



National Audit Office

THE BRITISH COUNCIL Achieving Impact

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 625 Session 2007-2008 | 11 June 2008

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THE BRITISH COUNCIL
Achieving Impact

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SUMMARY

1 The British Council is a Registered Charity, an executive Non-Departmental Public Body and a Public Corporation. The Council is operationally independent of Government and its aim is to build mutually beneficial relationships between people in the United Kingdom and other countries, and to increase appreciation of the United Kingdom's creative ideas and achievements. It has described itself as the UK's international organisation for educational opportunities and cultural relations, and operates in some 110 countries. In 2006-07 it received some £195 million from public grants, mainly from the Foreign and Commonwealth Office, and earned a

further £350 million principally by teaching English, delivering examinations overseas and managing client funded contracts.

2 The role of the British Council was considered by Lord Carter of Coles in his review of UK Public Diplomacy in 2005 and again by the Select Committee for Foreign Affairs in 2006.¹ The Select Committee noted that the Carter review did not have a value-for-money focus as part of its remit, and recommended that the National Audit Office consider conducting a Value for Money Report on the Council. In their deliberations, the Committee for

¹ Public Diplomacy is defined as "Work aiming to inform and engage individuals and organisations overseas, in order to improve understanding of and influence for the United Kingdom in a manner consistent with governmental medium and long term goals". *Review of UK Public Diplomacy* by Lord Carter of Coles December 2005. *Third Report of the Foreign Affairs Select Committee 2005-2006*, Public Diplomacy.

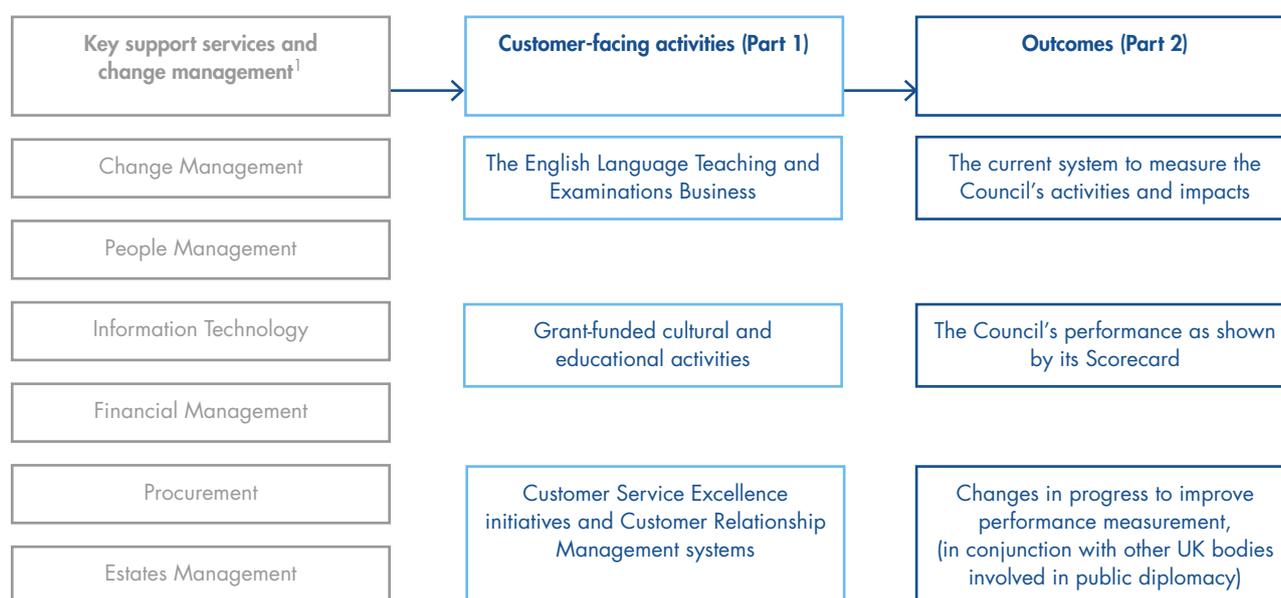
Foreign Affairs expressed wide-ranging interest, both in how the Council used its resources and in how it measured its performance. This examination considers whether the British Council uses its resources economically and efficiently and adequately measures and enhances its impact in meeting public diplomacy objectives. Our examination, summarised in **Figure 1**, included the Council's key support services, the way it develops and delivers services to customers, and its Performance Measurement systems. Findings from our work on the Council's support services and its far reaching programme of change are published in a separate on-line report.²

3 Our overall conclusion, based on our work overseas and in the UK, is that the British Council's performance is strong and valued by its customers and stakeholders, although it is a challenge to secure consistently good performance across such a dispersed global network. The Council is flexibly allocating its resources to align with new UK priorities, and continues to implement numerous and extensive change programmes aimed at increasing its effectiveness and efficiency. Managing so many simultaneous and inter-dependent projects

has presented challenges. There is a need for improvement in support functions and in terms of the management information and tools that it has in place to run its businesses.

4 Since 2006-07, the British Council has moved from country-specific cultural and educational projects to fewer, larger regional and global products, managed under a central commissioning process. Early large scale projects have seen increasing audience numbers, and rising customer satisfaction. However, Regions have not moved to commissioned products in a consistent way or at similar pace. The Council's finance and management information systems do not yet sufficiently support project planning and delivery in this new, more complex, regional and global environment, where staff located in many countries need to work closely together. There has also been insufficient project management training to support staff. Generating support and funding from local partners is critical to project success, but sponsorship and partner income has fallen since 2001. In 2007 the Council developed a new strategy to generate increased sponsorship and partner income.

1 The scope of the National Audit Office examination (main features)



Source: National Audit Office

NOTES

1 Findings from our work on the Council's support services are published online at <http://www.nao.org.uk/publications/index.htm>.

2 The methodology used to conduct the examination is described in Appendix 5.

3 The main exclusion from the scope of the study was the Council's work under contract for a range of UK and International agencies, mainly in support of International Development Programmes. Such work is won under competition and at least covers its costs overall. Primary responsibility for the value for money of this work lies with the agencies procuring it.

² At <http://www.nao.org.uk/publications/index.htm>.

5 The British Council's £181 million English language teaching and examinations business has a high reputation in the market and is financially successful, generating surpluses in places such as Hong Kong and Spain which are used in part to support teaching centres in less established markets, some in the developing world. Its best centres operate in a manner comparable with good business practice in major private sector language schools. The teaching and exams business also provides a platform for other activity in support of UK public diplomacy, particularly by helping overseas governments expand the teaching of English in their education systems. But the business has a high cost base, charges premium prices, and has achieved limited reach outside overseas capital cities, with the number of teaching centres reducing rather than expanding in recent years.

6 The British Council's current systems to measure its performance are well designed: they provide a good mix of information; principally on the scale of its activities, customer satisfaction and perception changes, the perceptions of key UK stakeholders and of Council staff. Some improvements could be made to the way data is collected and collated. The Council is working with the Foreign and Commonwealth Office and the BBC World Service to enhance performance measures for public diplomacy. These improvements are well-conceived, but in order to be affordable, it is likely that the Council will have to implement these selectively.

Conclusions and Recommendations

Our recommendations are expanded on in greater detail at Appendix 1

- i The Council does not yet fully understand the implications of its move from local to regional projects or the savings generated through benefits of scale. It intends to move to even larger, global projects from April 2008. **The Council should verify whether on average large scale projects have generated greater outcomes at least in proportion to their greater cost. Measures may include direct audience size per £1,000 spent, customer satisfaction scores and the ratio of grant to external funding.**
- ii In moving to regional projects, Regions have been able to commission projects in different ways and have achieved differing rates of progress. This, coupled with the challenges of staffing and coordinating large multi-country projects, has tested the Council's overall programme and project management. **In introducing its new process to commission large scale projects, the Council should raise the consistency of project management in the UK and across the overseas network. Change should include better mechanisms for pooling successful project designs, tighter controls on project funding and improved training for project management staff.**
- iii External funding from partners and sponsors has declined since 2001 and there are large variations between countries; half of the network generates almost all the Council's external contributions. **The Council should confirm the reasons behind acute variations in external funding between countries, and more consistently apply its policy on working with private companies across its network. We recommend a corporate target to at least restore external funding to 2001 levels (equivalent to 16 per cent of total Council resources).**
- iv The Council has identified a number of ways of expanding the reach of its English teaching and exams operations. **But it needs to demonstrate more clearly to its stakeholders and competitors how growth supports the Council's mission and charitable purposes and that it does not represent unfair competition. The Council can draw on methods used by, amongst others, the BBC, to give added assurance on fair competition.**
- v The Council is increasingly recognising the importance of good customer service, but it is not yet meeting all of its customer service excellence improvement targets. **The Council should develop an agreed specification for a common customer relationship management tool to enable it to track customer contacts and better understand its audiences across its entire business.**
- vi The Council's published country and regional performance scorecards tend to concentrate their reporting on positive customer comments. **The Council should report a balance of positive and negative customer comments through its country and regional scorecard reports, in order to promote transparency and to better identify areas for improvement from a wider range of sources.**



Introduction

The Status and Roles of the British Council

1.1 The British Council was founded in 1940 through a Royal Charter. For policy and administrative purposes it is classified as an executive Non-Departmental Public Body and it is registered as a Charity. Its aims are set out in **Figure 2** and a brief overview of the Council's main activities is at **Figure 3 overleaf**. Whilst working within agreed themes and priorities, the Council remains operationally independent of Government. In practical terms, this means that it decides for itself which products and services to deliver, to which audiences and using what methods.

2 The objects of the British Council enshrined in its Royal Charter

The objects for which the Council is established and incorporated are to advance any purpose which is exclusively charitable and which shall:

- promote a wider knowledge of the United Kingdom;
- develop a wider knowledge of the English language;
- encourage cultural, scientific, technological and other educational co-operation between the United Kingdom and other countries; or
- otherwise promote the advancement of education.

Source: Royal Charter 1940, supplemented 1992

1.2 The Council's income is derived from a variety of sources, including grant-in-aid from the Foreign and Commonwealth Office (FCO), which sets strategic objectives for UK public diplomacy, (**Figure 4 on page 9**).³ A financial memorandum with the FCO includes the Council's responsibilities for financial management and to achieve value for money, as well as provision for the Comptroller and Auditor General to examine the economy, efficiency and effectiveness with which it uses its resources. A Public Diplomacy Board chaired by a Foreign and Commonwealth Office Minister and including the Council's Chief Executive coordinates the overall UK Public Diplomacy effort; specifically work undertaken mainly by the FCO, the Council, and the BBC World Service.

1.3 The British Council has no direct international peers. Probably its closest analogue is Germany's Goethe Institut, which promotes German culture overseas, and teaches the German language in the home country (unlike the Council) as well as overseas. French cultural diplomacy is pursued through a network of government departments, agencies and alliances. The United States pursues public and cultural diplomacy largely from within the State Department. US authorities commented to Lord Carter's Review that their public diplomacy has been less effective than the UK's, due in part to the lack of strong, independent supporting institutions and brands, such as the BBC and the Council.⁴ Stakeholders in foreign educational and cultural establishments compare the Council favourably to other international institutions, and felt that these institutions should use the British Council as a model.⁵

³ Public Diplomacy is defined as "work aiming to inform and engage individuals and organisations overseas, in order to improve understanding of and influence for the United Kingdom in a manner consistent with governmental medium and long term goals." Source: *Review of UK Public Diplomacy* by Lord Carter of Coles December 2005.

⁴ Source: Lord Carter's Report on *UK public diplomacy 2005*, Annex E.

⁵ NAO interviews with stakeholders during field visits, and NAO Commissioned research into non-users of British Council services.

Changing priorities and approaches

1.4 It is inherently difficult to manage an organisation dispersed to over 100 countries worldwide, ensuring consistent global standards of efficiency and effectiveness whilst at the same time giving sufficient autonomy to in-country teams to respond flexibly to local circumstances. Until 2004, the Council's approach required each country operation to interact directly with the corporate centre in the UK. Though a corporate strategy and policies were set, individual Country Directors had considerable autonomy to determine what services their offices should offer, to what audiences, and how local support functions such as human resources and property management would be run.

1.5 In 2005, the British Council embarked on its "Strategy 2010", a five year change programme affecting the whole organisation intended to deliver high quality products and services more efficiently to bigger audiences. It has involved reorganisation and rationalisation in the UK and overseas, radical changes in product design and delivery, and implementation of a major new resource management system. The change from 110 countries to a regional management structure based on 12 regions, (Appendix 2), has given the Council a basis to ensure that its activities are more consistent worldwide.

3 Key Information about the British Council 2006-07

Overall Reach	Worked in 110 countries/territories, including the UK. As a result, the Council worked directly with 16.5m people, mainly through its large scale projects and English language teaching and Exams activities.
Information Services	Over 15 million unique visitors used British Council websites, and viewed 108 million pages. Online resources include materials for learning the English language.
Staff	Employed 1,100 staff in the UK and 6,800 overseas.
English language teaching and examinations	Employed over 2,000 teachers who taught 1.2 million class hours of English to 300,000 learners in 53 countries. Delivered 1.3 million UK exams to 925,000 candidates worldwide, bringing £25 million in export earnings for UK exam boards. Work with government ministries in most countries in the Middle East, North Africa and Central Asia, providing teaching training for English and support for modernisation of the state education system.
Education	Lead delivery partner for the Prime Minister's Initiative and UK-India Education and Research Initiative. Activities include: <ul style="list-style-type: none"> ■ establishment of 23 higher education partnerships linking institutions in the UK with Indian partners. ■ recruitment of one million international students into UK education. ■ Promoting international school links between the UK and overseas, reaching 4.7 million students. Promoting international school links between the UK and overseas, reaching 4.7m students.
Development contracts	Implemented 141 development contracts in more than 40 countries worldwide to a value of £51 million. Contracts were commissioned by UK government departments and the EU.
Arts	Held 1,435 arts events around the world.
Examples of other grant-aided activities	<ul style="list-style-type: none"> ■ 63 countries participated in <i>ZeroCarbonCity</i>, the Council's climate change programme. So far 2.5 million people have directly participated in the programme. Media coverage of the programme has generated a further audience of an estimated nine million people. ■ The Connecting Futures programme, aimed at fostering understanding between young people, was deployed in 44 countries and involved 30,000 participants. ■ The InterAction leadership programme, operating across Africa, building young leaders' skills in government, civil service and business. ■ Developing leadership skills and cross-cultural awareness among young people through sport. The Council's <i>Dreams & Teams</i> programme involved 424 schools in 43 countries, and 280,000 people in their schools and communities.

