National Audit Office

Report
by the Comptroller
and Auditor General

Foreign & Commonwealth Office and UK Trade & Investment

Supporting UK exporters overseas

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Foreign & Commonwealth Office
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Report by the Comptroller and Auditor General

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This report examines how the FCO and UKTI are helping British businesses export more and whether they are providing the support to business to fulfil the government's aim of doubling exports to £1 trillion by 2020.

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Contents

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This report can be found on the National Audit Office website at www.nao.org.uk/2013-exports

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Key facts

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

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

Summary

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

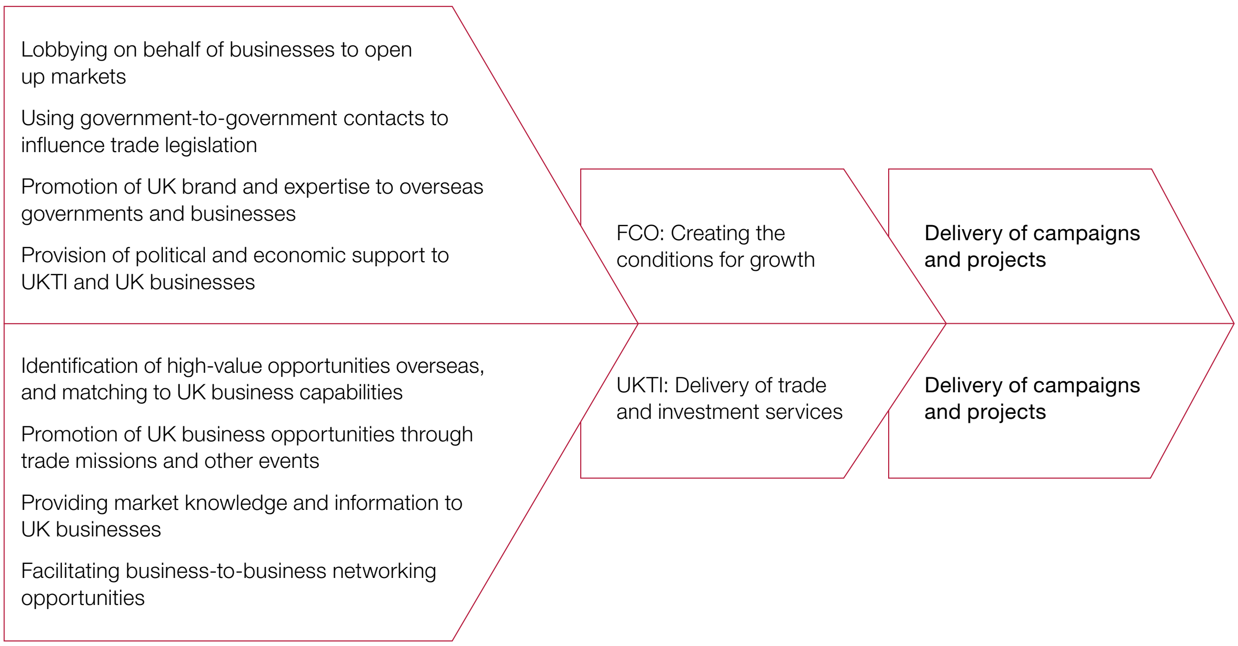
2 The FCO has a worldwide network of embassies and consulates, employing over 14,000 people in nearly 270 overseas posts.[2] In 2010, before the government set out its £1 trillion ambition, the FCO had refocused its efforts towards growth, with, as one of its core objectives, the aim of building Britain's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

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

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

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

Figure 1
Responsibilities of FCO and UKTI



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

Scope of the report

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

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

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

Key findings

Meeting the £1 trillion ambition

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

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

Activities to improve export performance

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

4 See footnote 1.

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

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

Capacity to improve export performance

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

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

What more needs to be done

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

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

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

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

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

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

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

Conclusion on value for money

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

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

Recommendations

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

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

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

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

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

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

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

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

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

Part One

Why the FCO and UKTI are supporting UK exports

1.1 This section examines how the government is seeking to increase growth through promoting exports, and its challenge of increasing exports to £1 trillion by 2020. It sets out the UK's export performance to date and assesses the scale of the government's challenge. It also explains the role of UK Trade & Investment (UKTI) and the Foreign & Commonwealth Office (FCO) in contributing to export growth.

Export-led economic growth is crucial to rebalancing the UK's economy

1.2 The UK economy has been largely static since the financial crisis of 2008 and 2009, and growth has been weak, 2.8 per cent from 2009 to 2012. In March 2011 the government published *The Plan for Growth*,[6] which sets out its strategy to encourage economic growth. Its policy objective is to achieve sustainable and balanced growth that is less reliant on a few particular sectors. The government's ambitions are to:

- create the most competitive tax system in the G20;
- make the UK one of the best places in Europe to start, finance and grow a business;
- encourage investment and exports as a route to a more balanced economy; and
- create a more educated workforce that is the most flexible in Europe.

