National Audit Office

Report
by the Comptroller
and Auditor General

Foreign & Commonwealth Office
and UK Trade & Investment

Supporting UK exporters overseas

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Key facts

£1tn	£498bn	£420m
ambition to increase exports by 2020	current value of UK exports	spent by the FCO and UKTI on supporting UK business overseas 2012-13

100	target number of high-value opportunities UK Trade & Investment (UKTI) must pursue
50,000	number of companies UKTI must assist by 2015
29	number of emerging markets prioritised by the Foreign & Commonwealth Office (FCO)
20	number of high-growth markets prioritised by UKTI
£22.5 million	FCO funding available in 2012-13 for projects which support growth overseas
1,265	UKTI staff overseas in 160 locations
1,000	FCO staff overseas who spend at least some of their time working on growth-related activities

Summary

1 In March 2011 the government published *The Plan for Growth*,[1] which sets out its strategy for rebalancing the UK economy away from a reliance on a narrow range of sectors and regions, to a more diverse approach to increasing investment and exports, which would help underpin sustainable long-term growth. In November 2011 the Prime Minister set a target of 100,000 more companies exporting by 2020 and, in the 2012 Budget, the Chancellor of the Exchequer set a very challenging ambition of doubling UK exports to £1 trillion by 2020. Achieving this ambition will depend on at least maintaining current market share in advanced markets and securing exports in new, faster-growing emerging markets. It will also require contributions from a number of departments, with the Foreign & Commonwealth Office (FCO) and UK Trade & Investment (UKTI) having particularly important roles to play.

2 The FCO has a worldwide network of embassies and consulates, employing over 14,000 people in nearly 270 overseas posts.[2] In 2010, before the government set out its £1 trillion ambition, the FCO had refocused its efforts towards growth, with, as one of its core objectives, the aim of building Britain's prosperity by increasing exports and investment, opening markets, ensuring access to resources and promoting sustainable global growth.[3]

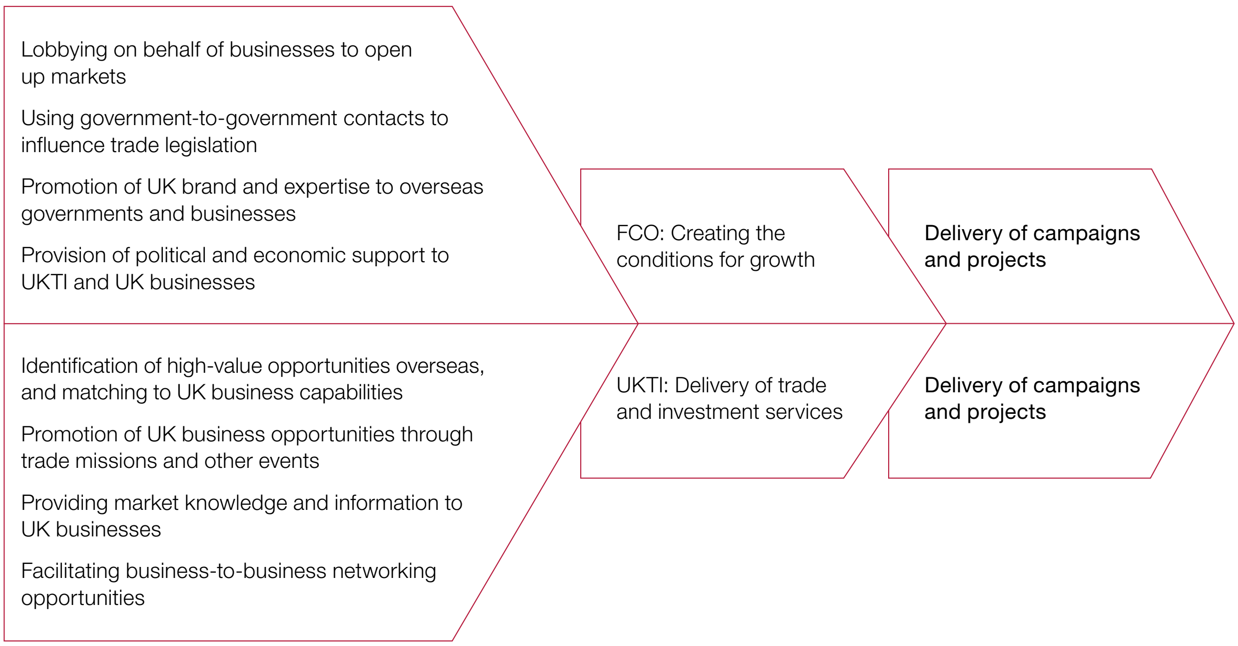
3 UKTI is a non-ministerial department of both the Department for Business, Innovation & Skills (BIS) and the FCO. It works with UK-based businesses to help them operate effectively in international markets and to encourage overseas companies to invest in the UK. Staff based overseas are usually co-located with the FCO.