Source: British Council

1.6 Linked to these changes, the British Council is also moving resources across its network to respond to resource limitations and to better align with UK strategic priorities. A key element is a relative shift from areas such as Western and Central Europe, towards the Islamic World and emerging economic powers such as India and China. For example, in Prague the Council has reduced its operation from 23 staff developing and delivering bespoke local products and events, to a team of nine focused on delivering global and regional products developed elsewhere. Cultural agencies in other countries express a similar aspiration, but have struggled to attain it. Officials in the German Foreign Ministry felt that German public diplomacy efforts were less focused and less flexible than the UK efforts, and that in spite of their desire to focus on Eastern Europe, the Middle East and Asia, it was proving difficult to shift away from more traditional areas. To illustrate the challenge, the Goethe Institut was said to spend 25-30 per cent of its resources in France and Italy where much of the funding is tied up in fixed costs such as buildings and salaries. There are seven separate offices in Italy alone, and attempts to reduce overheads are felt to be slow, with a target of bringing that figure down to 20 per cent by 2012. Another factor is that, like France, a large proportion of the Foreign Ministry's culture budget (one third) is devoted to subsidising their network of schools overseas.⁶ Progress to date by the British Council is summarised in Appendix 2.

4 The British Council's main sources of income and areas of expenditure

Sources of Income	£ million
Grants (principally £188 million Grant-in-aid from the Foreign and Commonwealth Office)	195
Work under contract (for UK Departments, international development agencies, and the EU)	122
Fees and income from services (mainly English language teaching & examinations) and other sources	232
Interest earned	2
Total Income	551
Expenditure against programme areas	
Increasing learning opportunities and strengthening educational co-operation	235
Building appreciation of and strengthening engagement with UK creativity	71
Strengthening good governance and human rights	31
Promotion of English Language learning	206
Other costs. Corporate governance and notional cost of capital	6
Total Expenditure	549
Main Assets (at valuation)	
Land and Buildings	86
Equipment (mainly IT)	16

Source: British Council annual report and accounts 2006-07

6 Lord Carter's Report on UK public diplomacy 2005.



PART TWO

Delivering customer-facing activities

2.1 The British Council delivers projects and services, including English language teaching and exams, to customers across five main business sectors; arts, education, science, governance, and English. Part 1 of this report examines the delivery of the Council's customer facing activities, as well as the measures in place to manage its customer relationships.

How the British Council targets its work

2.2 Working in many large countries, the Council needs to target its finite resources to maximise its ability to meet its corporate objectives. It has to target its work to best effect within very large and complex host country populations, and concentrate resources on those who have, or in time are likely to have, the ability to influence policy or decision making in its business areas. The Council identifies three main audience groups, segmented by the level or potential influence of the contact;

- **T1 – High-level decision-makers and leaders:** are people in key positions of influence including government ministers, important media figures and commentators, leading sports or culture personalities, national religious leaders and UK-based ambassadors of overseas countries.
- **T2 – Key influencers:** are current (or potential) leading members of organisations, groups and networks who develop or deliver policy, or have a significant influence on the lives and opinions of others. They can also be “gatekeepers” who provide access to T1 contacts.
- **T3 – People with potential:** are far more numerous. They tend to be younger (under 35) and identified by category rather than being in key positions. They include students of English or those wishing to study overseas.

T1 and T2 groups are also sub-divided into geographic location and sector, depending on the needs of each specific country or activity.

Defining audiences

2.3 Elastic definitions of target audiences mean that the British Council has difficulty in adequately prioritising resources between groups. Historically, the Council has placed a high premium on developing personal relationships with T1 and T2 contacts and sees them as vital to making their work a success. For example, securing senior level buy-in from the Chinese Ministry of Science and Technology has been vital to the success of the Climate Cool China project, (page 12).

2.4 Target audiences are not rigidly defined, and there can be disagreements over whether a particular type of contact is a T1, T2 or T3. Earlier versions of the target audience guidance also included a T4 category which equated to wider groups of educated people and the general public. The Council is increasingly recognising the potential of the T3 audience, both in terms of its size (India alone has 380 million people aged between 15 and 34, who could have the potential to become T3s) and its potential to generate the T1 and T2s of the future. Segmenting the T3 audience and prioritising key sectors within it for attention, is vital to targeting the Council's resources. The Council has specified factors which should be considered when determining the target T3 audience, including age, the ability to pay for services, geographical location, and lifestyle. Once these groups are defined, further research can be done on their characteristics, which Council activities are most likely to engage them, and how best to market these.

2.5 All Council Regions were due to have completed a market segmentation and research audit by July 2006. Some Council operations have made good progress. British Council India and China have both carried out detailed research into the characteristics of their potential T3 audience and have segmented these into groups which are assigned various levels of priority (**Figure 5**). British Council India is using the research to develop its new Young Audiences Project aimed at engaging young, urban, educated Indians in Council activities. But other countries

are further behind. By December 2007, three of the 12 regions had not carried out any segmentation work. While corporate guidance on marketing principles and a step by step guide to segmentation is available on the Council's Intranet, it is not consistently applied throughout the network. Few countries have reached the stage where the identification of specific audience groups has been used in developing specific projects or targeting services.

Developing innovative products

2.6 Innovative regional and global products are increasing audience reach and impact, but are challenging to deliver consistently across the network. The British Council spends some £95 million of grant funds per year on a diverse range of projects. It generated a further £23 million⁷ from external sources. For example Shell, KPMG, Glaxo Smith Kline, BAE Systems, BP and Shell are involved with the UK India Education and Research Initiative project to improve educational links between India and the UK. The Council also uses external partners to help deliver projects. For example, the Council works with Voluntary Service Overseas on the Global Xchange project, which supports the development of active global citizens through a series of international volunteering exchange programmes for young people.

2.7 Since 2005-06, the Council has begun to move to a new approach for designing and delivering its diverse range of projects. It is shifting the focus away from locally developed, country-specific projects to fewer, larger products at a regional and global scale, delivered under a more formal commissioning process and championed by a newly formed Commissioning and Innovation Support Office. Regional and global projects will involve more people and have the potential for greater impact (for example, the Council's UK India Education and Research Initiative was announced by the Prime Minister and has so far attracted several large corporate sponsors), as well as providing opportunities to make savings based on using common project templates across multiple countries and regions. At the time of writing most of these larger scale projects are in relatively early stages of delivery, and it is too early to conclude on the success of the transition as a whole. This part of the report examines the Council's experiences to date.

2.8 The British Council has already developed some innovative and well-received projects across its range of activities and its key business sectors: Art, English, Science, Governance and Education. These range from highly focused country-specific projects aimed at a small number of T1 and T2 audiences, such as the Indian Nanotechnology project aimed at developing mutually beneficial relationships between Nanoscientists in the UK and India, to Connecting Classrooms, a £5 million project aimed at reaching over one million young people (T3s) in Africa.

5 British Council India has identified six T3 groups to focus their resources on

Characteristics	Investment priority	Main reason for engagement
Aged 19–24, strong English, low price sensitivity, high internationalism and high aspirations	High	They are likely to be future opinion formers, are open-minded and have potential to act as multipliers (positively influencing their peers).
Aged 25–29, strong English, low price sensitivity, high internationalism and high aspirations	High	Often early adopters, potential to act as multipliers, will be gaining positions of influence within their organisations and communities and are potentially open to creative ideas from the UK.
Aged 15–18, strong English, high price sensitivity, high internationalism and high aspirations	Medium	Potential to become future opinion formers and possibly want to study overseas at some time in the future.
Aged 30–34, strong English, low price sensitivity, high internationalism and high aspirations	Medium	Generally time poor, but in positions of influence. Are potentially open to creative ideas from the UK. Potential to act as multipliers and may want to invest in gaining higher level academic qualifications.
Aged 15–18, weak English, high price sensitivity, low internationalism and high aspirations	Low	They have high aspirations and could potentially be open to UK creative ideas. Their families are willing to invest in improving their prospects.
Aged 19–24, weak English, high price sensitivity, high internationalism and high aspirations	Low	They have high aspirations, are potentially open to creative ideas from the UK and are willing to invest in improving their prospects.

Source: British Council India and Sri Lanka

⁷ Cash and non cash donations, such as free venue use or sponsored flights.

Connecting Classrooms: East and West Africa and Southern Africa Regions

The Connecting Classrooms project forms partnership clusters, each of three schools (one in the UK and two in Sub-Saharan Africa). The aim is to promote intercultural dialogue (one of the British Council's three programme areas) and increase knowledge and understanding of different societies. It was approved in February 2006 as one of the earliest Regional projects, and acted as a pilot for a new dual key project commissioning process involving the Commissioning and Innovation Support Office.

During 2006-07 and the first two quarters of 2007-08, the project reached over 232,000 people. As at January 2008, the project was supporting 84 partnerships, which included 750 schools, and a total school population of around 600,000 students.

Climate Cool China

Climate Cool China is a two year programme to raise awareness of and promote ways to tackle Climate Change, through a series of programmes such as workshops, UK-China exchanges, exhibitions, competitions and awarding schemes. It was developed following the success of British Council China's Zero Carbon Cities project, which ended in April 2006. Scoping work started in June 2006, using a UK-based climate change communication consultancy and the project was formally started in March 2007, although some elements preceded sign off, for example a Climate Ambassadors programme was run in late 2006.

Climate Cool will mainly target young, educated urban professionals aged 18-35. It will focus on

- Where the target audience comes from – Urban school children aged 12-18
- What the target audience buys – the Consumer industry
- Who the target audience listen to – the Communication industry

A Midsummer Night's Dream, India and Sri Lanka Region

In 2004, British Council India refocused its arts programme to better attract new audiences, increase co-production to develop relationships between the UK and Indian arts sectors, and support creative entrepreneurship.

In 2006, the British Council commissioned a production of William Shakespeare's "A Midsummer Night's Dream" by UK director Tim Supple using actors from across India. The production toured four Indian cities (Delhi, Mumbai, Chennai, Kolkata) and then performed in the UK, in partnership with the Royal Shakespeare Company.

The production had a total audience of around 10,000, with an estimated further 5 million people reached indirectly through the media, and received favourable reviews. Despite the success of the production, the Council encountered problems securing sponsorship and had to reduce the tour from eight to four cities.

2.9 The British Council has traditionally delivered sector-specific and country-specific projects, but its new approach will increase the number of projects which span multiple sectors and regions. For example, British Council China's Climate Cool Project involved staff from the Science and Education teams and has since been extended to East Asia. The India and Sri Lanka region has merged its sector teams into cross-discipline project teams with sector specialists acting as consultants across projects. The Council has some way to go before its projects work can take full advantage of the large T3 population already reached through the Councils' English Language Teaching business, due to problems capturing contact information and preferences (paragraphs 3.15-3.16). 'The Council is currently reassessing its project portfolio to ensure its large scale projects represent the best means of achieving its revised corporate outcomes (Appendix 4) which may lead to some projects being discontinued or merged.

2.10 Initial feedback from customers has been positive. Early indications are that larger Regional projects are starting to generate increased audience satisfaction scores, though the data set is as yet too incomplete to be statistically conclusive.

“It is difficult to measure the enormity of the impact made by our African visitors... The visit made the partnership 'real' and gave it a new level of importance to all... It allowed for an increase in the knowledge and understanding of the different cultures and helped to break away from stereotypes that people have of each other.”

UK participant in Antelope partnership,
Connecting Classrooms, April 2007

“Government innovation alone cannot solve social problems. We also need innovation from civil society. This (Social Innovation) conference will contribute to the harmonious development of China, referring to China's recent commitment to achieving a balance between economic growth and social welfare.”

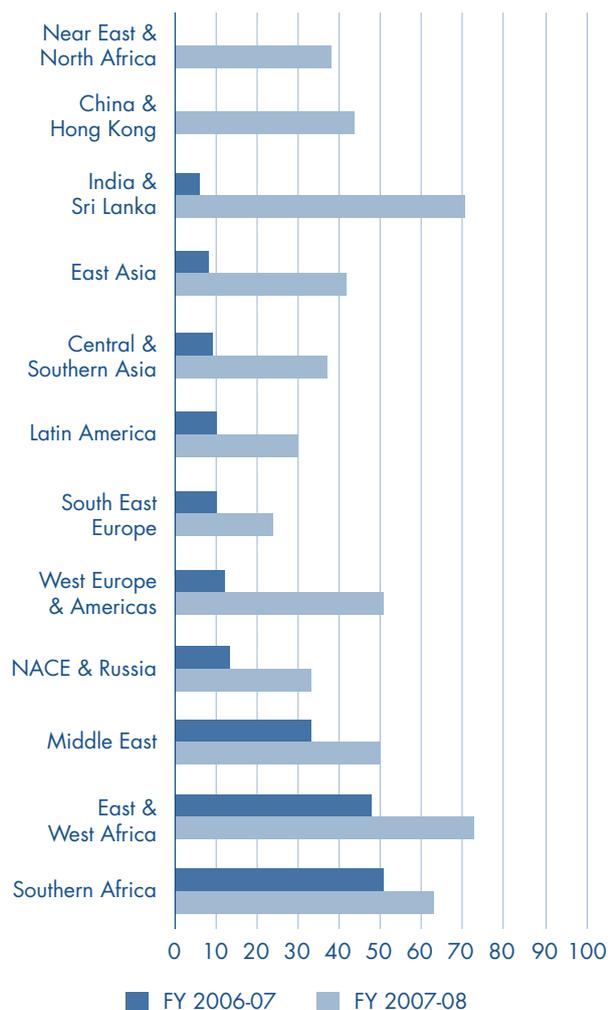
Attendee at the British Council's Social Innovation
International conference in Beijing in October 2006

The transition to larger scale projects

2.11 Progress in moving to large scale projects is variable between Regions, but audience size and project scale are already increasing. In 2006-07, only 16 per cent of the Council's programme expenditure was on large scale (regional or global) projects and 84 per cent local (**Figure 6**). In 2007-08, this has moved to 45 per cent programme spending on large scale projects and 55 per cent on local projects. The Council's target is that by 2011, 80 per cent of programme expenditure will be on large scale projects. As a result, single countries will be unable to roll out significant projects outside their region's priorities and the corporate commissioning process, as they will not have the necessary budgets.