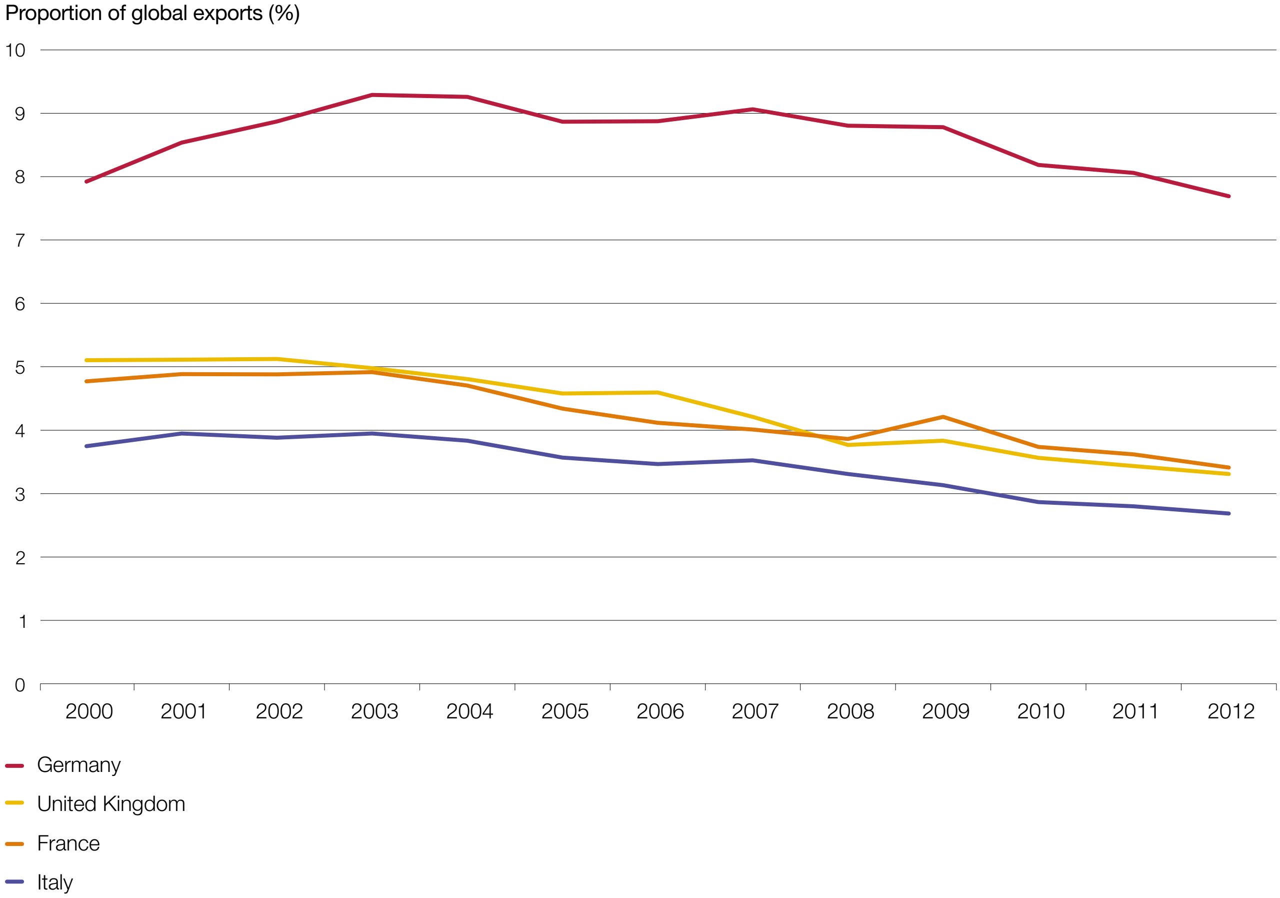
6 HM Treasury and Department for Business, Innovation & Skills, *The Plan for Growth*, March 2011.

In 2012 the government set out a challenging ambition to double exports to £1 trillion

1.3 In the 2012 Budget, the Chancellor of the Exchequer announced a government-wide ambition to double exports to £1 trillion (£1,000 billion) by 2020, from £488 billion in 2010.[7] Achieving this aim will be challenging. Weak global demand in 2012, particularly from the EU, meant that UK export growth was fairly flat that year, and other European countries have experienced a similar declining trend in their export share (**Figure 2**). The UK's 'market share' of global exports has also fallen from 5.1 per cent in 2000 to 3.3 per cent in 2012. While this is not in itself a cause for concern, and is largely due to rapid export-led growth in emerging economies, fulfilling the £1 trillion ambition will require that the UK gains a greater share of the export market in countries where the UK is underperforming.

Figure 2
Share of global exports from 2000 to 2012

Comparable nations: Germany, France and Italy have all experienced a decline in their share of global exports alongside the UK since 2000



Source: National Audit Office analysis of United Nations Conference on Trade and Development data

7 HM Treasury, *Budget 2012*, March 2012, HC 1853.

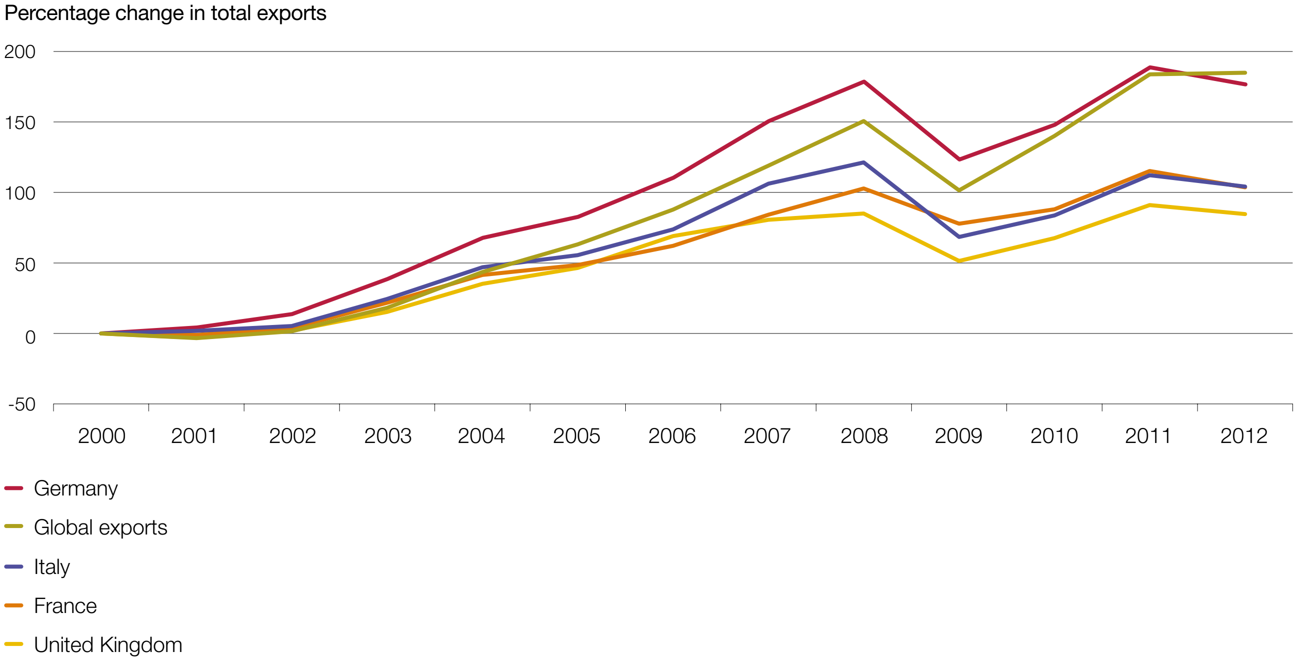
1.4 Over the period from 2000 to 2012, UK exports have nearly doubled, but over the same period, total world exports have nearly trebled. In addition to losing global market share, the UK has struggled to keep pace with other European nations in terms of maintaining relative total export growth, although performance has improved since 2009 (**Figure 3**).

1.5 In addition to maintaining and improving export levels in advanced markets, the government considers that UK businesses need to pursue opportunities in emerging markets, such as China and India, many of which are expected to grow significantly over the coming years. Currently, however, 75 per cent of UK exports go to EU countries and other advanced markets, such as the United States, Japan and Australia. In contrast, less than 10 per cent of UK exports are destined for the 10 largest emerging economies (**Figure 4**).

1.6 Growth also depends on the UK becoming less dependent on a small number of specific sectors. Despite an overall trade deficit, the UK has a number of areas where it demonstrates strong export performance. These are areas in which the UK currently has a trade surplus. Currently, the UK's largest export area is the financial and business services sector (**Figure 5** on page 16).