4 UKTI and the FCO help to achieve growth in a number of ways, but in general terms, the FCO tries to create the conditions overseas for growth, and UKTI works directly with UK businesses to help them make the most of these market conditions. **Figure 1** overleaf outlines some of the activities they pursue.

1 HM Treasury and the Department for Business, Innovation & Skills, *The Plan for Growth*, March 2011.
2 Posts are the FCO's presence overseas and consist of embassies, high commissions or consular offices. There are currently some 270 posts.
3 Foreign & Commonwealth Office, *Business Plan, 2012–15*, May 2012.

Figure 1

Responsibilities of FCO and UKTI



Source: National Audit Office analysis of UK Trade & Investment and Foreign & Commonwealth Office documents

Scope of the report

5 This report examines how the FCO and UKTI are helping British businesses export more and whether they are providing the support to business to fulfil the government's aim of doubling exports to £1 trillion by 2020. The report outlines the operational changes that the FCO and UKTI have made, and whether their activities are likely to have sufficient impact on UK exports. In particular, we examined:

- whether the FCO and UKTI have robust plans to increase exports;
- whether their activities at post are effective;
- whether they have robust methods to measure the impact of their work; and
- what more they could do.

6 This report is part of the National Audit Office's work on economic growth. It focuses mainly on efforts overseas, rather than activities within the UK to boost exports, as this is where the main effort of FCO occurs. It focuses on the FCO and UKTI, although other government departments play a role in increasing exports including BIS and the Department of Energy & Climate Change. Our analysis does not include inward investment or defence exports because of commercial sensitivity and security classification.

Key findings

Meeting the £1 trillion ambition

7 **The value of exports has been flat over the last two years, and will need to grow by 10 per cent year-on-year to meet the government-wide ambition to increase exports to £1 trillion by 2020.** We recognise that achieving the £1 trillion is not a simple task and there are many circumstances that affect export performance which are outside the two Departments' control. Export performance is volatile and reflects uncertain external circumstances such as exchange rates and political and economic changes overseas, as well as the government's efforts. After a strong export performance in 2011, exports remained fairly flat in 2012 and 2013 against a background of weak global demand, notably the recession in the Eurozone. This creates an additional challenge for the government in the coming years. The UK's performance compared with relevant European benchmark countries, Germany, France and Italy, also indicates that while the UK outperforms them in the Gulf, in many other emerging markets – which have the greatest potential to grow – such as Russia, Brazil, Turkey and China, the UK has not traditionally performed as well (paragraphs 1.7 to 1.9).

8 **UKTI and FCO have key roles to play in increasing exports but the respective contributions of government departments to meeting the £1 trillion ambition are not defined.** UKTI assessed the feasibility of the £1 trillion target, and concluded that, while stretching, it struck a reasonable balance between ambition and realism, assuming world export growth continued in line with expectations. UKTI has supporting targets such as doubling the numbers of companies it helps to 50,000, and achieving total contracts won by UK businesses with UKTI support to a value of £20 billion from 2013-14, captured through a measure called Trade Growth Value. In summer 2012, the FCO started to calculate the financial value of the export growth potential of some of its targeted markets including China, Mexico and India. However, the Departments lack a more detailed action plan on how their work will contribute to the £1 trillion ambition. As far as possible, this would give an indication of how the £1 trillion is broken down into deliverable objectives, what actions they need to take to meet those objectives, and timescales for delivery and outcomes, quantified where possible, against which Departments could be held accountable (paragraphs 1.10 to 1.16).

Activities to improve export performance

9 **The initial responses of UKTI and the FCO to the government's requirement to increase exports were not aligned.** In 2011 UKTI published its strategy for how it will promote UK exports overseas. At the same time, the FCO produced its strategy, which sets out FCO priorities for promoting growth. Both strategies support the government's *Plan for growth*,[4] which lists UKTI and FCO working together as a priority action. Lord Green's Economic Affairs Trade and Investment Committee monitor this. However, neither strategy sets out specifically how the two Departments will work together to increase exports. This lack of alignment is at times repeated at overseas posts, where some do not plan activities jointly in detail. This could undermine closer working, coordination of effort and prioritisation of work (paragraphs 2.2 to 2.10).