6 All British Council regions are shifting towards larger scale regional and global projects, though at very different rates

Regional projects as a percentage of total project spend



Source: British Council

2.12 Although many regional projects are in the early stages of implementation, there has been an evident increase in the scale and scope of projects; from average annual spending of around £40,000 per project in 2005-06 to £246,000 in 2007-08, and a reduction in the number of projects each region progresses. In East and West Africa, the number of projects has reduced from over 200 to around 60 since 2005. The anticipated reach of projects has also increased: the Connecting Classrooms project has a target audience of 1.3 million young people in 19 countries across Sub-Saharan Africa.

2.13 The British Council must balance its need to tailor projects to local circumstances with the advantages of projects delivered in a consistent way across multiple countries. Moving away from local projects means that the Council will have to work to manage expectations and to maintain relationships with existing customers. Local projects will remain the responsibility of Country Directors and be based on developing local relationships. They will be funded from country budgets, so the Council will have to balance the ability of local projects to respond rapidly and flexibly to emerging opportunities in a country, with the need to ensure that projects are still planned, delivered and evaluated rigorously. At present, no standard business case or project initiation document is required for local projects and the quality of project planning documentation that the NAO reviewed was variable.

2.14 Smaller countries have already shown that regionalisation will enable them to roll out projects which they would not have been able to do alone. British Council Tanzania is participating in InterAction, a £4 million per annum Leadership training project covering over 20 countries in Sub-Saharan Africa, and which is now being extended to Pakistan. Though a relatively small Council office with seven project delivery staff, Council Tanzania was able to draw on planning and development work by other Council staff across the Southern Africa Region and the UK. However, experience in rolling out early regional and global projects has demonstrated the importance of being able to tailor projects to country-specific circumstances. For example, the Climate Cool China project allowed the Council Hong Kong to select the right combination of project elements to fit with its wider project portfolio.

Challenges to project management

2.15 Larger and more complex regional projects have posed challenges to good project management. Each region has managed its own transition to regional projects and has set up its processes as appropriate to feed into commissioning. This has led to variations in project development and planning, and in the stage at which regions sought approval to proceed. Projects were, in some cases, well into detailed planning before being sent for sign-off by the central Commissioning and Innovation Support Office, making any significant changes difficult to incorporate, and projects were seldom rejected at this stage. Moreover, there have been no controls to prevent projects from starting before being formally approved while budgets have been held at a regional or country level. For example, the Social Innovations project in China was initially sent for sign off in September 2006; but £78,000 was spent before this, in order to deliver a major conference in October 2006. The dual key sign off was not completed until August 2007 at which time actual project expenditure was £208,000. From April 2008, the Council intends to strengthen Commissioning by releasing funds at key stages within the project approval process, to prevent such problems recurring.

2.16 Larger Council operations have found that developing regional projects requiring input from sector staff across different countries has placed more demands on their staff time. As projects become larger and more complex, the planning phase increases in time and cost, and more resources are required at an early stage; a typical regional project will have a planning phase of six to nine months, and some of the largest projects, such as InterAction, can take twice this. The Council does not yet have a system of time logging for all staff. This means that accurate data on staff costs per project is not available; staff time is apportioned to the project based on the percentage of their work allocated to it in their job description rather than actual time spent. The Council cannot yet measure how much effort the new regional projects are taking to develop, and what the overall effect will be of moving to even larger and more complex global projects. Under the new Commissioning approach, to be introduced in 2008-09, the Council intends that the initial stages of project development will be shorter, therefore avoiding large amounts of time and money spent on projects which may not ultimately go ahead.

2.17 Rolling out larger and more complex projects across national and line management boundaries also requires more sophisticated project management skills. British Council staff who responded to an NAO online survey cited that project management training was inadequate or not available.⁸ The Council has yet to decide on the corporate standard to adopt for project management training. Some regions have arranged their own training to ensure that staff are sufficiently skilled to deliver larger projects. For example, India commissioned an external consultant to train its project staff after problems arose in the project management of A Midsummer's Nights' Dream (see paragraph 2.20).

2.18 Managing and monitoring regional projects is also challenging as current Council systems do not yet fully enable regional working. For example the dispersed Connecting Classrooms project team found that monitoring project expenditure was more problematic where participating countries use a mix of old and new resource management systems. They identified a need for more corporate guidance on how to manage project financing. The Council's current financial planning system allocates funding on a country basis, according to corporate priorities. This can cause difficulties over how to fund projects which require a regional source of finance and how to match project funding with country, regional and corporate priorities. From April 2008, the Council intends to hold programme funds in a global pot, allocated to the Regions depending on their project portfolio and corporate priorities. Project funding will be released at certain trigger points so that regions will only be able to progress a project once it has been formally approved.

Generating external funding

2.19 Generating external funding and resources has had limited success across the network. The Council has long recognised that a successful strategy to generate more contributions from external sources can enable it to deliver programmes and impacts on a bigger scale. These external sources can be UK-based or foreign private companies, multinationals, voluntary bodies such as charitable foundations, or public sector agencies within host countries. The contributions take the form of cash payments towards Council-led projects, or contributions in kind, such as loaned staff, facilities or publicity. Engaging suitable partners is increasingly critical to project success, and can provide further benefits, such as commercial expertise, local knowledge, or better access and contact with the intended project audience.

⁸ The NAO's online survey of British Council staff is published on the NAO website at <http://www.nao.org.uk/publications/index.htm>.

2.20 As **Figure 7** shows, cash income from sponsorship and commercial partnerships has fallen substantially since 2001; from 16 per cent of the Council's total income to just 4 per cent in the last five years. Whilst the Council has not systematically analysed the reasons for the fall, we have identified a number of contributory factors:

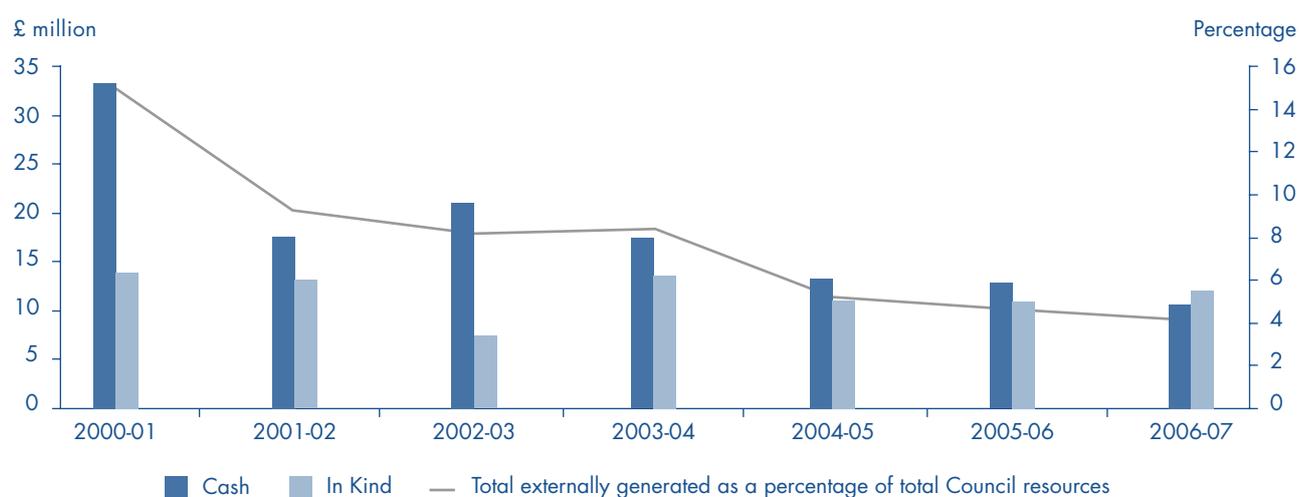
- The Council has moved away from funding events such as prestigious music concerts or theatre tours unless these have specific purposes consistent with UK strategic priorities. Traditionally such major arts events attracted commercial sponsorship.
- Opportunities to raise sponsorship were not always grasped. For example, the 2006 Midsummer Night's Dream tour of India, whilst well received by audiences, was almost entirely funded by public money (equivalent to some £20 per audience member), because efforts to raise sponsorship did not firmly commit the main sponsor in good time. Staffing difficulties were a factor. The net cash cost was limited to some £167,000 by reducing the tour to four rather than eight cities. The Council has recognised the lessons and a follow-up production in 2008 has raised over half of the estimated £230,000 cash budget from partners, plus a further 10 per cent from box office receipts. The tour is planned to reach twice as large a live audience as did the 2006 tour.⁹
- Maximising sponsorship requires an active partnership between Council staff in the UK and around the world. Major UK companies and multinationals have different practices but usually

major sponsorship funds and decisions are reserved for corporate headquarters, rather than budget holders in individual countries, which makes it more difficult for country and regional project teams to generate major funding without UK involvement. The Council has a small commercial team of five based in London which besides determining corporate policy and circulating guidance and good practice, has an important role in brokering relationships with major UK corporates. It more than covers its costs by fund-raising, attracting some £440,000 in 2006-07, and funds two further commercial posts in India.

2.21 The Council's success in fund raising and commercial partnerships has varied greatly from Country to Country (**Figure 8 overleaf**). In 2006-07 half of the Council's country operations generated 99 per cent of its total contributions from the private sector and 90 per cent of those from public and voluntary bodies. Variation is not always explicable by low local economic prosperity, weak private or voluntary sectors, or other difficult operating contexts. British Council India has raised substantial contributions recently by closely involving major UK companies in the UK India Education and Research Initiative. In contrast, in Spain commercial participation had been minimal. Globally, variations reflect:

- Inconsistent application of Council policy on working with companies; for example to address variable staff perspectives on whether or not it is acceptable to work with energy companies to present climate change events and products;

7 The British Council's income from sponsorship and commercial partnerships has fallen steadily since 2000-01



Source: National Audit Office analysis of Council data

⁹ In the 2008 tour, the involvement of a television company also provides distribution to a much larger broadcast audience.

- The need for greater clarity about the ownership of global or regional products that will be delivered across more than one country, and early decisions during project design about whether to pursue sponsorship and participation at the global, regional, or local level, or a combination of these. The Council's new arrangements for commissioning products requires more specific commitments on the planned sources of funding, though early experience in using these has been mixed. For example for Connecting Classrooms, the Regional Project Manager and an external consultant developed a plan to raise £2,484,000 sponsorship income. Despite initial interest from potential funding partners, this plan was cancelled while awaiting a strategy for the global Connecting Classrooms project. A number of schools have since secured funding or donations from local partners, for example subsidised air travel to enable Nigerian schools to visit UK partners.
- The ability and confidence of Council staff to close partnership deals with partners, within planned project delivery timescales.

2.22 The Council aims to do better in future. A Commercial Director appointed from the private sector in mid-2007 has developed a new strategy, a key element of which is a new network of 40 in-house champions to stimulate activity in each business area and region. A training programme is being developed, with the

first modules currently being rolled out. Some country operations have also recruited business development managers. It is too early to say how far such initiatives will help to reverse the adverse trend of the last five years.

The British Council's English language teaching and exams business

2.23 The Council teaches English to approximately 300,000 students in 54 countries and administers exams to over a million candidates in one hundred countries. The objectives of the teaching and exams business are to deliver strategic impact by forging relationships with the Council's identified target audiences, whilst running these services on a full cost recovery basis which at least covers its costs and delivers surpluses to the corporate centre. It generates substantial impact and income, but the Council recognises the potential to develop this further and is looking to change the way it operates.

2.24 In 2006-07, English teaching and exams generated £181 million in income, an increase of 27 per cent over the last five years; most of that growth being derived from administering examinations (**Figure 9**). External factors including the SARS virus, the Gulf War and foreign exchange movements adversely affected the business between 2003 and 2005. The English and Exams business operates a risk reserve which is either drawn on or replenished according to swings in the business cycle.

8 Country performance in raising third party contributions 2006-07

	Private sector (cash and in kind) £000	Public sector (cash and in kind) £000
"Top Five" Council operations ranked by private sector contributions		
Thailand	754	407
China	648	1277
Malaysia	514	38
Japan	448	138
UK Commercial Partnerships Team	440	N/A
Half (57 of 115) Council operations reported private sector contributions under £10,000. These included		
Indonesia	0	0
South Africa	0	5
United Arab Emirates	0	0
Kenya	0	0
Germany	5	47

Source: National Audit Office analysis of British Council Global Funding Returns

Since 2005 it has recovered and in 2006-07 it delivered a surplus, (after deduction of all local, corporate and investment costs directly attributable to the business) of £10 million. The surplus is used to fund indirect overhead costs and investment projects across the Council. This effectively supplements the FCO's grant-in-aid and the organisation's grant-aided functions. The Council does not report explicitly on this wider benefit in its published report and accounts. Nor does it collate and disclose the staff-hours and financial contributions provided by teaching centres to grant-aided programmes.

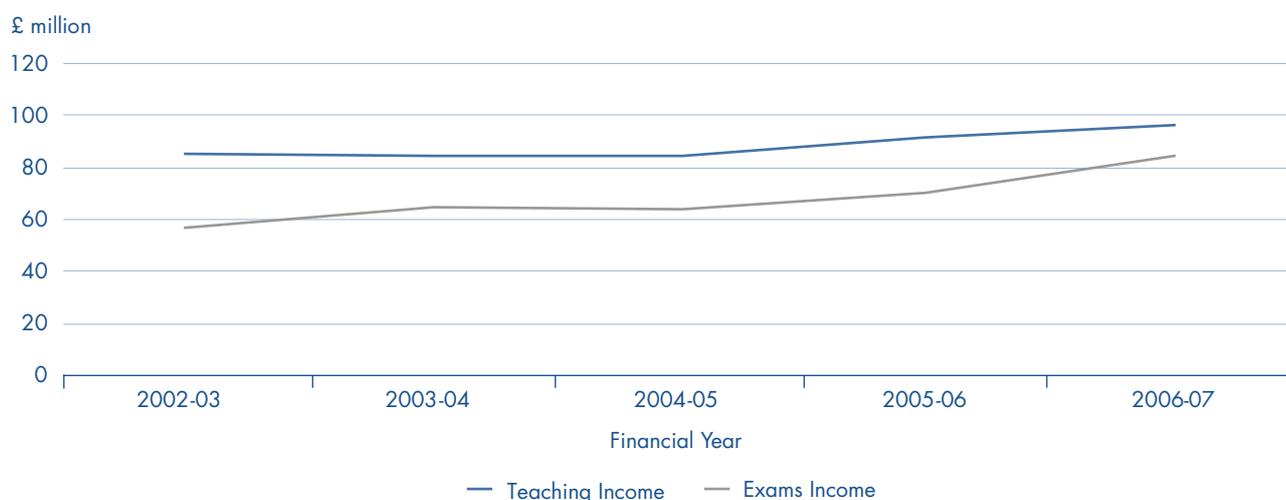
2.25 The surplus generated in strong English teaching markets such as Europe or the Far East enables the Council to offer teaching and exams in countries where the market would not sustain a fully commercial return. In 2006-07, English teaching centres in five cities; Madrid, Singapore, Hong Kong, Seoul and Barcelona generated over a third of total income and about half of the gross contribution for English teaching. "Mission critical" centres in 10 countries, mainly in the developing world, sustained a small overall loss of £0.6 million. Where countries make losses, the Council is following two paths. First, since 2005, the Council has closed ten centres which had performed poorly in financial terms and were considered not to have contributed significantly to strategic aims of building relationships with target audiences. In other countries, the Council has refocused its operations more closely onto the target audience. For example, over the past five years the Dar Es Salaam teaching centre in Tanzania had consistently sustained a loss. Difficult local market conditions and the cost of providing expatriate

teaching staff had led to general English courses being offered at a loss. The teaching centre is moving away from general English courses to teaching business English as part of a suite of management training courses. These courses provide access to Tanzania's future business leaders and generate a better return on investment, with the centre forecast to break even in 2007-08. A better product offer, based on market research, can enable a financially successful operation which targets key audiences even in difficult markets.