Figure 3
Increase in exports from 2000 to 2012

In addition to losing global market share, the UK's overall export performance since 2000 has not been strong

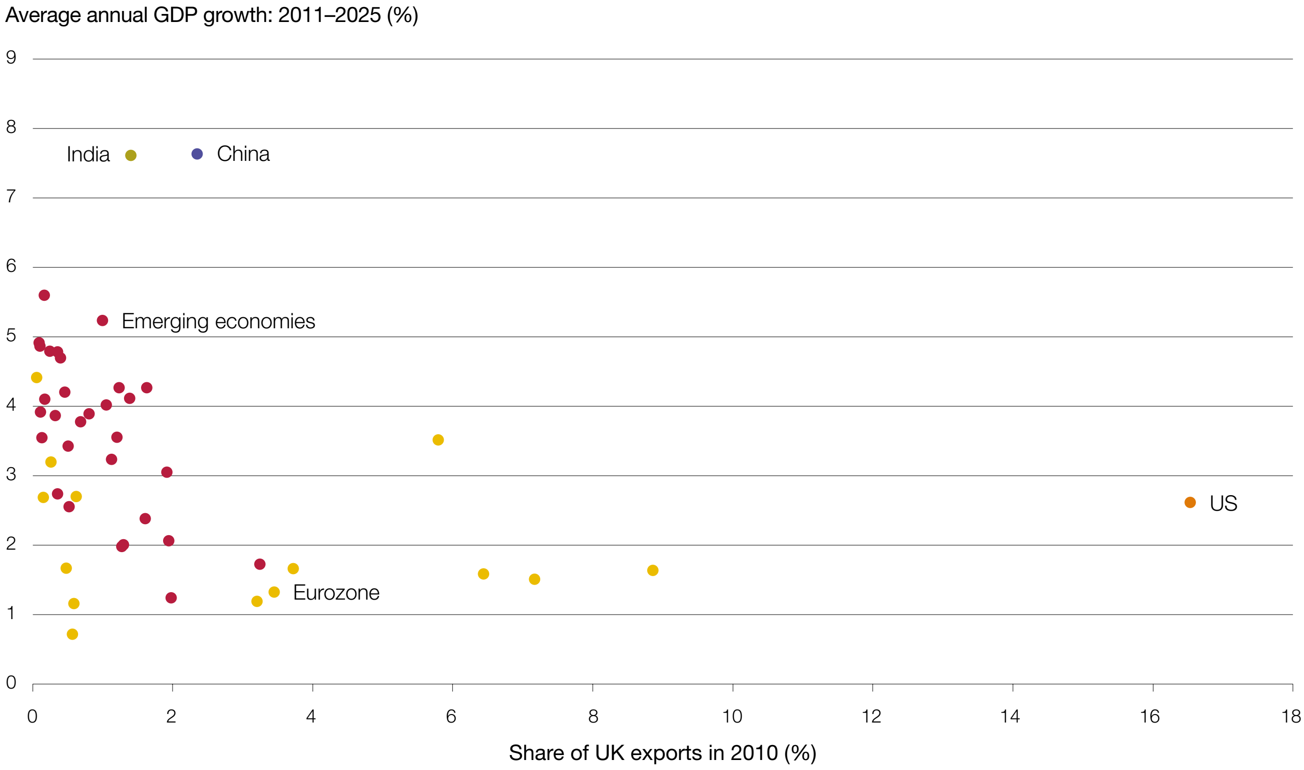


Source: National Audit Office analysis of United Nations Conference on Trade and Development data

Figure 4

Destination of UK exports

A small percentage of UK exports go to emerging economies



Source: Foreign & Commonwealth Office economic analysis

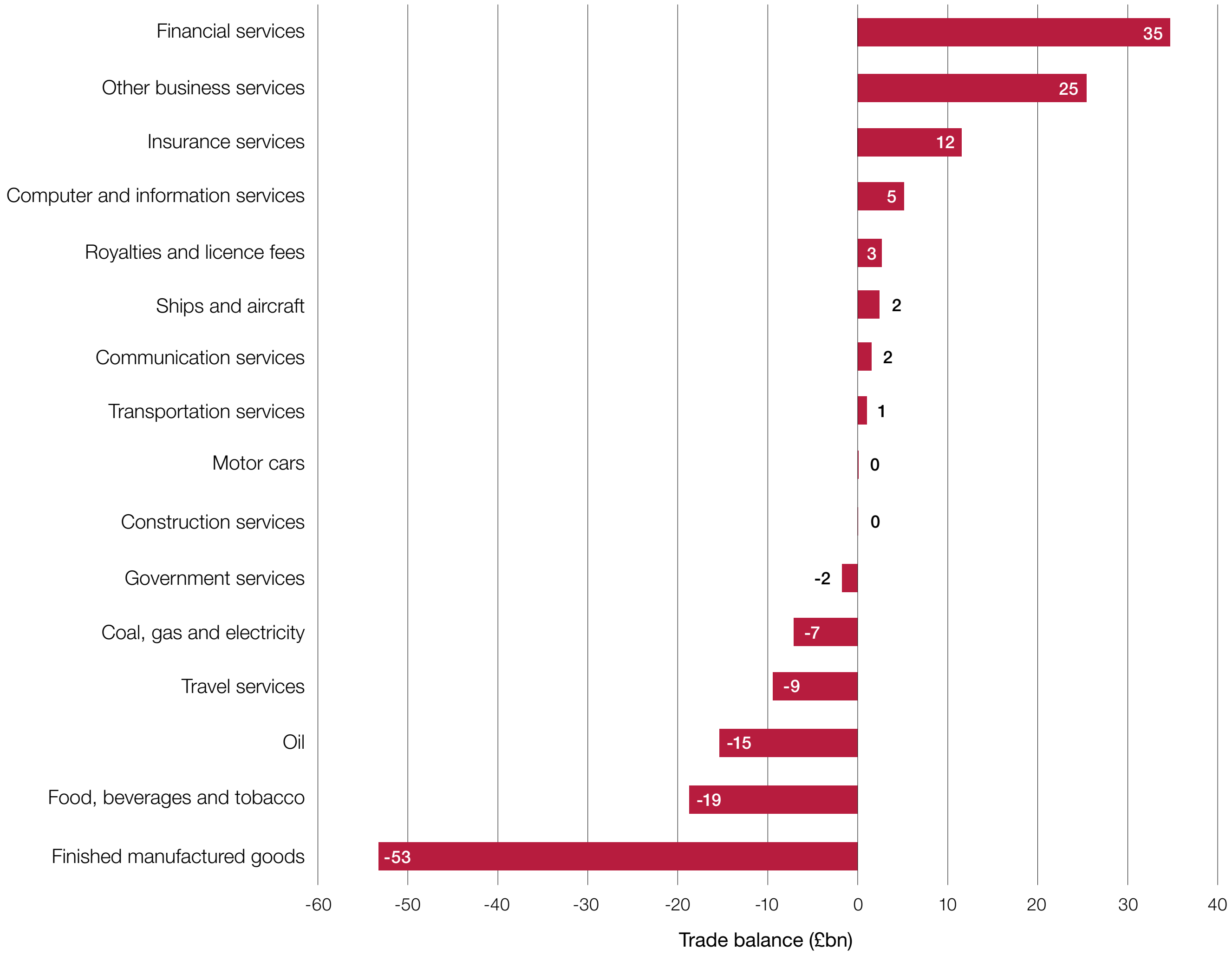
The value of UK exports has been flat over the last two years, and will need to grow by 10 per cent year-on-year to meet the government-wide ambition to increase exports to £1 trillion by 2020

