shows that 17 per cent of supported businesses did not realise that the assistance came from UK Trade & Investment. Trade associations and some businesses we met were confused by the variety of bodies involved in the delivery chain for trade support services and how these fitted together – UK Trade & Investment, the Regional Development Agencies, Business Link, as well as various contractors. Some UK Trade & Investment staff reported that frequent name-changes to trade-support activities over the years have delayed the establishment of a strong brand name that would raise awareness among UK businesses.

## Conclusion on value for money

**15** UK Trade & Investment is nearly three years into its five-year strategy and is on course to spend some £1 billion on trade support work by 2011. It collects a significant amount of quantitative data to assess the delivery of its 19 core services. This data indicates that it is close to achieving its targets of assisting 20,000 businesses in a 12-month period, delivering high quality and satisfaction ratings, and improving business performance.

**16** UK Trade and Investment's unusual organisational structure, drawing upon the resources of two parent departments, provides it with the flexibility to draw upon the infrastructure and expertise of both, for example the time and influence of senior diplomats. This structure also creates challenges. UK Trade and Investment lacks sufficiently robust measures of the costs of delivering specific services. It is therefore not in a position to gauge reliably the efficiency of its different activities, the contribution of different parts of the organisation to these services, nor the relative costs and benefits of the different services it provides. Without such information it is hard to show that value for money is being optimised.

## Recommendations

**17** Our recommendations are intended to increase visibility of the costs of delivering trade support services and accelerate the process of targeting resources where they can achieve the greatest impact, thereby securing better value for money.

(i) Significantly improve information on the cost of services and use it to target its resources more effectively

**1** **Insufficient data on the costs of providing each of the services, and the value generated by various parts of the organisation, reduces UK Trade & Investment's ability to focus resources where they have the highest impact.** UK Trade & Investment should improve its limited costing model to estimate the unit cost of each of its services, and update this information periodically. The information can be used in a number of ways:

- a** to review the UK Trade & Investment range of services and target resources on those which are most cost effective;
- b** to understand which parts of the organisation are most productive and take action where appropriate;

- c to make comparisons between existing and potential delivery methods; and
- d to provide credible data to allow UK Trade & Investment to comply with Treasury rules on full economic cost recovery for those services where it is applicable.

**2 UK Trade & Investment lacks clear charging policies for its services.** UK Trade & Investment should establish clear charging policies for its various services, distinguishing between those where there should be full-cost recovery, partial subsidy and those free at the point of delivery. Where it intends to achieve full-cost recovery it should estimate the level of current over or under recovery and put in place a strategy for achieving full recovery.

**3 UK Trade & Investment lacks comprehensive evidence of its long term impact on business performance.** It should put in place a rolling programme to estimate the actual benefits accrued to businesses, reviewing, two to five years after support is given, the impact on business performance. This could include extending the current follow-up surveys to seek out further, robust evidence.

(ii) Raise awareness amongst businesses that have yet to access its services, and increase awareness of the portfolio of services amongst businesses which have done so

**4 There is limited awareness of UK Trade & Investment as a trade support organisation amongst individual businesses for whom it still lacks a clear identity.** UK Trade & Investment should seek to understand better why some businesses do not take up its trade support offerings. It should give attention to the importance of distinctive and consistent branding in dealing with businesses so that those considering international trade are aware of its services.

**5 Amongst those businesses that have engaged with UK Trade & Investment, not all understand its full range of services.** It should communicate a clear picture to its business audience of the full range of UK Trade & Investment's services and the criteria governing access to these services.

(iii) Develop a clearer strategic view of where it wishes UK trade to be in the medium term in all target markets

**6 UK Trade & Investment's plans for its target markets do not always outline a clear view of the relative benefits of overcoming barriers to trade.** UK Trade & Investment should incorporate into all its individual market plans a prioritisation of the most significant barriers to trade. The prioritisation should be based on a series of criteria, for example the potential benefits to UK businesses that might accrue from overcoming these barriers and the chances of success.

(iv) Communicate a clearer understanding of how its services address barriers to trade and fit with the services provided by others

**7 UK Trade & Investment has not always communicated a clear picture of how its services should fit alongside those provided by the private sector and other organisations.** UK Trade & Investment should develop a more informed understanding of how its services fit alongside the developing pattern of those provided by private sector organisations, including trade associations, and to use this knowledge to explain how its support complements the private sector provision.