Applying good commercial practices

2.26 The teaching and exams business is successful, though good commercial practice could be more consistently applied. The Council's activities in English teaching and exams comprise seven main product areas; adult learners, young learners, professional learners, online content, peacekeeping English and teacher development (Appendix 4). In October 2007, the Council analysed across the network for the first time the net financial contributions from its different products. Such analysis is important in informing managers on how best to change the products offered to customers locally, and on where the organisation centrally should develop new products. The Council's analysis showed that adult and young learner teaching each generated almost half of the total teaching contribution, with adult teaching generating the highest contribution per student, and young learner teaching generating a higher contribution per teacher hour due to larger class sizes. The two main examinations offered each represented a third of business, but one generated much higher contributions per exam.

9 English Teaching and Exams: Growth in turnover and surpluses has come mainly from the examinations business



Source: British Council

2.27 Individual teaching centres are required to analyse and report to the corporate centre only gross income and business volumes in respect of most products and have had discretion over how far to analyse profitability. Until the Council's new Finance and Business system, currently being introduced, managers have not had tools to analyse profit margins easily, though this more powerful system will require accurate apportionment of costs if it is to support sound decisions. Of the centres we visited, only the large centre in Hong Kong already demonstrated robust and active management of product profitability. Its business managers use margin analysis of each timetabled class to inform decisions on premium pricing, the commissioning or de-commissioning of courses or the development of new products. We found much less evidence in other centres of detailed margin analysis, for example to vary pricing to encourage off-peak tuition. We also found that, even though the Council charges premium prices for English teaching, the centres were oversubscribed with waiting lists at peak times. This strongly suggests that the market is there to expand profitable product lines if the Council can adopt other suitable business models and practices.

2.28 There is little evidence globally that the Council has a systematic and documented approach for market testing and opening new centres. Guidance exists on how to research an area in order to establish if it would sustain a Council teaching centre, but awareness and application of this was limited in the centres we visited. Dedicating sufficient skilled resource to business development is vital in increasingly competitive environments for both teaching and exams. In 2002, the Australian company IDP decided to offer examinations in the International English Language Testing System (IELTS) qualification in India, in competition with the Council's own offering.¹⁰ IDP entered into a partnership with a local business, which adopted innovations such as easy online registration and targeting the most profitable States with aggressive marketing. By 2007 the Council had lost two thirds of its market share for IELTS in India, and it has responded with the appointment of a marketing manager to try to reverse the trend.

The Council's standard business model for English Teaching

2.29 Historically, the British Council has adopted a standard business model which limits its ability to maximise its financial performance and its audience reach. The Council's standard business model for English Teaching has been deliberately positioned in the market as a "high cost"/high quality/high price one, driven mainly by the relatively high cost of its premises (paragraphs 2.30-2.31) and its teachers (2.32-2.33).

2.30 In most countries teaching centres are co-located with the Council's grant-aided operations. Some 49 of the 70 centres are in capital cities, usually in prominent business or administrative districts chosen primarily to help the Council interact successfully with key decision takers and influencers. Co-location was reaffirmed in the Council's "Strategy 2005." But the Council also recognises that operating a teaching business out of such locations can be a constraint, in terms of accessibility to potential customers and the relatively high premises and capital costs it can impose. High corporate standards of fit-out have also been applied to meet perceived expectations of a British Council operation. The English teaching business has to compete with other Council programmes for capital resources to invest in remodelling or expanding the network, to better reach potential customers who live outside the catchment areas of its current centres.¹¹ Recent research conducted by the Council suggests that existing and potential customers place less value on a prominent and attractive building than was previously perceived to be the case, and place great value on quality teaching and a location convenient to their homes or workplaces.

2.31 Another factor in the Council's business model, which tends to drive up course prices is that daytime utilisation of classrooms in most centres is low, with demand for teaching higher in the evenings and at weekends, as most students are either in full time education or employed. Off-peak markets often pursued by private sector schools, such as mothers and young children, require particularly convenient locations which the Council is often not in the right place to provide. Such markets tend not to be corporate priorities for the Council, but they can make a major contribution to ensuring financial viability and to broadening the reach and capabilities of the teaching business where there is spare capacity. The consequences of poor financial performance can be closures: in 2005 the Council's Czech operation closed its centres in the cities of Pilsen and Brno, having found that these markets had become more price-sensitive than Prague.

¹⁰ IDP is a co-owner of the IELTS test, with the British Council and the Cambridge ESOL exams provider.

¹¹ Capital Investment in the teaching business was £1.3 million in 2007-08.

2.32 In all eight teaching centres we visited, managers identified the availability of suitable teaching staff as the key constraint in their countries on expanding operations within existing centres or into outside capital cities.¹² A Council survey, carried out in 2007, showed that 46 per cent of centres reported it was ‘always or often difficult’ to recruit teachers based on current levels of business. Utilisation of full time teaching staff in the centres we visited was high, with extra capacity needing to be created for peak times in evenings and at weekends through recruiting part time staff. A high proportion of teachers are recruited in the United Kingdom and periodically rotate around the network, though some are recruited locally, often from expatriate communities. The UK-recruited network teachers are significantly more expensive than local recruits, due to their terms and conditions and expense of their relocation. They are also a prime professional resource, updating and refreshing standards around the network.

2.33 The Council faces a key decision in deciding how best to expand its teacher capacity. Historically it has branded itself on the basis that it employs qualified teachers for whom English is their first language; and in 2007 some 96 per cent of teachers met this criterion. In practice, the Council cannot meet demand everywhere through this source alone and already employs teachers for whom English is their second language in some countries. There is also evidence to suggest that second-language speakers may be more suitable to teaching English in some markets or student groups.¹³ Other providers of quality English teaching, such as International House and Bell, also employ second-language speakers as teachers. The Council acknowledges the case for change and in February 2008 declared a new corporate policy for systematic use of such teachers. On the other hand its own research suggests resistance in some markets to tuition from second-language speakers when premium prices are charged.

Identifying more flexible business models

2.34 The British Council has identified more flexible ways to deliver English teaching across the network and is developing the means to do so. There are variants of the Council’s standard model, used successfully in parts of the network, which indicate the potential to expand the business through partnership. The Council’s oversubscribed Madrid centre has arrangements in place to deliver teaching in premises of local authorities, schools and universities. In response to a waiting list for young learner English, staff analysed the home addresses of existing and prospective students and confirmed the viability of setting up a teaching centre in a convenient location, freeing capacity in the main school. The teaching takes place in classrooms rented from schools, which though providing fewer facilities than the Council’s own young learner centre, has been readily accepted by the market. Similarly, the success of the Council’s exams operation in China is in part attributable to the Council’s partnership with the local examinations authority and the immediate access this gives to a pool of organisations which provide local knowledge, premises, staff and marketing.¹⁴

2.35 Since January 2007, the Council have been working with external consultants, KPMG, to identify more flexible, lower-cost business models which could facilitate expansion in priority markets such as India and China. The work has established a range of options which include operating a trading arm, affiliates, franchising, partnerships and joint ventures. The Council is in the process of choosing which approaches to apply to particular markets. It is too soon to say if the new models of teaching will be successful, but the approaches being considered are similar to some demonstrated to work by other successful competitors such as International House or Bell.

2.36 The Council is developing enhanced commercial skills through recruitment, training and consultancy support. The recruitment of specialists in financial analysis has improved the ability to centrally perform margin analysis of key products.¹⁵ The Council has also initiated a programme of training for teaching centre staff to better identify and exploit marketing opportunities. During the work with KPMG, the Council placed key individuals with the consultants in order to develop better business analysis skills.

12 We visited teaching centres in New Delhi, Madrid (Adults), Madrid (Young Learners), Hong Kong, Tripoli, Dubai, Dar Es Salaam and Prague. These centres account for approximately 19 per cent of British Council students and 23 per cent of teaching income.

13 The Council commissioned *English Next* by David Graddol (2006), an expert in socio-linguistics.

14 The Examinations operation in China has 30 test centres, delivering over 100,000 exams.

15 Margin analysis is a standard business management technique used to establish the relative profitability of a product. Typically this is done by establishing the total income from a particular product and subtracting any associated additional costs. The technique helps managers to understand the amount of revenue the product will contribute to the fixed costs of operating the business. This information is used to inform decisions about whether to add or subtract a product, the number of products needed to be sold, or how to price a product or service.

Competing fairly in the teaching market

2.37 The British Council aims to ensure that it does not compete unfairly, but there is scope for greater transparency to allay competitors' concerns. Its English language teaching operation has high brand recognition and is widely perceived as a first port of call for prospective students in many areas of the world, including in less developed countries where major commercial competitors such as International House and Bell are not present. It also derives a real, if intangible, competitive advantage from being associated with the Council's overall profile, derived in part from its grant-aided activities. This synergy acts both ways: grant-aided activities also benefit from the profile of the teaching operation. In most countries the language school and grant-aided businesses share premises.

2.38 Competitors have expressed concerns that the Council may be competing unfairly, and that it exacerbates this perception through lack of transparency. Usually the Council prices at the top of local markets and so does not "undercut" competitors on price alone. But areas where UK-based competitors expressed particular concerns to us were:

- How far the Council derives a cost advantage in particular countries through its diplomatic and charitable status, and might use this to offer better terms and conditions to attract good teachers and centre managers, and students.
- Whether the Council's language businesses pay a reasonable market rate for the premises they occupy.
- That the Council does not discuss its intentions to open or close centres in particular countries and so enable the UK industry to plan rationally. Competitors felt that such discussion could be a pragmatic way to best promote the UK English Language teaching industry as a whole. The Council has told us that it is amenable to this if the dialogue can be genuinely reciprocal.
- That some Council teaching centres market to students of competitors when students attend Council-run examinations, which in some countries is a Council monopoly. The Council told us that it had received no complaints from competitors that indicated a problem in this area.

2.39 Competitors' concerns over the Council's tax status should be addressed over time by a continuing programme to regularise its tax and status in different countries.¹⁶ The use of shared premises by teaching centres comprises two main issues. The Council has mechanisms to ensure that the teaching centres pay a fair share of premises costs, and in centres the NAO visited the attribution of costs appeared realistic. The Foreign and Commonwealth Office derives assurance from the cost attribution that public funds are not diverted to fee-charging activities. The second issue is that certain premises occupied by the Council are retained on concessionary terms, some on land gifted by host governments. The Council applies depreciation costs to reflect its past capital investment in premises, such as fit-out or conversion costs. But it does not apply charges in lieu of market rent to occupiers, to reflect the market value of such properties.

2.40 The need for publicly funded bodies to demonstrate that they do not compete unfairly with commercial competitors is not limited to the British Council. Like the Council, the BBC operates commercial as well as grant-funded activities and has to provide assurance that public money and licence fee income are not diverted to commercial purposes. The BBC World Service, also funded by the Foreign and Commonwealth Office to promote UK public diplomacy, complies with the BBC's arrangements, which are more complex and structured than those within the Council. The main features are:

- detailed supplier agreements to ensure that those parts of the BBC that supply services, facilities or programming to networks such as the World Service charge appropriately;
- training of staff on fair trading principles; and a governance structure for fair trading matters overseen by a Board sub-committee;
- separate accounting for commercial activities, with a certificate by the External Auditor that there is no material cross-subsidy of commercial activities out of public funds; and
- provision to receive complaints and appeals by competitors claiming a grievance.

¹⁶ In the separate Online report on support services, paragraphs 1.19-1.20 at <http://www.nao.org.uk/publications/index.htm>.

2.41 A key part of the rationale for the Council being in the language teaching business is that it enables it to make a stronger contribution to developing the teaching of English in primary, secondary and higher education, and so fostering links between the UK and academic institutions in each country. The Council has many examples of this synergy, which is clearly highly valued by foreign governments and authorities, and can yield high impact (**Figure 10** provides an example from Spain). If better publicised, and more widely replicated, such examples could defuse some of the concerns of stakeholders and competitors.

10 Case study, Developing bi-lingual schools in Spain

The British Council in Spain has since 1940 operated a fee-paying school in Madrid, which currently has some 1900 mainly Spanish students on roll, aged from 3 to 18, and is heavily oversubscribed. During the Franco era the school provided education of an ethos not available in the state sector. Its alumni include key figures in modern Spanish society. It is self-financing, and makes a contribution to Council central funds.

In the late 1990s the education minister of the federal Spanish Government requested the Council's help in adapting the school's model of bilingual and bi-cultural English and Spanish education to some 46 state primary and secondary schools in Madrid. The initiative has since grown to encompass some 100 Ministry schools with 26,000 pupils, and a further 180 schools run by the devolved government of the Madrid region. Due in part to strong parental demand for tuition in English, it has proved robust to changes of political administration. Other regional administrations across Spain are at varying stages of implementation. The first students to join the original Madrid programme in primary school have now progressed to the third year of their secondary schools, and initial evaluation of student attainment indicates above average results. The Council's main contribution has been through:

- Input to the design of the curriculum and teaching methods.
- Teacher training, especially to improve English, using the Council teaching centre.
- Recruiting in the UK some 500 teachers a year, (shortage of teachers being the main constraint on expansion).
- Setting up partnering arrangements between the UK and Spanish schools.