1.7 Export performance is volatile and reflects external circumstances such as exchange rates and political and economic changes overseas, as well as the government's efforts. After a strong performance in 2011, exports remained fairly flat in 2012 and 2013 against a background of weak global demand, notably the recession in the Eurozone. This creates an additional challenge for the government in the coming years. The UK's performance compared with relevant European benchmark countries, Germany, France and Italy, also indicates that while the UK outperforms them in the Gulf, in many other emerging markets – which have the greatest potential to grow – such as Russia, Brazil, Turkey and China, the UK has not traditionally performed as well. Expert forecasts from the International Monetary Fund and Office for Budget Responsibility indicate that the UK is not likely to achieve exports of £1 trillion by 2020 (**Figure 6** on page 17). In the 12 months to June 2013, UK exports were £498 billion.[8]

8 Office for National Statistics trade in goods publication tables – June 2013, available at: www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-295080

Figure 5
Selective breakdown of UK trade balances

Financial services are the UK's biggest export



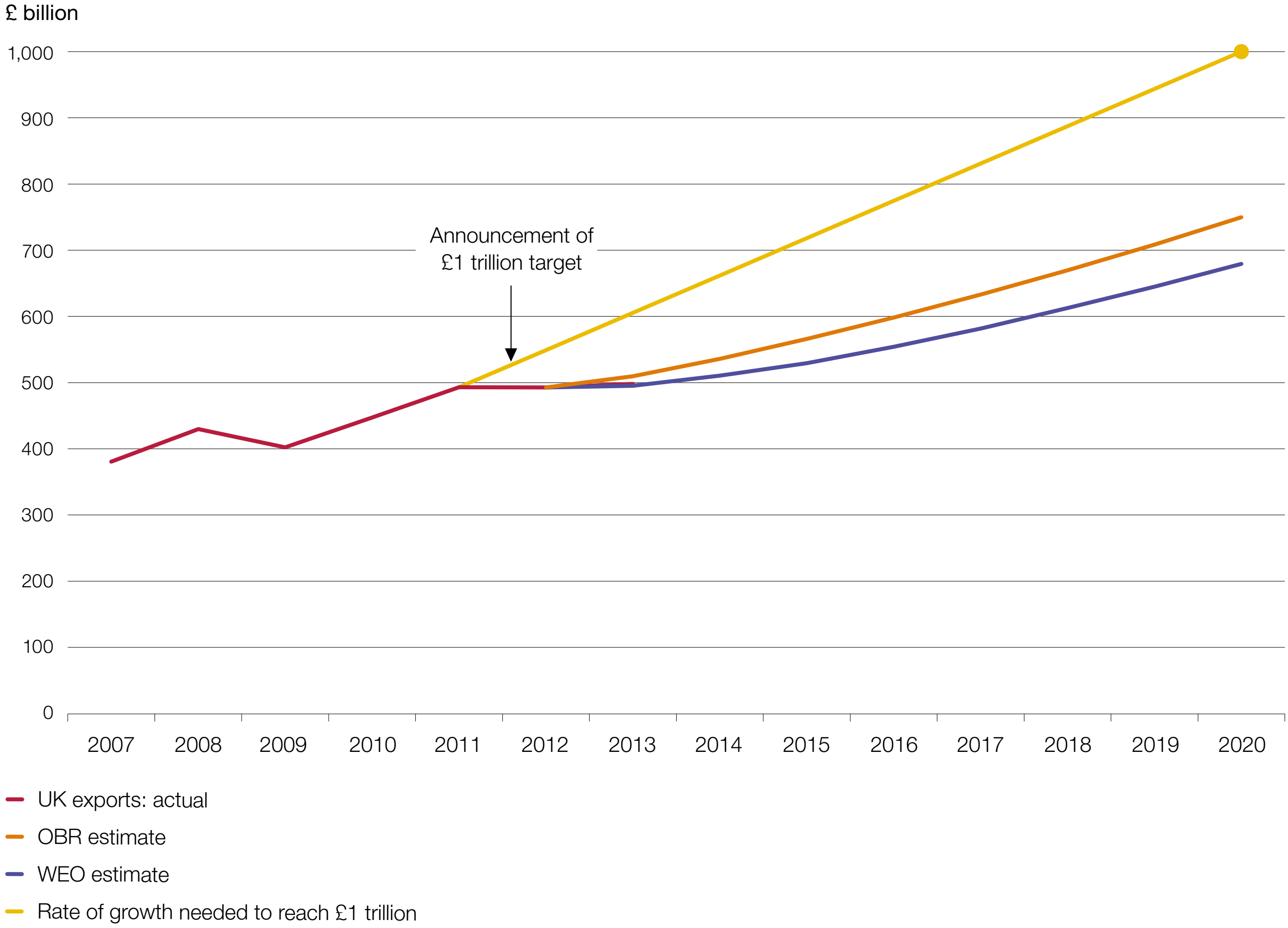
Note

1 These figures have been rounded.

Source: Office for National Statistics

Figure 6
Current export forecasts

Based on available forecasts, achieving the £1 trillion export target will be challenging



Notes

1 Underlying estimates are based on percentage increases in volumes of exports. Our analysis assumes a direct correlation between volume and £ value.

2 Office for Budget Responsibility (OBR) and World Economic Outlook (WEO) estimates have been extrapolated beyond 2017 and 2018 respectively.