4 See footnote 1.

10 FCO staff overseas have developed approaches to help promote exports, but there needs to be greater sharing of best practice. The FCO wants posts to have a high degree of autonomy in how they operate so that staff can tailor their export promotion activities to local circumstances. Some posts feel that over-centralised decision-making would lead to unnecessary bureaucracy and a 'control culture'. As well as providing benefits, however, this devolved approach risks producing ad hoc and uncoordinated activities that could be better focused on achieving results. The FCO has some mechanisms to share best practice, including an annual leadership conference, a dedicated staff e-magazine and centrally based 'champions', but these need improving to help overseas posts better understand which activities offer the greatest value to the UK. Posts should then be expected to justify when their working model differs from accepted good practice (paragraphs 2.11 and 2.12).

11 There are examples of FCO and UKTI working together effectively overseas, but in some cases there is confusion on roles and responsibilities. The FCO and UKTI staff are based together in many locations, and 78 per cent of respondents to our survey of overseas posts felt that UKTI and FCO work is aligned. During our visits we saw examples of how the FCO's work supports UKTI efforts such as providing economic and sector analysis, knowledge sharing and working on joint projects. These showed the value that can be derived by aligning their work, but some posts were unsure whether their model was appropriate. Some posts were also uncertain about respective roles and responsibilities, in particular, whether the FCO's new role on growth would duplicate existing UKTI work (paragraphs 2.15 to 2.18).

Capacity to improve export performance

12 The FCO and UKTI have reallocated existing resources to where they consider there are new opportunities. In 2011 the FCO started an exercise to reallocate resources across its network to help focus on 29 emerging markets, while UKTI regularly realigns resources to focus on priority markets. It aims to allocate at least 50 per cent of resources to high-growth markets by 2020. FCO and UKTI have different criteria for prioritising countries which reflects their different objectives; for example, UKTI focuses solely on economic conditions, while FCO decision-making is informed by economic considerations as well as a wider set of issues, such as security priorities. Currently this analysis has produced complementary outcomes as UKTI and the FCO are largely focusing on the same markets (paragraphs 2.19 to 2.21).

13 The FCO has provided training for staff to increase commercial awareness but may not be making the most of business placements by heads of mission. The FCO has recruited some staff with commercial skills but is still predominantly reliant on training generalists. Eight hundred FCO staff have attended 'commercial diplomacy awareness' workshops. Thirty-nine out of 108 new heads of mission have participated in a business placement scheme in some of the UK's leading industry sectors and they also organise briefings with business independently of this scheme. However, the FCO may not be maximising the potential benefit of this scheme, as only 9 of the 39 heads of mission have yet to take up post in a designated emerging economy (paragraphs 2.22 and 2.23).

What more needs to be done

14 **The FCO is changing how it promotes growth, and is adopting a more coherent programme and project management-orientated approach.** In February 2013 the FCO drew up Future Prosperity plans to deliver 30 growth-related projects, and is setting up a programme office to manage its activities. In February 2013 the FCO established a prosperity programme board, to run several projects centrally, and help move towards a more programme-orientated approach. It is chaired by the FCO's Director of Prosperity, and attended by senior representatives from UKTI and other key government departments (paragraphs 3.3 and 3.4).

15 **The FCO must improve how it evaluates its impact so as to provide assurance that its spending is justified and it allocates resources efficiently.** It aims now to develop metrics in consultation with the Department for International Development, UKTI and BIS. It has sought feedback from businesses on how they viewed the FCO's progress against the commitments in the *Charter for Business*.[5] It can also provide specific examples of where it has added value and shares these with ministers and its network of overseas posts every two months. We recognise the challenge of quantifying the value of FCO's activities to the UK economy and that there are many factors that impact on export performance that are outside the Department's control. However, it needs to be able to demonstrate that its spending yields tangible results and to understand the costs and benefits of different types of activities. At the least, while avoiding creating a cumbersome system of measures, we would expect to see a clear assessment of what activities give greatest impact (paragraphs 3.5 to 3.7).

16 **The FCO needs better reporting to allow central oversight of progress.** The increased focus on exports within the FCO has clearly galvanised efforts but current reporting mechanisms make it difficult to assess overall progress in assisting businesses to increase exports. Posts review performance against their objectives twice a year, and report on successful contributions to improving export performance, but this information is largely qualitative and is not collated to provide an objective overview of performance. UKTI has extensive central monitoring of performance but there is limited joint monitoring to assess how UKTI and FCO together at post are contributing to promoting exports (paragraph 3.8).

17 **Historically, UKTI performance measures at overseas posts have not assessed the impact of activities on the UK economy but it is now increasingly looking to measure actual business outcomes.** Previously, measures have focused on volume of activity, revenue raised from services and quality of service. In 2012 UKTI introduced a new process called Trade Growth Value, which aims to record the monetary value of the assistance it provides to companies that have secured contracts, which is then validated by those assisted. UKTI also has performance measures in place for quantifying and monitoring the value of inward investment to the UK (paragraph 3.10).