Costs to the Council have been £465,000, additional investment in the schools by the Spanish authorities is estimated at over £33 million.

Source: National Audit Office



Measuring Performance

3.1 This part of the report examines the design of the British Council's current performance measurement system, how it operates in practice, and the Council's plans to enhance it further in partnership with its partners in UK public diplomacy. It also looks at how the Council can better maximise its impact and target its services (discussed in Part 1) through stronger mechanisms for managing its relationships and interactions with its customers. The Council has a strong culture of performance measurement, and is evolving how it measures its impact.

Measuring the impact of public diplomacy

3.2 Measuring the impact of public diplomacy activity is difficult and complex. The intended outcomes, such as 'increased understanding' and 'strengthened relationships' may only emerge after many years. The British Council's measurement system must rely on the assumption that if it performs well in its observable, measurable activities, such as its English language teaching and its cultural and scientific events, then there will be a positive impact on public diplomacy in the longer term. Public diplomacy can be influenced by many external political, social and economic factors, and the Council works alongside other UK agencies such as the Foreign and Commonwealth Office and the BBC World Service, which also influence foreign perceptions of the UK. To demonstrate its own impact, the Council's measurement system needs to separate its own actions from these various external factors. For the performance measurement system to be useful there needs to be a logical connection between the activities being carried out and the intended outcomes.

3.3 The British Council's existing performance measurement system is a benchmark for the Foreign and Commonwealth Office and for its international equivalents. It has drawn on a wide variety of performance measurement expertise, both internal and external, to develop a sophisticated and comprehensive measurement system. It is based on a two-stage approach to measurement which reflects the inherent difficulties of measuring public diplomacy. It measures the immediate volumes, impact and customer satisfaction of its individual services and activities, which are reported internally through quarterly scorecards (see Figure 11). And it supplements these measures in most countries with periodic in-depth interviews of existing customers, known as Evaluations of Long Term Outcomes. The Foreign and Commonwealth Office has drawn on the Council's experience and knowledge to develop its own approach to measurement, while the Council's international equivalents such as Germany's Goethe Institut acknowledges the Council as leading in this field.

3.4 Performance data features prominently in the Council's Annual Report and other accountability documents.¹⁷ The current system for measuring impact represents a significant investment of resources, and is primarily based on questionnaires to the Council's customers. In 2006-07 around 215,000 responses were collected and processed. Because the Council does not routinely record staff time, there is no accurate figure for the extent of this commitment, but we estimate that supporting and managing the system globally requires in the order of 50-100 full time equivalent staff, equivalent to about one per cent of complement, across the business. National Audit Office interviews of staff in the countries it visited indicated a range between half of one full time equivalent in small countries and, up to 1.5 equivalents in a large country operation to collect, collate and analyse this data.

¹⁷ Improvements in the Council's *Annual Report for 2005-06* were welcomed by the Foreign Affairs Select Committee: "It is apparent that a real effort has been made this year to explain the methodologies and mechanisms the British Council uses for measuring performance: this has been done throughout the report very clearly." Eighth Report, Foreign Affairs Select Committee, Session 2005-06.

The British Council's corporate scorecard

3.5 The Council's performance scorecard for 2006-07 shows positive results across most aspects of activity, including audience sizes, customer satisfaction scores, and the perceptions of stakeholders and partners, (Figure 12 on pages 24 and 25). Most measures show an upward trend compared to the previous year. Highlights included the doubling of the indirect/website audience, mainly through engagement with partner websites in China. Other key positive results included impact and perception scores consistently in the 75-80 range, meaning that on average customers agreed that the Council was making a difference. UK Ambassadors and High Commissioners expressed similarly positive views of the Council's contribution in "their" countries. There are some negatives: notably customer service scores, though up on the previous year, are lower than the Council would like them to be (see paragraphs 3.19-3.22 on Customer Service Excellence).

The scope of the current measurement system

3.6 The British Council's system ensures that it is measuring all the key elements of its work. The Scorecard applies a common approach to each of the British Council's main businesses, including its revenue-generating teaching and examinations work and its

grant-funded cultural, scientific and governance projects. The system uses an appropriate range of measures to assess performance across five high level perspectives: impact; reputation and satisfaction; audience size; management results; and leadership (see Figure 12). This enables management to take a broad view of performance. Stability of measures is valuable in enabling performance over time to be interpreted. The overall composition of the Council's Scorecard has remained relatively stable in recent years, though staff co-ordinating country-level scorecards express concerns over continued changes to how individual measures are defined and operated, such as on media coverage of Council activity and the counting of indirect T3 audiences.

3.7 The Council also uses qualitative data, in the form of quotes from customer interviews, to supplement its quantified customer survey results. These interviews are undertaken by independent reviewers, though in practice Council staff have a role in selecting interviewees and sometimes also attend the interviews. Interview reports are a mix of mainly positive but also some negative feedback. It is positive material that tends to be reflected in country and regional performance scorecards, reported to the corporate centre and used in published documents. The Council's Annual Report refers to particular Public Diplomacy challenges, and performance scores that are below target, though qualitative citations only tend to reflect positive customer experiences.

11 The Council's system translates customer responses to a range of questions about impact and customer satisfaction into quantified scores

Category	Example questions and statements	Example scores ¹
Impact	a Taking part in this programme has broadened my knowledge of other countries and cultures.	"Strongly agree" = 100
	b The UK values its relations with your country.	"Neither agree nor disagree" = 50
	Average 'impact' score a + b	75
Customer satisfaction	c How would you rate the quality of service you received?	"Good" = 75
	d Whether customers perceive the British Council as creative, up-to-date, a leader in its fields, and forward-looking.	"Disagree" = 25
	Average 'customer satisfaction' score c + d	50

Source: National Audit Office

NOTE

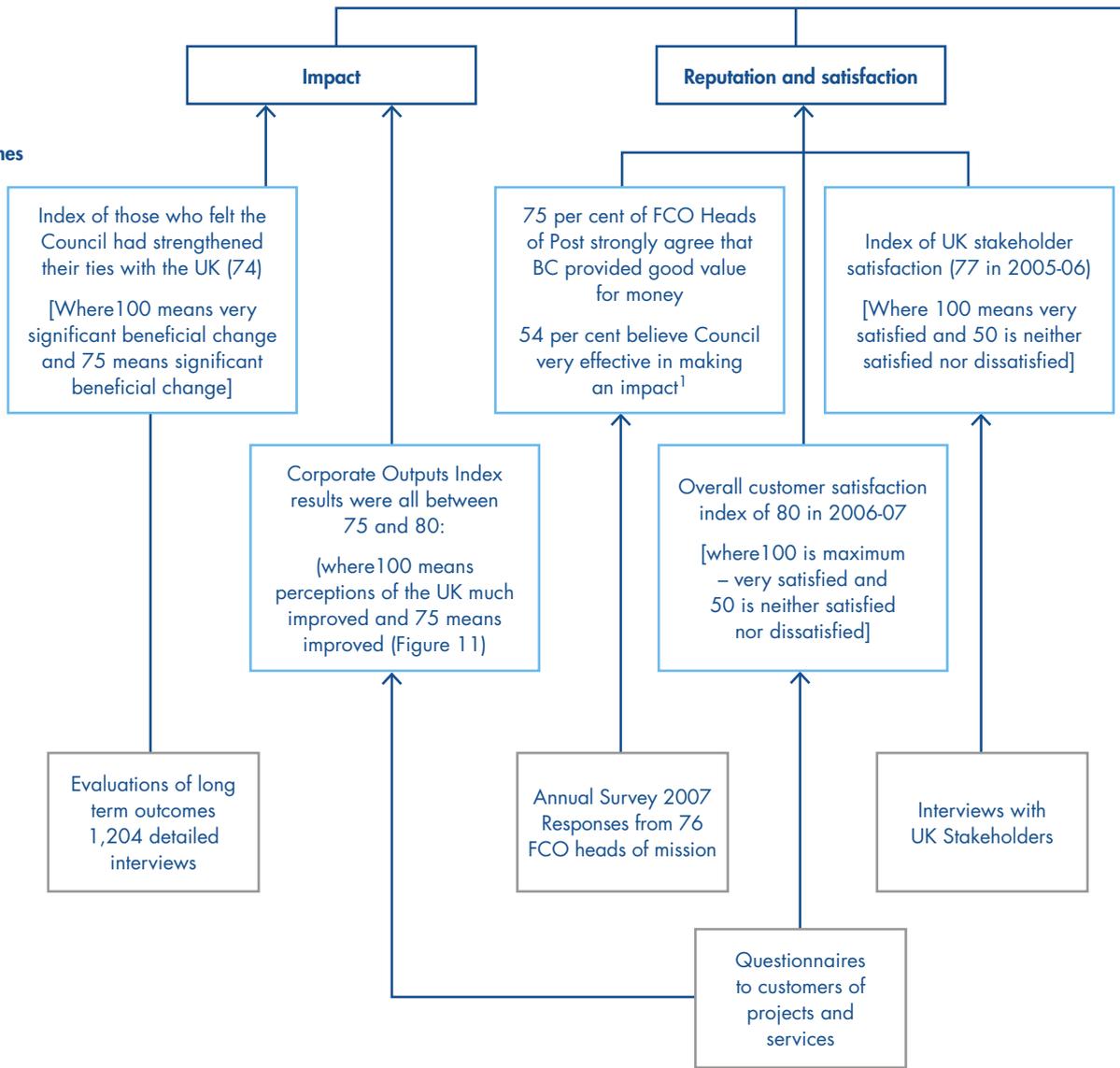
¹ The response for each question is converted into a score using a five-point scale of: 0, 25, 50, 75 or 100 – ranging from strongly negative to strongly positive. The final scores for 'impact' and 'customer satisfaction' that are reported through the scorecard and Annual Report are the average score for all the questions in each category, aggregated from all customer responses.

12 Overview of main elements of the British Council's Performance scorecard

Perspectives

Headline Outcomes

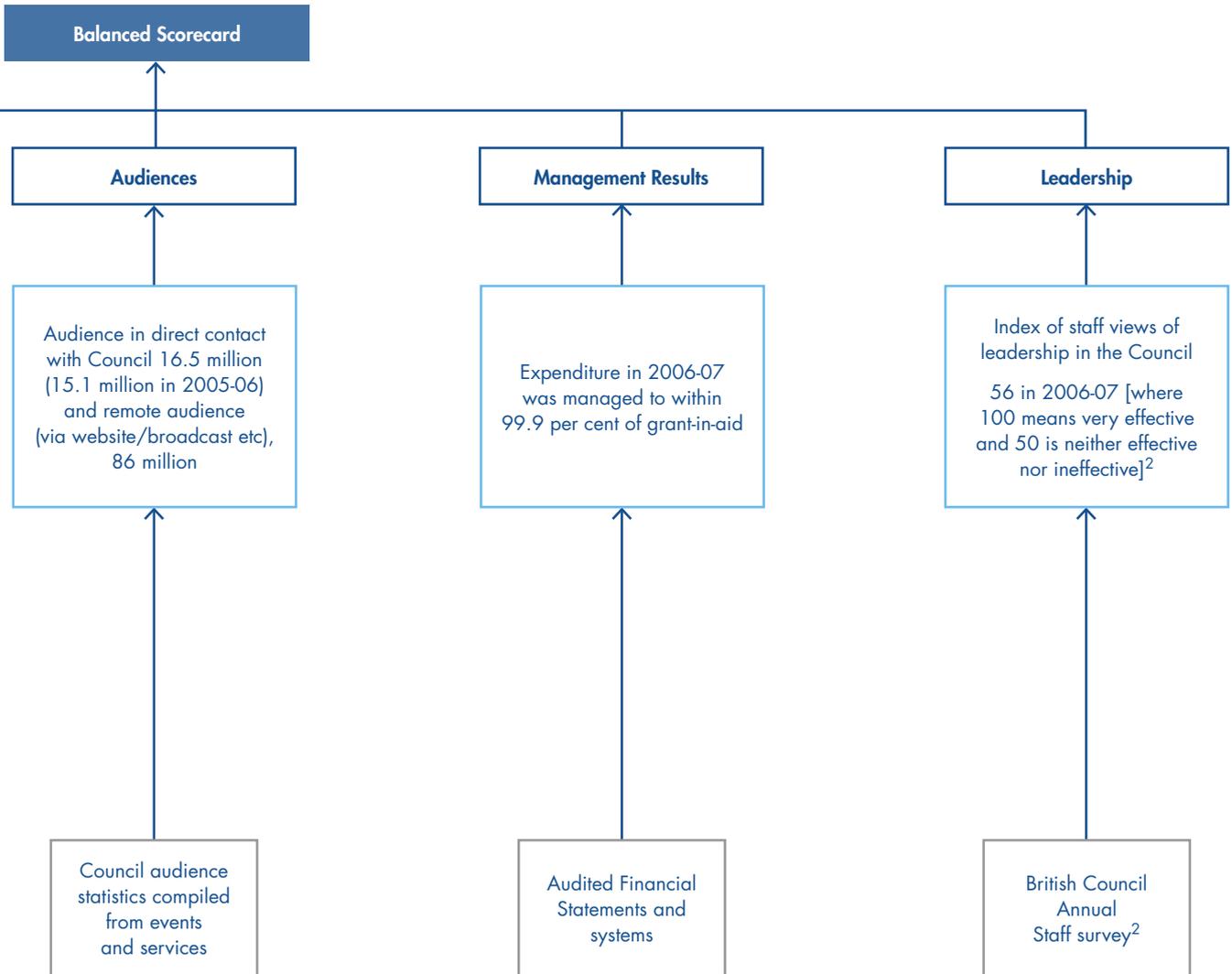
Data sources



Source: National Audit Office

NOTES

- 1 A further 38 per cent of FCO respondents considered the Council "effective".
- 2 The leadership index is a composite of country/UK department level scores for three questions:
 - The management team running my country communicate a clear vision of where the British Council is going: 52
 - The management team running my country perform effectively: 60
 - The management team running my country will deliver a successful long-term future for the British Council: 57.



3.8 The Scorecard system is applied in all 110 countries where the Council operates. Regionalisation has provided a stronger basis for analysis, as the 12 regions can review and compare regional performance in greater detail than the Corporate centre could previously for the entire network. When combined with the improved reporting capabilities of the new Finance and Business System, this has allowed the Council to move from annual to quarterly performance reviews, thus enabling management to react faster to trends. The scorecard is gradually becoming a more effective decision-making tool at country and regional level. As staff in country and regional offices become more familiar with the performance measures and what they mean, they are better able to use the information to focus their efforts and maximise impact. Some managers, such as those in the East and West Africa region, have used the scorecard extensively.