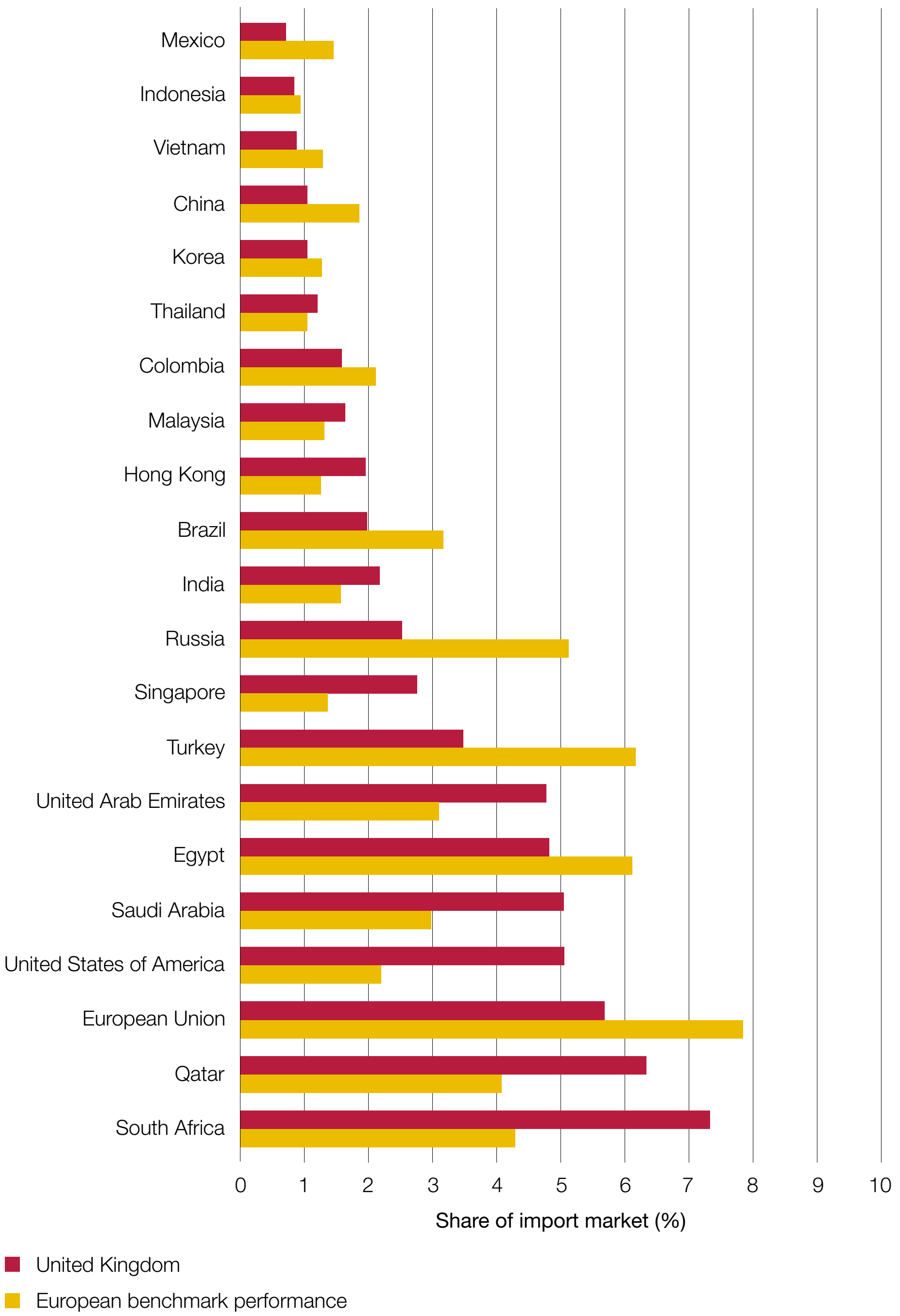
Source: National Audit Office analysis of Office for National Statistics trade data (July 2013), Office for Budget Responsibility Economic and Fiscal Outlook indicators (March 2013) and International Monetary Fund World Economic Outlook (April 2013)

1.8 Overseas comparisons also indicate the scale of the challenge for the UK. The FCO and the Department for Business, Innovation & Skills (BIS) measures UK export performance in part through benchmarking its value against that achieved by three of its closest European competitors – Germany, France and Italy. These countries are useful comparators due to their similar size and economic outputs, and therefore comparing UK performance with these countries (suitably weighted) provides an indication of performance regardless of market forces. The very mixed performance of the UK exports to the global market relative to the benchmark average is shown in **Figure 7** overleaf.

Figure 7

UK market share compared to European benchmark in 2011

UK export performance against the European benchmarks is mixed



Note

1 The European benchmark is known as the EU3.

Source: Foreign & Commonwealth Office economic analysis

1.9 The UK's export performance is influenced by several factors, which are uncertain and largely outside of the UK government's control. While there are signs of recovery in the Eurozone this year, weaknesses in other emerging market economies could damage UK export growth. Other factors include:

- changes in exchange rates;
- changing commodity prices;
- changes in the monetary policy of other nations;
- fluctuations in global demand; and
- political and security issues affecting overseas markets, such as events in the Middle East.

FCO and UKTI have key roles to play in increasing exports

1.10 The FCO has a worldwide network of embassies and consulates, employing over 14,000 people in nearly 270 posts.[9] One of the FCO's three key responsibilities relates directly to growth and is building Britain's prosperity by increasing exports and investment, opening markets, ensuring access to resources and promoting sustainable global growth.

1.11 UKTI is a non-ministerial department of both BIS and the FCO. It works with UK-based businesses to help them operate effectively in international markets and to encourage overseas companies to invest in the UK. Staff based overseas are largely co-located with the FCO.

1.12 Through their network of offices overseas, UKTI and the FCO play key roles in improving export performance. The FCO aims to create the conditions overseas for growth through activities such as lobbying to remove trade barriers on behalf of the UK. This type of lobbying has long been an FCO activity, but since 2010 it has refocused more of its efforts on economic growth as one of its foreign policy priorities. Its annual report states it will 'support business to help double the UK's exports to £1 trillion by 2020'.[10] The government established UKTI in 2003 with an aim to promote economic growth by working with UK businesses to help them make the most of market conditions.

1.13 In 2012-13 the FCO and UKTI spent £420 million on promoting UK economic growth through supporting businesses overseas. Of this, UKTI spent £236 million[11] and the FCO £184 million.[12] UKTI has 1,265 staff in 160 locations overseas (of whom 993 work on trade-related activities), covering 100 markets. As of August 2013, the FCO estimates that 1,004 out of its 14,000 staff spends an average of 26 per cent of their time supporting its key 'prosperity' objective.

9 Posts are the FCO's presence overseas and consist of embassies, high commissions or consular offices.
10 Foreign & Commonwealth Office, *Annual Report and Accounts 2012-13*.
11 UK Trade & Investment, *Annual Report and Accounts, 2012-13*.
12 Foreign & Commonwealth Office, *Annual Report and Accounts, 2012-13*.

1.14 To understand how business sees government support, we asked a small number of companies and trade bodies about the key challenges that companies face when exporting; their experience of using UKTI/FCO services; and their suggestions for change in the future. They were chosen to provide some insights into business views, although they are by no means comprehensive. Overall, companies recognise that the UK government has an important role to play in promoting and supporting exports. Among other things, companies valued trade missions and networking opportunities, and the provision of specialist sector strategy information. Their views are summarised in Appendix Three.