5 The Charter for Business sets out the FCO's commitments to supporting UK businesses overseas.

18 Overseas posts are positive about the focus on high-value opportunities but there is some uncertainty about prioritisation. In response to additional funding, UKTI has agreed to double the number of companies it assists to 50,000 by 2014-15, increasing the day-to-day, responsive workload of staff overseas. At the same time UKTI has doubled the target value of 'high-value opportunities' from £5 billion to £10 billion, work which will need sustained effort over several years. Some overseas posts we visited felt it was not clear how they should be prioritising these activities, while still achieving challenging targets to help businesses which require a different way of working (paragraphs 3.11 and 3.12).

19 UKTI needs to implement lessons from the evaluation of its pilot initiative to use external partners if it decides to roll it out. By 2017 UKTI intends to deliver services through a network of overseas business-led bodies, including British Chambers of Commerce. The Overseas Business Networks Initiative will allow UKTI to focus on high-value opportunities while the business bodies provide day-to-day business services. UKTI is currently piloting the initiative in 20 posts at a cost of £8 million and has started an evaluation. During our visits we saw that the pilots were surfacing some problems, including varying capacity and appetite of business bodies to undertake the new role. We intend to conduct a more detailed examination in 2014-15 (paragraphs 3.13 and 3.14).

Conclusion on value for money

20 Since 2010 the government has been increasingly committed to supporting UK exporters abroad, and in 2012 set a challenging ambition to increase UK exports to £1 trillion by 2020. Promoting UK exports has been a key FCO objective since 2010 and a long-standing one for UKTI, but currently they do not have joint accountability for planning, monitoring and delivery against their goal.

21 The government's objective for export-led growth is ambitious and relies on UKTI and the FCO making a substantial contribution if it is to be achieved. This will require them to make their current activities to support exports much more closely coordinated, and supported by tough measurable milestones.

Recommendations

22 To support the FCO and UKTI to increase UK exports, we make the following recommendations:

a **The FCO should repeat the 2012 survey of businesses on how they view FCO support under the *Charter for Business*, perhaps using UKTI's existing survey to gain businesses' views.** It is essential that the FCO's work to promote export growth is helpful to businesses and it needs to secure feedback on a regular basis.

b **The FCO and UKTI should set out how their high-level objectives cascade down to the work plans of overseas posts, and should be jointly accountable for planning and performance monitoring.** Currently, the majority of staff understand the importance of promoting growth; however, there is a disconnect between high-level ambition and lower-level objective-setting, which undermines the ability of staff to see how their efforts contribute.

c **The FCO should continue to develop better means of measuring the impact of its interventions.** We recognise the difficulties of this and welcome the FCO's recent intention to develop ways of measuring impact. Its work should establish which interventions give it the greatest impact, in the differing markets across the world, with a greater understanding of the costs and benefits of its various activities. The FCO board needs to ensure this work is given appropriate priority, and where possible, is repeated in other areas of FCO activity.

d **UKTI needs to ensure its targets demonstrate, where feasible, the outcomes from, and the value of, its efforts at post, not just volumes of activity.** UKTI has a target regime with extensive metrics to measure its performance. Many of these measure volumes of inputs, for example the number of businesses assisted, and not the value of the activity to the UK economy. UKTI is undergoing a change management programme, and is shifting its emphasis to give greater attention to measures that quantify the outcomes of their activities.

e **While recognising the need to adapt to local circumstances, the FCO and UKTI should better communicate best practice and expectations in joint working to help posts.** We saw that UKTI and FCO staff overseas have developed different models of working together, ranging from sharing information to collaborating in joint teams. However, some staff remained uncertain about roles and responsibilities, and had concerns about duplication of effort.

f **UKTI and the FCO need to develop a sustainable method of joint planning at post which recognises that they have different departmental objectives and targets.** While the FCO and UKTI are increasingly working together at post, in some cases they still plan these activities separately. Proper joint working requires joint planning and coordination of effort.

g **UKTI's and the FCO's implementation of the Overseas Business Networks Initiative should thoroughly reflect the results of the evaluation of the current pilot.** The pilots are raising questions about the capacity and appetite of business bodies to undertake the new role as well as uncertainty about the framework for delivery. The Departments must ensure that these problems are dealt with when the programme is rolled out.

h **UKTI needs to develop clearer guidelines to posts to enable a better balance in their priorities between pursuing high-value opportunities and meeting their other trade targets.** Some posts felt it was not clear how they should be prioritising these activities, and it would be valuable if expectations were clarified.