3.9 Interpreting regional and country-level comparisons of performance can still be problematic due to different operating contexts. Even within India, the Council has found differing levels of customer approval towards the same product delivered in the same way, reflecting the different business cultures and social behaviours in northern and southern regions. In this context, analysing trends in scores over time becomes more important.

Data collection and analysis

3.10 The system's data collection and analysis processes make the current performance indicators for customer satisfaction and impact less clearly robust. The Council's key performance measures for customer satisfaction and for assessing impact, (how far its services have made a difference to its audiences), are derived from customer questionnaires.¹⁸ Local staff are encouraged to ensure they receive sufficient completed questionnaires to support valid results, but in practice response rates are highly variable. Each questionnaire response counts equally, and low response rates from large events or audiences are not given additional weighting to reflect the events' greater size or importance. For example, in India, the results from the Council's largest customer base, English examinees, were far outweighed in the scorecard by feedback from the similarly numerous library users. In Spain Arts events attracted much lower response rates than

from attendees of Arts events in other countries, and from customers of language teaching in Spain. Typically up to half the events or services for which the Council records an audience do not have questionnaires issued, where local staff consider that these do not lend themselves to feedback through such methods.¹⁹ There are instances in parts of the network where country staff have innovated to mitigate this problem, for example in Libya with the use of a more user-friendly credit-card sized feedback form, written in Arabic. It is difficult to conclude how much the results would be changed by higher response rates and by weighting to reflect audience size. Customer results tend to be fairly consistent between events, so overall corporate scores for the entire Council might be expected to remain similar, though there may be more volatility at country or service level.

3.11 Approaches to custody of customer feedback data vary. Normally, returned questionnaires are collected by the organizer or manager of the relevant Council event. And in some countries the results are collated by them too, prior to reporting the results for incorporation in the Country scorecard. In Libya, the Council now takes additional steps to ensure the integrity of the data through use of a locked ballot box, opened only by staff uninvolved in the delivery of the event or service. It is difficult to conclude how far improvements in the separation of duties in collating customer data would result in different scores until this is more widely applied across the Council network.

Developing new measures

3.12 New arrangements currently being developed should help the British Council and its Public Diplomacy partners to better measure the impact of their activities. In his 2005 report, Lord Carter of Coles identified the need to measure UK Public Diplomacy as a coherent whole, and recommended that the Foreign and Commonwealth Office, British Council and BBC World Service work together to develop a standard approach to measuring Public Diplomacy activities.²⁰ In 2006, consultants working for the Foreign and Commonwealth Office analysed each partner's existing measurement arrangements and identified the necessary changes to better align them.

18 In this context, 'customer' refers to any individual with whom the Council has interacted directly, through its project and events work as well as its English and examinations business.

19 Common reasons advanced for non-use of questionnaires include short duration events or performances, difficulty in issuing questionnaires at public gatherings, or unsuitability of such formats for events involving very senior people.

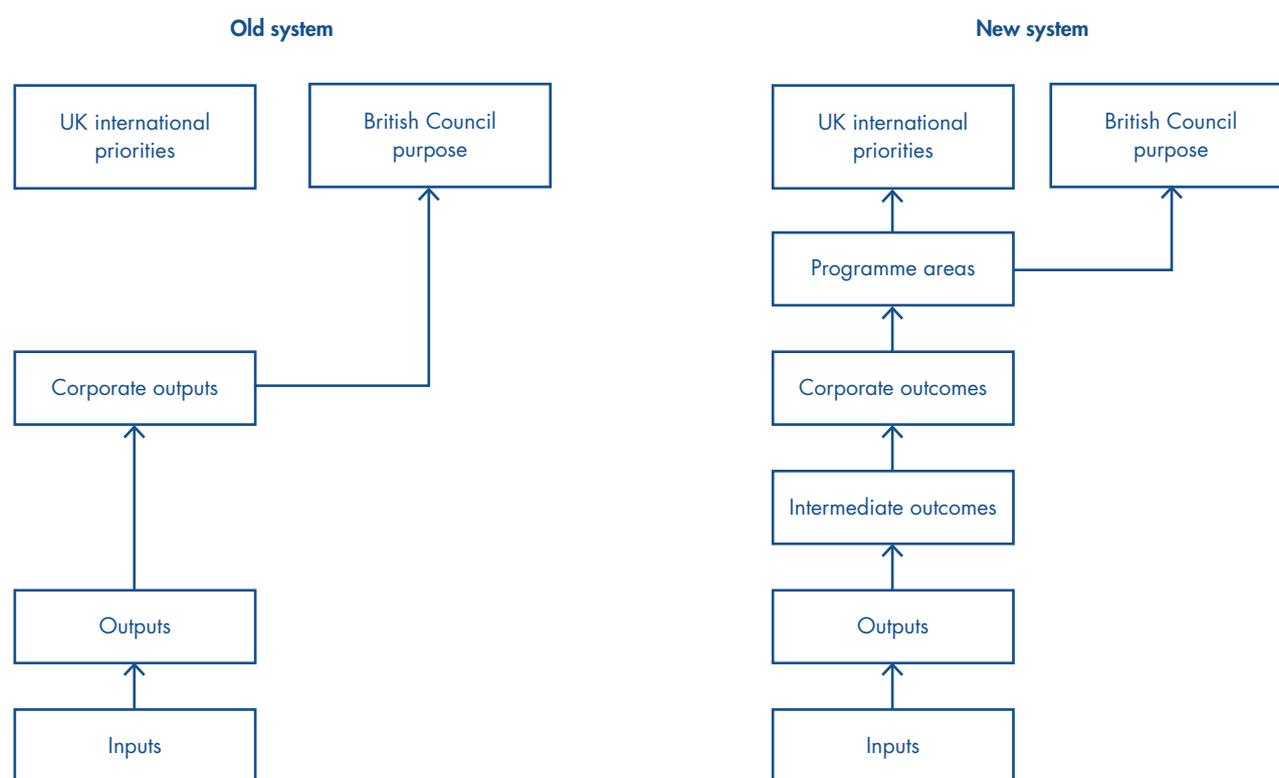
20 Para 8.1, Public Diplomacy Review, Lord Carter of Coles, 13 December 2005. "At present, there is no standardised system for monitoring and evaluating the success of public diplomacy as a whole, which makes it difficult to determine whether collective efforts are delivering value for money, or whether overarching public diplomacy objectives have been met. While accepting the limitations of wider public research on assessing long-term behavioural change, it was felt that more could be done in this area."

3.13 The British Council has developed the consultants' proposals through a revised system which strengthens the link between Council activities and outcomes, and the UK's international strategic priorities (see Figure 13). It has already used this facility to halt projects it considered would not contribute sufficiently. For example, in 2007 the Council initiated a project entitled "Conversations" intended to facilitate dialogue between next generation leaders in Europe on various issues around Islam, migration and security. It was terminated in 2008 because it could not demonstrate how it would contribute to the Council's intended outcomes, and to value for money.

3.14 A summary of changes in the new system, and their rationale, is at Appendix 4. The British Council and the Foreign and Commonwealth Office began piloting the new system on nine Public Diplomacy projects across eight countries in April 2007 and are due to complete the pilot process in March 2009.²¹ The Council has committed a total of £3 million to the pilots – which includes the operational costs of the projects as well as the costs of the new measurement tools – with the associated costs

shared evenly between the two partners. The Council is considering the costs and benefits of rolling out the new system. The costs of the new measurement tools were intended to be offset by removal of the old ones. However, piloting has shown some of the tools to be considerably more expensive. The cost of the Influencer Tracker, which requires a specialist, locally engaged consultancy to conduct interviews with key stakeholders, has varied from £15,000 in Pakistan to £30,000 in Canada. The Media Tracker, which uses a locally appointed consultancy to monitor how themes identified in the Council's strategy are reported in the media, is quoted as costing around £40,000 during the pilot phase, in which it is tracking three themes across only eight countries. The Council realises it would not be cost-effective to employ each of these tools for every programme or service it offers. Another factor is that the Foreign and Commonwealth Office Embassies and High Commissions are not staffed in all countries at a level that would enable them to participate actively in joint working on public diplomacy with the Council.

13 The new system allows the British Council to better demonstrate how its inputs and activities contribute towards international strategic priorities



Source: National Audit Office analysis of the British Council's revised system

21 Brazil, Canada, China, India, Jordan, Nigeria, Pakistan and Turkey.

Customer Relationship Management

3.15 The British Council cannot best target its services and maximise its impact without stronger mechanisms for managing customer relationships. The British Council currently holds over five million contact records in more than 60 disparate technical systems throughout the organisation. Microsoft Outlook is the main system used by the overseas network to manage customer contacts, although sector teams often hold their own contact details in various Excel databases, business card catalogues or other systems. We found that country contact databases contained outdated information, duplicate contacts and had inconsistent levels of detail. Some countries are going through a data-cleansing exercise to update their customer records, though this depends on local priorities.

3.16 The variety of Customer Relationship Management systems in place throughout the network means that the Council currently cannot consistently:

- accurately count the number and types of relationships it has with its customers;
- monitor how well it manages and develops those relationships;
- track its customer contacts over time or see when and who last had contact with individuals;
- analyse its relationships to set targets;
- use the data to target marketing materials at the most appropriate contacts; and
- measure its performance in cultivating, maintaining and developing those relationships, including cross-selling between its teaching operation and other services.

The Council's ability to make best use of its customer knowledge in all its offices is therefore constrained.

3.17 Work to develop the British Council's approach to Customer Relationship Management is in its early stages. Without a global system, the British Council cannot always identify gaps and opportunities in its reach and product offers and could be missing opportunities to expand the business. To address these weaknesses the Council began a Customer Relationship Management scoping project in June 2006. The aim of the project is to develop an organisation-wide relationship management approach to improve the customer experience; enhance the Council's understanding of their customers; and to save resources by timely and targeted marketing and communications. The Council has so far spent £300,000 but has not yet identified a clear solution, although useful tools have been designed, and successfully piloted in South East Europe, Western Europe and North America.

3.18 A "proof of concept" pilot is currently underway in the Council's China Region. The pilot is based on regional requirements for profiling and tracking T3 audiences, but its experience will inform the corporate way forward. It is currently running some 14 months behind schedule, with the build, migrate and test phase expected to be completed in 2008-09. A pilot T1 and T2 relationship management initiative has also been prioritised in the UK and West Europe for 2008-09. If adopted as the global solution, these pilots could allow Council operations to more easily share and search customers' interaction histories – important when projects increasingly cut across national boundaries. The main risks to the project are that user take-up may be slow and the completeness and quality of information fed into it. There is also the risk that if the Council does not soon define a corporate solution, Regions will develop their own ad hoc intermediate solutions, which could prove difficult to integrate and would duplicate development effort.

Customer Service standards

3.19 A British Council-commissioned study in July 2007 found that the most important driver of customer perception of the UK is service delivery, whether its customers are fee-paying English language students and exam candidates, or audiences for grant-funded cultural and educational activities. Patchy Customer Service standards are being addressed. The Council has identified its performance in customer services as an area it needs to improve:

- Mystery shopping research carried out in 2004 on the Council's telephone and email enquiry handling in all regions, including the UK showed high levels of inconsistency in quality of service both between and within countries and regions.
- Performance scorecard data showed a significant decline in overall levels of satisfaction in 2005-06, but have since partly recovered to an index score of 80, (where 75 is "good").
- A baseline study of the Council carried out by Manchester Business School in 2005 identified an overall lack of standards and guidelines for customer service, and that over 65 per cent of Council staff felt that they did not have any customers. The Council has since introduced a set of standards and guidance on its dedicated Customer Service intranet pages and has implemented a series of initiatives to give rise to a more customer-focused culture. For example the Council ran a series of events to promote good customer service during 2006-07, and there is now a global network of customer service champions with 275 members.

- Research in 2006 showed a significant decline in customer service standards across all Regions except China. In 2004 the Council had failed to respond to over 500,000 telephone or email enquiries, which, by 2006 had risen to over 1.5 million enquiries.
- In 2007, the Council started to place additional emphasis on marketing and customer service, which became one of the generic skills against which staff are assessed and recruited.

3.20 The Council introduced a corporate Customer Service Excellence project in 2006. The overall objectives of the project were to increase: customer satisfaction levels; the numbers of customers served and relationships built; the validation of the Council's work through external quality assurance; and both revenue and impact through efficient management of relationships and resources. The project was initially budgeted at £2.5 million, excluding overseas staff costs. It was scheduled for completion by the end of March 2008. Expenditure up to March 2008 was £1.2 million, and the projected completion date is now March 2010.

3.21 Some countries and regions have been putting in place Customer Service Excellence projects as part of their Regional Change Programmes. Progress has been variable and half of the twelve regions had not produced a project plan by December 2007. This was largely due to competing priorities, such as the need to focus on other change programmes and the implementation of the new FABS resource management system.

3.22 There are early indications of improvement in satisfaction with customer service since the Council's initiatives began. The Council's annual staff surveys have shown a gradual increase in the number of staff who feel that they are "regularly encouraged to look for new ways of improving services to customers and clients" from 66 per cent in 2005 to 72 per cent in 2007. There have also been some successes in the regions (**Figure 14**). However, the Council is not on track to meet the project's original service improvement targets. Instead, the project's target to achieve 95 per cent customer satisfaction ratings has been replaced by a performance scorecard target of 80-85 per cent. Moreover, while the project's target is based on high volume general enquiries and interactions relating to specific services (usually with T3 contacts), the corporate performance scorecard target for customer satisfaction also includes feedback from participants at specific Council events (often T2 contacts). Global Mystery Shopping exercises are now conducted annually. From April 2008, the results will be included in quarterly Scorecard returns which will allow the Council to systematically assess corporate and regional trends and to measure the success of the project so far.

14 East and West Africa Region: Tanzania Customer Service Excellence Project

The East and West Africa region had the worst mystery shopping results from the Council network (results were not broken down by country); Research found that over 100,000 enquiries per year were lost or not resolved.

In February 2006, the Region made Customer Service Excellence one of its six Regional Key Challenges. By October 2007, British Council Tanzania had implemented;

- a single enquiry point for customers;
- a separate phone point;
- a drive to get better FAQ scripts in place; and
- a single manager for the front desk.

It also introduced more discussions with staff about the Council's purposes and standards, so that all staff understand the business needs and enquiry point staff can be rotated.