The respective contributions of government departments to meeting the £1 trillion ambition are not defined

1.15 UKTI assessed the feasibility of the £1 trillion target, and concluded that, while stretching, the target struck a reasonable balance between ambition and realism, assuming world export growth continued in line with expectations. UKTI has supporting targets such as doubling the numbers of companies it helps to 50,000 and achieving total contracts won by UK businesses with UKTI support to a value of £20 billion from 2013-14, captured through a measure called Trade Growth Value. From summer 2012, the FCO started to calculate the financial value of the growth potential of some of the emerging markets it has prioritised, including Mexico and India. This analysis aims to support these efforts within those markets and sectors with the greatest potential returns for UK exports. Different posts will adapt them in different ways.

1.16 However, the Departments lack a more detailed action plan on how their work will contribute to the £1 trillion ambition. This would specify how the £1 trillion is broken down into deliverable objectives, what actions they need to take to meet those objectives, and timescales for delivery and outcomes, quantified where possible. The Departments could then be held accountable for their performance against these objectives although we recognise that many key influencing factors are outside the government's control.

Part Two

FCO and UKTI activities to promote UK exports overseas

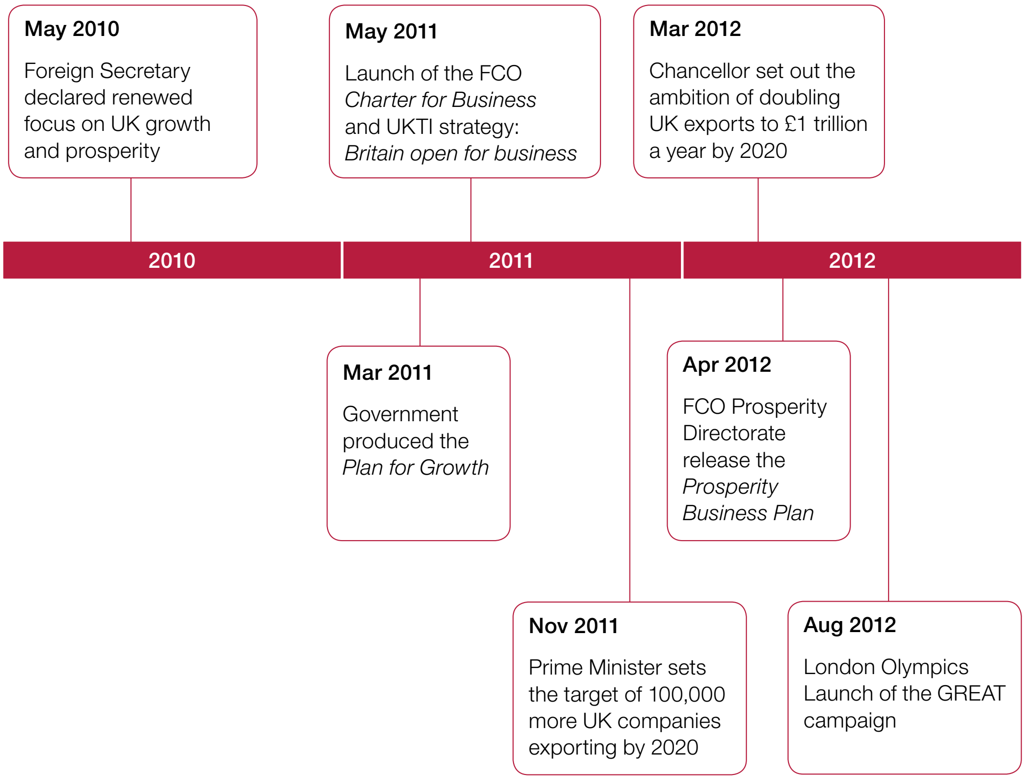
2.1 This part of the report examines how UK Trade & Investment (UKTI) and the Foreign & Commonwealth Office (FCO) have responded to the government's plan for growth, in terms of developing a strategy and changing their activities overseas. It also assesses how effectively the two Departments work together and how they have reorganised their resources to help improve exports.

Both Departments have responded to the government's plans for growth

2.2 To focus their attention on helping UK businesses increase exports and meet the challenging £1 trillion ambition, we would expect to see UKTI and the FCO take a strategic approach to using staff and economic intelligence, and a planned approach to supporting UK business based on an understanding of what works. We would also expect to see the FCO and UKTI collaborating effectively.

2.3 The Departments have responded to the government's plans for achieving growth by changing some of their activities overseas. **Figure 8** overleaf summarises the main developments since 2010. They have developed new strategies and new approaches to how they can encourage exports in the work they do overseas. They have also contributed to the considerable activity in the UK and overseas to exploit the economic benefits of the Olympics and its continuing legacy. Ministerial trade visits have become increasingly high profile, for example the Prime Minister's visit to India in April 2013.

Figure 8
Key events related to promoting growth overseas



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

The initial responses of UKTI and the FCO to the government's requirement to increase exports were not aligned

2.4 In May 2011 the FCO produced the *Charter for Business* – a set of commitments, based on feedback from business, that it wanted to deliver. The Charter outlined high-level priorities for the FCO. These are:

- supporting the UK's commercial and economic interests within its foreign policy and bilateral relationships;
- using knowledge of local language, culture, political and economic situations;
- lobbying by ministers and officials;
- briefing businesses;
- influencing international economic policy, trade and investment policy;
- putting UK businesses in touch with the right people; and
- equipping its staff with the necessary skills to support UK business and investment.

2.5 The Charter states that, "Business will be the judge of our success." In June 2012 the FCO sought feedback from businesses on how they viewed the FCO's progress against the commitments in the Charter. This feedback was positive about how the FCO considered the views of business and used its economic and political insights, language skills and contacts to help UK business, but was less positive about how coordinated the FCO was with other government departments, in particular UKTI, and whether the FCO understood UK business needs and priorities. The FCO intended to repeat this survey in 2013, but has not yet done so.

2.6 The FCO established its Prosperity Directorate to provide strategic and central oversight of growth-related FCO activity. In May 2011 the FCO's Prosperity Directorate released its business plan, which included its goals for 2011 to 2015 of:

- a rising trend of high-value UK trade and investment success (including implementing the *Charter for Business* and helping to increase exports to £1 trillion);
- a stronger, more sustainable global economy;
- enhanced security of resources underpinning UK and global prosperity; and
- the international community on track for green growth.

The business plan demonstrated the FCO's overall strategic ambitions for growth, and communicated desired outcomes but, in line with the devolved approach of the FCO, did not communicate to posts in detail how they should be planning their activities. It did not provide a 'roadmap' for how it would contribute to the £1 trillion ambition or how it would implement the commitments set out in the *Charter for Business*. The plan offered little assessment to help determine which activities at post have the greatest potential to impact on UK export performance.

2.7 In May 2011 the UKTI released its five-year strategy, *Britain open for business*,[13] which set out its renewed approach to supporting UK businesses and promoting economic growth through greater inward investment and increased exports. Like the *Charter for Business*, this strategy pre-dated the £1 trillion ambition and builds on the government's *Plan for Growth* and the white paper on *Trade and Investment for Growth*.[14] The strategy was well informed by analysis of global markets, and communicated UKTI's intention to focus its efforts more on selected priority high-value markets including India and China. It also set out how UKTI planned to operate in a more strategic, entrepreneurial way to secure export and inward investment opportunities for the UK by:

- targeting services at innovative and high-growth small- and medium-sized enterprises;
- winning high-value opportunities in overseas markets for UK businesses;
- delivering a pipeline of high-quality inward investment; and
- building strategic relationships with significant inward investors.

13 UK Trade & Investment, *Britain open for business: growth through international trade*, May 2011.
14 Department for Business, Innovation & Skills, *Trade and Investment for Growth*, February 2011.

2.8 Both UKTI's strategy and the FCO's Prosperity Directorate *Business Plan* and *Charter for Business* note that they complement the other and that the two Departments will work together. Both support the government's *Plan for Growth*, which lists UKTI and FCO working together as a priority action. Lord Green's Economic Affairs Trade and Investment Committee monitor this. However, none of the strategies set out how the FCO's and UKTI's resources should be aligned, or how UKTI and FCO could work together in the UK and overseas to improve growth. As a result, there is confusion about roles and responsibilities (see paragraphs 2.15 to 2.18).

2.9 This lack of aligned planning is sometimes repeated at post. Posts produce a country business plan which outlines actions against post objectives, including those of FCO and UKTI. Underneath this, UKTI staff plan and monitor activities by producing post performance agreements, which detail the specific trade targets for the next 12 months, and outline the macro-economic trade aspirations over the next few years. The agreements had previously been prepared jointly, setting out targets for both the FCO and UKTI. However, from 2012-13 the FCO and UKTI decided that the agreements should only be used for UKTI activities and that UKTI and FCO would continue to use country business plans to bring their activities together at a higher level. These country business plans are variable in quality and detail, and while challenged and reviewed centrally, are not validated. Some posts continue to produce a more detailed joint plan for promoting exports but this is not systematically adopted across all posts. In some cases, this limited joint planning compounds the lack of aligned strategic planning at the centre and could undermine closer working and coordination of effort and prioritisation of work.

2.10 In our survey of UKTI and FCO overseas posts, 83 per cent of respondents in 122 countries stated that their post currently places a high priority on promoting UK exports.[15] This suggests that the message of the importance of growth and their role in promoting exports was clearly communicated to posts. Our survey also suggests there has been sufficient guidance from the centre, with 74 per cent of respondents saying they were satisfied with guidance from central teams.

Activities to support exports

FCO staff overseas have developed approaches to help promote exports, but there needs to be greater sharing of best practice

2.11 The majority of the FCO's activities occur in overseas posts. Typical interventions include lobbying to open markets and removing trade barriers, as well as assessing how economic and political analysis may help UK businesses seeking to export in that location, and using contacts and networks to problem-solve for companies (**Figure 9**). The FCO wants its posts to have a high degree of autonomy in how they operate. This way of working has led to posts developing differing approaches on how to increase exports, albeit along broad, centrally defined principles under the *Charter for Business*. These principles include using ministerial and other influential support, and championing and enhancing the resilience of the UK economy. For example, in 2012 the embassy

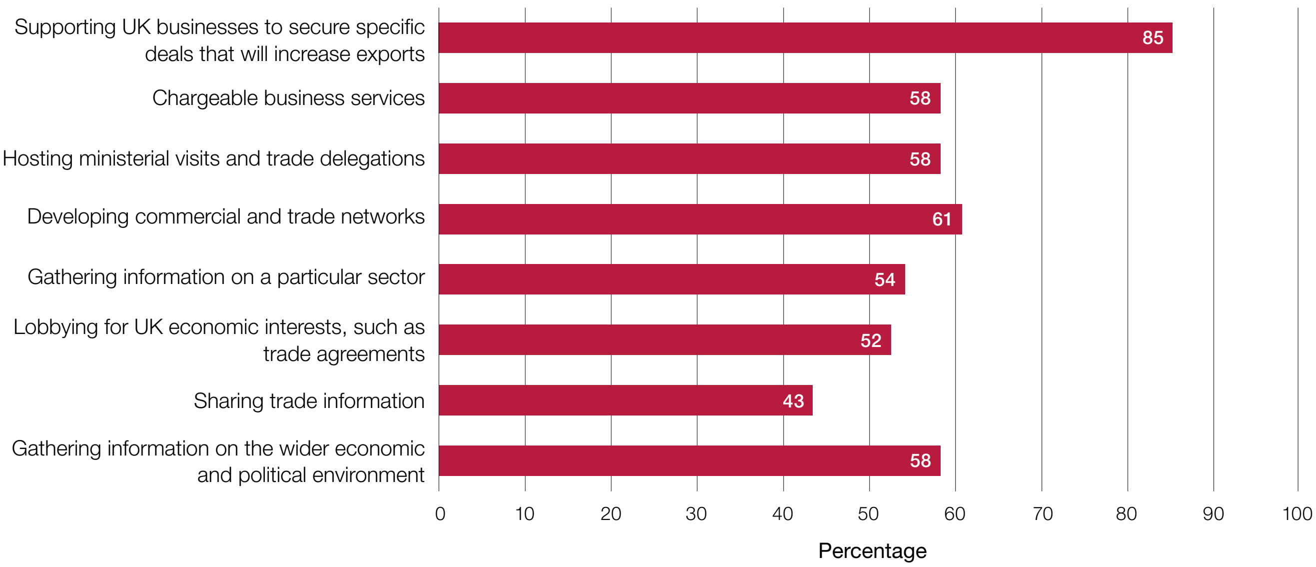
15 Some responses to our survey represent the views of several posts in one country.

in Manila worked with UK drinks manufacturers to help end discrimination against the importation of spirits into the Philippines to make UK spirits more competitive with local brands.[16] FCO funding has also helped more than 30 UK firms win a total of over £120 million in sports contracts in Brazil as it prepares to host the Football World Cup and 2016 Olympic and Paralympic Games.[17] British ambassadors also play a vital role in hosting business events.

2.12 We consider that it makes sense for posts to tailor their export promotion activities to meet local circumstance and differing post priorities. Some posts feel that over-centralised decision-making would lead to unnecessary bureaucracy and a 'control culture'. On the other hand, an overly devolved approach risks generating ad hoc and uncoordinated activities that could be better focused to achieve results. There are mechanisms to share best practice, such as the annual leadership conference, a dedicated staff e-magazine, communication of centrally generated targeted analysis and centrally based 'champions' who are briefed fortnightly to provide a link from the centre to post. Despite this, some overseas teams told us that they would benefit from better sharing of good practice to help them understand which activities offer the greatest value to the UK. Posts should then be expected to justify working models which differ from accepted good practice.