A Customer Service Excellence health-check, carried out in September 2007 and based on a template drafted in India, identified that Tanzania was meeting 14 out of 18 good practice criteria for frontline services and 4 out of 7 for telephone contact. Three points of excellence were identified. However, Tanzania did not meet any of the ten criteria for general customer care.

Results of the 2008 Mystery Shopping Exercise show that East and West Africa has seen significant increases in customer satisfaction on 2006; however satisfaction is not yet back to 2004 levels, and it ranks 11th out of 12 British Council Regions for satisfaction in call handling.

Source: National Audit Office

APPENDIX ONE

Detailed recommendations

Current position

The Council does not yet fully understand the implications of its move from local to regional projects, or the savings generated through benefits of scale. It now intends to move to even larger, global projects from April 2008.

In the transition to large scale projects, Council regions have been able to commission projects in different ways and have achieved different rates of progress. This, coupled with the challenges of staffing and coordinating large multi-country projects, has tested the Council's overall programme and project management.

The corporate commissioning process has not been fully integrated into project initiation in all regions. This has weakened central oversight of the programme, and made it harder to share good practice.

International working, within and between regions and between regions and the UK, is far more complex than the previous local approach, and has raised new challenges of staffing and co-ordination.

Detailed Recommendation

The Council should verify whether, on average, large scale projects have generated greater outcomes at least in proportion to their greater cost. Measures may include direct audience size per £1,000 spent, customer satisfaction scores and the ratio of grant to external funding.

Parameters for evaluation should include;

- staff time and cost, and the elapsed time for project delivery;
- the balance of internal and external funding;
- variation in customer impact and satisfaction scores;
- actual audience reached versus the audience expected;
- ratios between the audience size achieved and the Council's investment.

In introducing its new process to commission large scale projects, the Council should raise the consistency of project management in the UK and across the overseas network. Change should include better mechanisms for pooling successful project designs, tighter controls on project funding and improved training for project management staff.

The new process should;

- set clearer criteria as to what project plans and monitoring information project teams should submit at each stage in the project lifecycle;
- define clearer lines of responsibility and accountability, for example setting out roles for the project owner, project manager and country project teams, especially regarding responsibility for identifying partners and securing external funding;
- introduce a global staff planning tool to balance projects' demand for project managers, developers and deliverers with their availability;
- ensure that funding is not released onto regional budgets until the Commissioning Office has reviewed the proposal, and the project has been formally approved;
- roll out consistent project management training for all key personnel involved in large scale projects; and
- introduce a slimmed down project planning process for local projects which ensures adherence to good project management practice and corporate priorities, but maintains flexibility to rapidly deliver projects tailored to local needs.

Expected benefits

A deeper understanding of the effects of the move to regional projects will allow the Council to better implement the next transition to global projects. With fewer, larger projects across the network, picking the right global products will be essential.

More consistent standards of project management, within a consistently applied commissioning process, will enable quicker and more efficient roll out of large scale projects.

Clearer oversight of all large scale projects by the Commissioning Support Office will enable successful projects to be more easily identified and project templates developed which can be rolled out to more than one region.

Current position *continued*

The Council increasingly depends on contributions from external partners and commercial sponsors to help it expand its activities and broaden its impacts. External funding from partners and sponsors has declined since 2001 and there are large variations between countries; half of the network generates almost all the Council's external contributions.

The Council has not yet tapped the full potential of corporate sponsorship from the UK Headquarters of UK Multinationals, where most marketing resources tend to be retained.

The Council does not consistently analyse the profitability of its teaching centres and products in sufficient detail, holding back its ability to design and deliver products that better reach target audiences and fit market demand.

Detailed Recommendation *continued*

The Council should confirm the reasons behind acute variations in external funding between countries, and more consistently apply its policy on working with private companies across its network.

- We recommend a corporate target to at least restore external funding to 2001 levels (equivalent to 16 per cent of total Council resources).
- The Council should apply clear guidelines on working with the private sector; for example the pre-conditions for working with energy companies on climate change initiatives.
- Clarifying project ownership as part of a revised Commissioning process (above) will assist project teams make early decisions on whether to pursue sponsorship and participation at the global, regional, or local level, or a combination of these.
- An expansion of the Council's small London-based Commercial Business Partnerships team, tied to a minimum 4:1 earnings to costs target, should pay dividends.

The Council should more consistently embed the application of commercial skills and behaviours, for example margin analysis and price sensitivity, across its English and Exams business and better use these to develop its offer;

- Exploit the compatibilities of FABS to carry out analysis on profitability at a central level, and for individual teaching centres to support decisions on commissioning and de-commissioning products. For example, through margin analysis and contribution per student/product.
- at local level, margin analysis should be used to develop a better product offer fitted to the local market, based on local demand ascertained through better market research, and new products developed where necessary;
- at a UK Corporate level, a better understanding of market demand and relative profitability should be used to help UK staff commission the development of products which better reach target audiences;
- Recognise that non-target audiences should be pursued where they use surplus teacher or classroom capacity and do not displace priority activities, but still generate a financial contribution.

Expected benefits *continued*

Country operations with very high sponsorship rates are using innovative and proactive practices to increase sponsorship which could be applied elsewhere.

Scope to extend engagement globally with companies that are suitable partners or sponsors.

Enable better targeted product offer and provide more detailed explanation for variances across the network. Allow the Council to better demonstrate the financial and non-financial benefits of its English language teaching operations.

Current position *continued*

The Council delivers high quality services in English language teaching, but premium pricing, teaching centre locations and capital constraints severely limit its reach. More flexible models of delivery have been developed, but have not yet been applied across the Council's network, e.g. the use of partner premises to meet the demand of oversubscribed centres in Madrid.

The Council has identified a number of ways of expanding the reach of its English teaching and exams operations. But it needs to demonstrate more clearly to its stakeholders and competitors how growth supports the Council's mission and charitable purposes and that it does not represent unfair competition.

The standard of customer service by the Council is a key driver affecting perception of the UK. The Council is increasingly recognising the importance of good customer service. However it has not yet met all of its Customer Service Excellence improvement targets.

Its lack of a corporate Customer Relationship management tool means that the Council cannot make best use of its extensive contact network.

Across its network it has made variable progress in defining and analysing its audiences in order to best target its finite resources.

Detailed Recommendation *continued***The Council should pursue a target of delivering a substantial proportion, (provisionally at least one third) of its direct English tuition, in partner premises.**

- The Council should roll out its plan for India and China as soon as practical, and continue to develop the new models approach in existing markets such as East Asia and Western Europe.
- The Council should broaden its on-line offer to increase the amount of interaction with customers.
- Increase the diversity of its teaching staff beyond "First Language" English speakers to meet demand and enable the Council to recruit locally.
- Examine more flexible models for locating English teaching centres.
- Increase its ability to develop new business opportunities in existing operations through training and additional staff capacity, especially in key markets.

The Council can draw on methods used by, amongst others, the BBC, to give added assurance on fair competition.

- The Council should consider "fair competition" mechanisms of the type used by the BBC, and adapt these for its own circumstances.

Also

- The Council should track and report explicitly on how it deploys its surplus generated by its English teaching and exams centres to contribute to its wider objectives.
- It should also highlight cases where its teaching centres support grant-funded projects.
- The Council should develop a more open dialogue with private sector UK organisations and explore ways to co-operate in developing overseas markets. This will also require genuine reciprocity from the private sector.
- The Council could make use of notional rents to improve decision making in teaching centres where premises costs are below market rents.

The Council needs to build on its growing customer-focused culture. In particular, the Council should develop an agreed specification for a common customer relationship management tool, to enable it to track customer contacts and better understand its audiences across its entire business. Emphasis should be placed on;

- making sure that all staff know who their customers are and develop a customer service ethos;
- extending its use of audience segmentation and market research to better target its products and services across its worldwide network;
- developing a corporate solution to manage customer contacts, drawing on lessons learned in China and other pilot countries. At a minimum, a CRM system should allow the Council to:
 - a Record the number and types of relationships it has with its customers;

Expected benefits *continued*

By better making the case for expansion, the Council should mitigate internal and external opposition and so better implement its strategy.

By improving the information it holds on its customers and better defining its audience groups, the Council could maximise the use of its resources and design its products and services based on customer needs. A more sophisticated customer contact database is also essential for the Council to cross-sell different products, to market them, and to track long term impacts.

Current position *continued*

The Council's country and regional performance scorecards provide a comprehensive overview of the organisation's performance. However, the Council tends to concentrate its reporting on positive customer comments, despite feedback from customers usually revealing a mix of mainly positive but also some negative experiences.

The Council is moving to a new performance measurement system to better measure the impact of its work on meeting public diplomacy objectives. Its pilot of the system has demonstrated that it is more costly than the old system, and it is unlikely to be cost effective to apply all of its elements worldwide.

Detailed Recommendation *continued*

- b Monitor how well it manages and develops those relationships;
 - c Track its customer contacts over time;
 - d Analyse its relationships to set targets;
 - e Use the data to target marketing materials at the most appropriate contacts;
 - f Measure its performance in cultivating, maintaining and developing those relationships;
 - g Link in with Teaching centre resources to capture T3s;
 - h Readily exchange data with UK partners in country, principally FCO, DFID and UKTI;
- making best use of new IT technology to deliver customer focused services, such as through Web 2.0 channels and wider availability of online student registration and payment.

The Council can improve the way it collects and collates data on how its customers perceive its performance, through relatively simple changes to its processes:

- **The Council should report a balance of positive and negative customer comments in its country and regional scorecard reports, in order to promote transparency and to better identify areas for improvement from a wider range of sources.**
- 'Recognise in the calculations the relative size and importance of different audience groups when reporting customer satisfaction and impact results. [Where this is likely to have a significant effect on the results].
- More consistent questioning of Country teams' reasons for nil or low customer response to questionnaires. This should feed into guidance to teams on what events should or should not be recorded, and on techniques to raise response rates.
- Demonstrating through secure custody of customer questionnaires that feedback is handled in an independent fashion to prevent conflicts of interest.

The Council and the Foreign and Commonwealth Office should implement lessons from their pilots in a clearly defined new system which applies some measures globally and others only in selected projects and regions.

- Highlighting the benefits of the new tools, as experienced in the pilot countries, to get buy-in from the relevant staff in the remaining countries.
- Using the information more consistently in all countries to target projects at the poorest performing areas, where they can have the greatest impact.

Expected benefits *continued*

The Council's current performance measurement tools already make up a sophisticated system. However improving the collection of data would give the performance indicators more credibility and authority in decision making.

Understanding the costs of the new system, and the anticipated benefits, will help the Council to get the best value for money from its performance measurement system.

APPENDIX TWO

British Council Resources

15 The changing geographical allocation of British Council resources

British Council Regions	2000-01 £m	2006-07 £m	2008-09 £m	Net movement £m
West Europe & Americas	14.7	13.4	11.4	-3.4
North & Central Europe	10.8	10.5	8.5	-2.4
East Asia	13.7	11.9	12.2	-1.5
Russia	3.7	5.2	2.3	-1.4
Latin America	8.5	8.2	8.5	0.0
South East Europe	9.5	14.0	12.4	2.9
China & Hong Kong	6.1	5.6	9.0	2.9
India & Sri Lanka	4.0	5.8	7.4	3.4
Southern Africa	4.7	6.3	8.1	3.4
East & West Africa	7.2	10.8	11.9	4.7
Middle East	3.2	7.1	10.0	6.8
Near East & North Africa	4.5	7.0	11.9	7.4
Central & Southern Asia	2.7	5.5	10.5	7.8
Total	93.3	111.3	124.1	30.8

Source: British Council

APPENDIX THREE

Product areas for English teaching and exams

Adult Learners

General English language teaching from beginner level to advanced. Course material varies, but is based on core textbooks, also used by other providers

The main exams product is IELTS, an examination typically sat by candidates to indicate their level of English when applying for university. IELTS is jointly owned by the Council, Cambridge Exams and IDP, the Australian equivalent of the British Council in terms of education promotion and English testing. Joint ownership has resulted in the Council gaining a higher proportion of income for each IELTS exam sat than its other products. As important, IELTS is thought to be crucial in gaining access to one of the Council's key "T3" audiences and helps facilitate overseas students studying at higher education institutions in the United Kingdom.

Adult learners also sit Cambridge English language proficiency exams.

Young Learners

General English courses from very young learners to secondary school age. Course material varies, but is based on core textbooks, also used by other providers. The main exams offered are Cambridge English language proficiency exams and GCE exams; for example International GCSE/A level or equivalents.

Professional Learners

Business English courses for corporate clients and the administration of exams on behalf of professional bodies such as accountancy qualifications. The Council feels offering these services gives access to a key target audience who may well rise to positions of influence.

Teacher development

Courses to teachers of English as a foreign language employed by the education departments of overseas Governments. This could include improving English levels or giving training in teaching methodologies (Figure 12 – Madrid Bi-lingual schools).

In partnership with International House UK, the Council also helps provide training to private teachers of English, and indeed the Council's own teaching staff, by offering a distance DELTA qualification.

The Council administers the HORNBY scholarship scheme, a fully partner funded scheme where non-United Kingdom teachers are brought to the UK for training and development.

Peacekeeping English

English language teaching for peacekeepers, this activity is funded by Department for International Development, Foreign and Commonwealth Office and Ministry of Defence. Currently ongoing in 25 countries.

English Language Quality Services

In partnership with Education UK, the Council is responsible for administering an OFSTED approved accreditation scheme for English language teaching institutions in the United Kingdom. While income from this scheme is negligible, its importance is set to increase under new immigration legislation where only accredited institutions will be able to sponsor students visas.

English websites

Free on-line resources, currently through ten principal websites for teachers and students of English. Over a million visitors per month view over 3 million pages. Over 1.6 million lesson plans are downloaded by English teachers and used in classrooms around the world by approximately 48 million learners every year.

APPENDIX FOUR

The British Council's new performance measurement tools

The British Council and Foreign and Commonwealth Office are currently piloting a number of new performance measurement tools.

Tool	Description	Added benefit
Influencer tracker	This is a successor to the Evaluation of Long Term Outcomes. It involves in-depth interviews with the influencer communities identified in the strategies.	It assesses the opinions of all the key influencers, not just those directly engaged by the Council. These influencers are selected in advance of each project by an expert committee, and so ensure a more objective sample of interviewees.
Concrete changes tracker	This is a new tool for capturing the verifiable changes that have occurred, through systematic narrative feedback.	As well as measuring success in achieving intermediate outcomes, it should help the Council to demonstrate its impacts more readily to its stakeholders.
Media tracker	This will track shifts in the way that themes (programme areas) identified in project strategies are reported in the media. This tracks outcomes at a very high level, and will operate in addition to the current media monitoring which is conducted to assess the impact of individual projects.	Because the media plays a key role in directing as well as reflecting public opinion, this will provide valuable data on how successful the Council has been, and where more work needs to be done at a strategic, rather than just an operational, level.

The measurement system is designed to align with the Council's Corporate Outcomes.

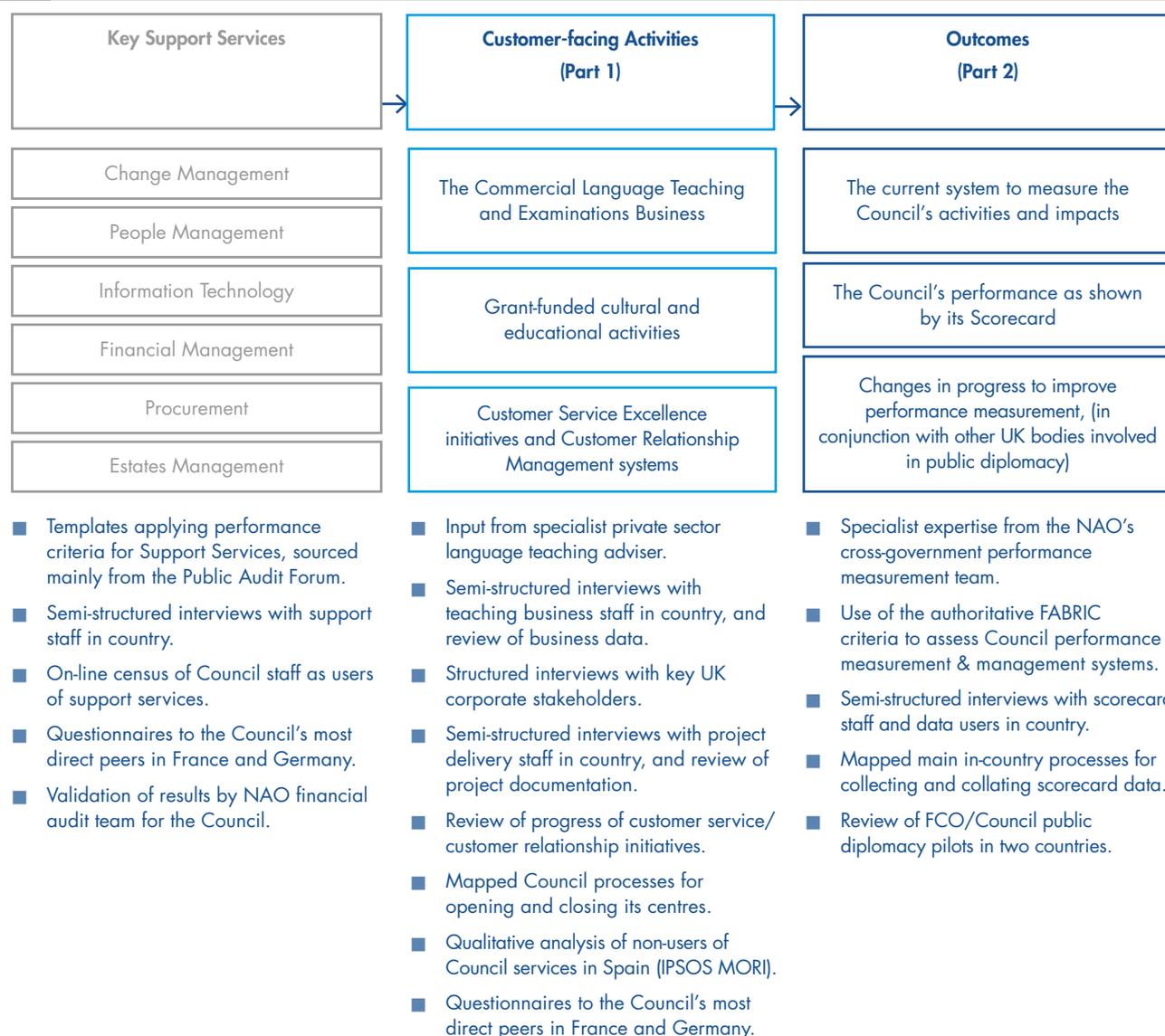
Inter-cultural dialogue	UK creative and knowledge economy	Climate change
Strengthen understanding and levels of trust between people in the UK and other societies	Increase the value to the UK of its share of the market for international education	Increase understanding of the case for tackling climate change
Strengthen the consensus for rejecting extremism in all its forms	Enhance the UK's reputation as a source of expertise and a partner for skills development, including in the teaching and learning of English	Increase support for the achievement and implementation of international agreements that address the threats of climate change
Increase the ability of individuals and organisations to contribute to positive social change and the strengthening of civil society	Strengthen the international profile and engagement of the UK's creative sector	Strengthen relationships and networks which lead to action on climate change mitigation and adaptation
Increase the use of English as a tool for international communication and inter-cultural understanding	Increase the UK's contribution to international co-operation in research and innovation	
	Ensure that every teacher and learner of English worldwide has access to quality language services from the UK	

APPENDIX FIVE

Study Methodology

The study was designed to address the key question “whether the British Council uses its resources economically and efficiently, and adequately measures and enhances its impact in meeting public diplomacy objectives.”

16 Overview of Methodology used for the study



Source: National Audit Office

Scoping

To conduct a comprehensive examination of a complete organisation’s economy, efficiency and effectiveness is an unusual and exacting challenge for any National Audit Office study. To refine the unusually broad scope, we applied the NAO’s Efficiency Toolkit model (Figure 17) to identify areas of the Council’s business to help target our work to best effect. The toolkit provided the overall conceptual framework, to balance the study between “enabler services”, “customer facing systems and functions”, and “outcomes”. Study scoping and planning also took into account the nature of parliamentary and public interest in the Council, financial materiality, areas of corporate risk and change, and issues emerging from two preliminary visits to Council operations in the Czech Republic and the United Arab Emirates.

Study Methods

The principal study methods were as follows.

Visits to Council offices

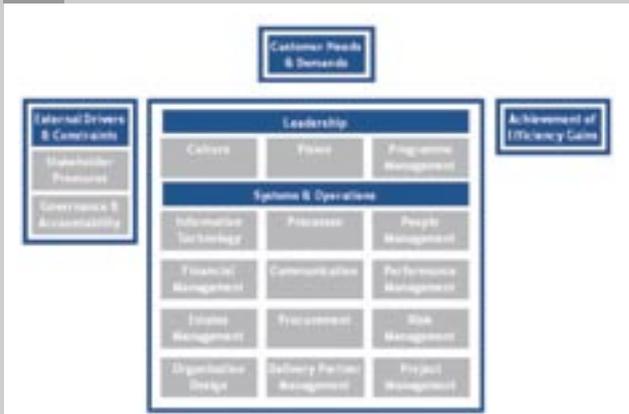
The study team visited Council operations in eight countries covering seven of the 12 Regions, as well as visits to the London and Manchester offices. The offices visited, and the Region they fall into, are listed in Figure 18 below. Together they represented 14 per cent of Council grant in aid expenditure and 39 per cent of teaching and exams turnover.

Visits were selected taking into account the following main criteria:

- Business performance, in terms of high or low customer scores or financial results.
- Operations experiencing, or which had just undergone, change for example in terms of increased or decreased resources, or implementation of new systems or methods.
- Coverage of the Council’s main programme areas; ‘intercultural dialogue, knowledge and creative economy, and climate change’.

During these visits, we met with a variety of Council staff from across their business sectors, including English and Exams, Arts, Science, Education, Governance, Corporate Services, and projects teams. We also met with key stakeholders, both from other UK Departments and representatives from cultural and government institutions of the host country.

17 The National Audit Office Efficiency Model



Source: National Audit Office

18 Offices and Regions visited during the fieldwork (preliminary visits in italics)

British Council Offices	Region
Beijing, China	China (Regional Office Beijing)
Dar Es Salaam, Tanzania	East and West Africa
<i>Dubai, United Arab Emirates</i>	<i>Middle East</i>
Hong Kong	China
Madrid, Spain	West Europe and North America
New Delhi, India	India and Sri Lanka (Regional Office New Delhi)
<i>Prague, Czech Republic</i>	<i>North and Central Europe</i>
Tripoli, Libya	Near East and North Africa

Source: National Audit Office

On-line census and self-assessment template on Support Services

We conducted an on-line census of Council staff to gather their views on the performance of the support services (IT, Finance and Resource Management, Human Resources, Procurement and Estates) in enabling them to do their job. The census questions were based on value for money indicators for each support service, developed by the Public Audit Forum, but tailored to best fit the Council's context.²² The census was available on the Council's Intranet site during October 2007. It received 1,245 responses, some 16 per cent of the Council's total staff population. Detailed results are available online at the NAO website together with the on-line questionnaire used. In addition to collation of quantified results, the team also classified and extracted valuable material from the free-text fields of census responses. Where relevant, results were cross-referred to the results of the Council's own staff surveys.

The NAO also developed an assessment template for each support service using criteria drawn from Public Audit Forum models, the NAO Efficiency toolkit and other sources. Templates were completed by the Council's Corporate teams for each support service, and we used the findings to direct their future discussions and enquiries. The NAO team responsible for the financial audit of the Council also contributed a validation of the questionnaire responses drawing on their long-standing knowledge of the organisation.

Semi-structured interviews with UK stakeholders

Semi-structured interviews were undertaken with the Council's stakeholders and business partners in the UK. The Council's stakeholders were defined as:

- a Entities which provide grant-in-aid to the Council or otherwise support its core activities: broadly akin to "shareholders." (e.g., the Foreign and Commonwealth Office).
- b Key UK "partners" who invest their participation and intellectual property rather than their money in the Council (e.g. The Examination boards with qualifications in English).
- c "Sponsors" who want to enlist the British Council's resources to meet their own objectives, (e.g. UK Trade and Industry, the Arts Council, UK Sport).

Where relevant, results were cross-referred to the results of the Council's own stakeholder surveys.

Qualitative analysis of non-users of British Council services in Spain

The Council measures the satisfaction and perceptions of its active customers in over 100 countries, however much less is known about the attitudes and perceptions within the majority of its target audiences who have not participated in its initiatives or attended its events. We engaged IPSOS MORI to carry out closely targeted qualitative research on this group, focusing on non-participants in the Council's grant-aided activities. For reasons of cost it was not possible to undertake work in more than one country. IPSOS MORI carried out 12 in-depth interviews with senior representatives from the Arts, Education, Sports, Science and Business sectors in Spain. Spain was selected, in consultation with the Council, as a large and important operation which delivered products across most of the Council's themes. For IPSOS MORI's full report, see the NAO website (Qualitative Research Among Non-Users in Spain)

Examination of commercial practice and outcomes in the British Council's English language teaching and examinations business

Richard Rossner, a former CEO of Bell Language Schools and currently Chief Executive of the European Association for Quality Language Services, advised our team on the detailed design of our work and helped us to interpret our findings on the Council's language training business. We also deployed to this part of the study an NAO staff member who had in a previous career run, and taught in, private sector language schools in the Far East. Working with Richard we developed an issue analysis to provide an assessment framework for the financial and non-financial aspects of the business. The high level design of the framework is at [Figure 19 overleaf](#).

International Comparisons

Our preliminary work confirmed that the British Council, due to its unusually wide remit, has few close comparators worldwide. Germany's Goethe Institut and the Alliance Francaise are closest in terms of remit and scale. Questions were put to these bodies on the scale of their operations, the use or non-use of particular management approaches, and how they measure the success of their activities. Responses were reflected in our work mainly through triangulation with British Council practices.

22 *Value for Money in Public Sector Corporate Services, Public Audit Forum, May 2007.*

19 Key questions relating to the British Council’s English and Exams business

Key Question	Sub question level 1	Sub question level 2
<p>1 Is the English and Exams business achieving its full commercial potential?</p>	<p>Is the E&E business delivering maximum surplus?</p>	<p>Is the Council able to operate whenever it is commercially advantageous?</p> <p>Does the Council have sufficient strong knowledge of the local market to identify and seize opportunities?</p> <p>Does the Council utilise its existing resources to best effect?</p> <p>Does the Council understand the key drivers of each revenue stream and associated costs?</p>
	<p>Does the Council manage and protect the quality of the British Council brand?</p>	<p>Does the Council perform regular quality assurance exercises on its products, teaching and exams?</p> <p>Does the Council conduct regular analysis on the incidence of repeat users of its products?</p> <p>Does the Council perform regular and comprehensive analysis on the quality and success of competitors?</p>
<p>2 Is the English and Exams business maximising its non-commercial impact?</p>	<p>Does the Council maximise reach of its non-commercial audiences through E&E activities?</p>	<p>Does the Council effectively target and sustain relationships with its T3 audiences through teaching activities?</p> <p>Is the Council effectively accessing, influencing and sustaining relationships with its T1/2s?</p>
	<p>Does the Council maximise the “cross-selling potential of English and Exams by increasing target groups exposure to other UK (not just British Council) products?</p>	<p>Is the Council maximising audience exposure to its grant in aid activities?</p> <p>Is the Council maximising exposure to other UK interests/ stakeholders (e.g. higher education courses)?</p>

Source: National Audit Office

Mapping Key business decision processes

We carried out interviews with staff in the Council’s recently established Commissioning and Innovation Support Office and with project delivery staff from the overseas network. We also reviewed project documentation to map the process for developing and implementing customer-facing projects. We also mapped the decision making process for opening and closing country offices and teaching centres.

Use of the FABRIC framework to assess the British Council’s performance measurement and management systems

The FABRIC framework is a methodology to assess the strengths and weaknesses of a performance information system. It was produced jointly in the UK by the National Audit Office, Audit Commission, Office for National Statistics, HM Treasury, and the Cabinet Office.

The acronym stands for Focused, Appropriate, Balanced, Robust, Integrated and Cost Effective. Detailed guidance can be found at http://www.hm-treasury.gov.uk/documents/public_spending_reporting/public_service_performance/psp_fabric_checklist.cfm

We also reviewed progress of the use of the new Public Diplomacy measurement system in two of the eight Public Diplomacy pilot countries (India and China).

Status Review of the British Council’s change programmes

Analysis of the Project Initiation Documents, plus budgets, timetables and status updates to map progress against the Council’s Change Programmes, including component projects under the Overseas Change Programme, for example Customer Service Excellence and Customer Relationship Management.

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