Figure 9
Activities at post

Over 80 per cent of posts stated that supporting UK businesses to secure specific commercial opportunities was a high priority



Source: National Audit Office survey of Foreign & Commonwealth Office and UK Trade & Investment overseas posts

16 Foreign & Commonwealth Office, *Annual Report and Accounts 2012-13*, p. 12.
17 Foreign & Commonwealth Office, *Annual Report and Accounts 2012-13*, p. 12.

2.13 Helping businesses export has always been a priority for UKTI but its 2011 strategy outlined a new approach to encouraging export growth. This introduced two fundamental changes:

- Encouraging more small- and medium-sized enterprises to export.
- Focusing on exploiting high-value opportunities, with intensive support for larger companies for contracts over £250 million.

2.14 The posts we visited were affected more by the high-value opportunities programme, which focuses on identifying significant opportunities overseas and finding UK companies with the right capability and capacity to compete for them. UKTI selects high-value opportunities using criteria based on value and the balance between short- and long-term benefits. Examples are given in **Figure 10**. UKTI had 50 high-value opportunities in 2012-13, which has increased to 100 as a result of additional funding from HM Treasury. This has changed the nature of work at relevant posts, which must pursue these opportunities in addition to providing routine, target-driven services. High-value opportunities require sustained effort, as it could be several years before their benefits materialise; however, these activities can also contribute to routine service delivery targets. To help staff at post make the most of high-value opportunities, UKTI provides specialist sector advice, usually through consultants as well as other government departments such as the Department for Business, Innovation & Skills (BIS). High-value opportunities are assigned a ministerial lead, and UKTI and FCO brief ministers on the progress of these opportunities.

There are examples of FCO and UKTI working together more effectively, but in some cases there is uncertainty about roles and responsibilities

2.15 Before the government's increased emphasis on growth through exports, there was limited interaction between UKTI and the FCO. In most posts there are more UKTI staff working on promoting UK exports than FCO staff, a ratio of nearly three to one. The ratio is highest in advanced economies, and lowest in low-income countries, where often there are few, if any, UKTI staff.

2.16 UKTI and the FCO have not always worked together in a systematic manner, either centrally or at posts. The Departments are now trying to integrate UKTI and FCO work centrally to promote economic growth. In late 2012 a joint UKTI/FCO board (also attended by BIS) was established to oversee joint working. To date, the board's meetings have been used to consider closer working and how to better define the FCO's contribution to growth. The FCO intends to establish a joint Commercial Strategy Unit later in 2013 to encourage greater integration with UKTI and other government departments. It is too early to assess the impact of these efforts.

Figure 10
Examples of high-value opportunities

Country	Description of opportunity	FCO and UKTI activity/progress
China – Healthcare	China has ambitious plans to reform its healthcare system. Its public hospitals deliver 90 per cent of all health services, pharmaceutical spend amounts to 2 per cent of GDP and the population is rapidly ageing. The Chinese government is keen to use foreign expertise and is particularly attracted to the UK's NHS. Chinese spending on healthcare is set to increase from around \$500 billion in 2013 to approximately \$900 billion by 2017.	The FCO/UKTI healthcare team was established in 2012 to boost policy and trade links with China on healthcare. Outcomes to date include: • New FCO Prosperity healthcare projects are building access and credibility and opening the Chinese market to UK companies. • Projects are helping to secure contracts and building strategic partnerships. • Agreement to a new strategic partnership on elderly care with China's Ministry of Civil Affairs. • Agreement to collaborate with China on anti-microbial resistance.
Brazil – Sport	Brazil is holding several major sporting events over the next four years, including the World Cup and the 2016 Olympics and Paralympics. The UK's experience from the 2012 Olympics will provide significant opportunities for UK businesses in construction, professional services and other areas. The opportunity has an expected value of £29 billion.	Close collaboration on high-value opportunities between the FCO and UKTI teams. The FCO/UKTI showcased UK expertise from London 2012. It organised a large number of London-based events for Brazilian government officials, including government-to-government meetings as part of the Olympic observers programme, and the opportunity for UK businesses to meet Brazilian government officials. The FCO/UKTI ran a six-month event entitled 'UK/Brazil season', and one of its objectives was to show how UK companies can provide the services in demand in Brazil. UKTI developed a directory of over 800 British businesses which were involved in the London 2012 Olympics.

Source: UK Trade & Investment

2.17 During our visits overseas we saw various examples of how FCO activities to increase exports can complement those of UKTI, as well as different models of co-working (**Figure 11** overleaf). These may be tailored to local need and circumstance but some posts were unsure whether their model was appropriate. Posts were also uncertain about respective roles and responsibilities, in particular, whether the FCO's new role on growth would duplicate existing UKTI work.

Figure 11
Models of collaboration between FCO and UKTI

We saw different ways of UKTI and FCO working together

Post	Working model
Turkey	The team which covers the regions of Central Asia and South Caucasus and the GREAT team[1] integrate UKTI and FCO staff. The remaining FCO and UKTI teams that work on economic growth are separate but are co-located in Istanbul and in Ankara.
France	UKTI and the FCO are separate teams currently although they have had a long-standing 'Prosperity network' to facilitate exchange of information and working in 'virtual teams' for some of the larger opportunities. Located in separate parts of the building for IT and information security.
Colombia	UKTI and the FCO work closely together in one room in sector-based teams called clusters, focusing on those sectors that offer the highest commercial opportunities for the UK.
Brazil	UKTI and the FCO are part of the Brazil Prosperity Group, with separate teams within the Group which share knowledge and information, and are starting to work in virtual teams for some of the larger opportunities. UKTI and the FCO teams are co-located in Brasilia, Sao Paolo and Recife. In Rio the teams work closely together in the same building.
China	UKTI and the FCO are largely in separate teams but work closely together in priority sectors as well as on specific issues and make joint use of GREAT and project funding. They are co-located in the consulates. In Beijing they are mostly in separate buildings with some teams such as GREAT co-located.

Note
1 GREAT is a Number 10 initiative to promote the British brand overseas.

Source: National Audit Office visits to overseas posts

2.18 While all posts we visited were working together, albeit in different ways, it was clear that it has taken significant effort and time. Common factors for success included strong leadership and a clear message from the centre that growth and increasing exports are important. In our survey of posts we asked whether staff felt that UKTI and FCO activities to increase exports fitted together at their post. Most responded positively, with 78 per cent stating they thought the FCO and UKTI were 'fully' and 'mostly aligned'.

Capability to support exports

FCO and UKTI have reallocated existing resources to where they consider there are new opportunities

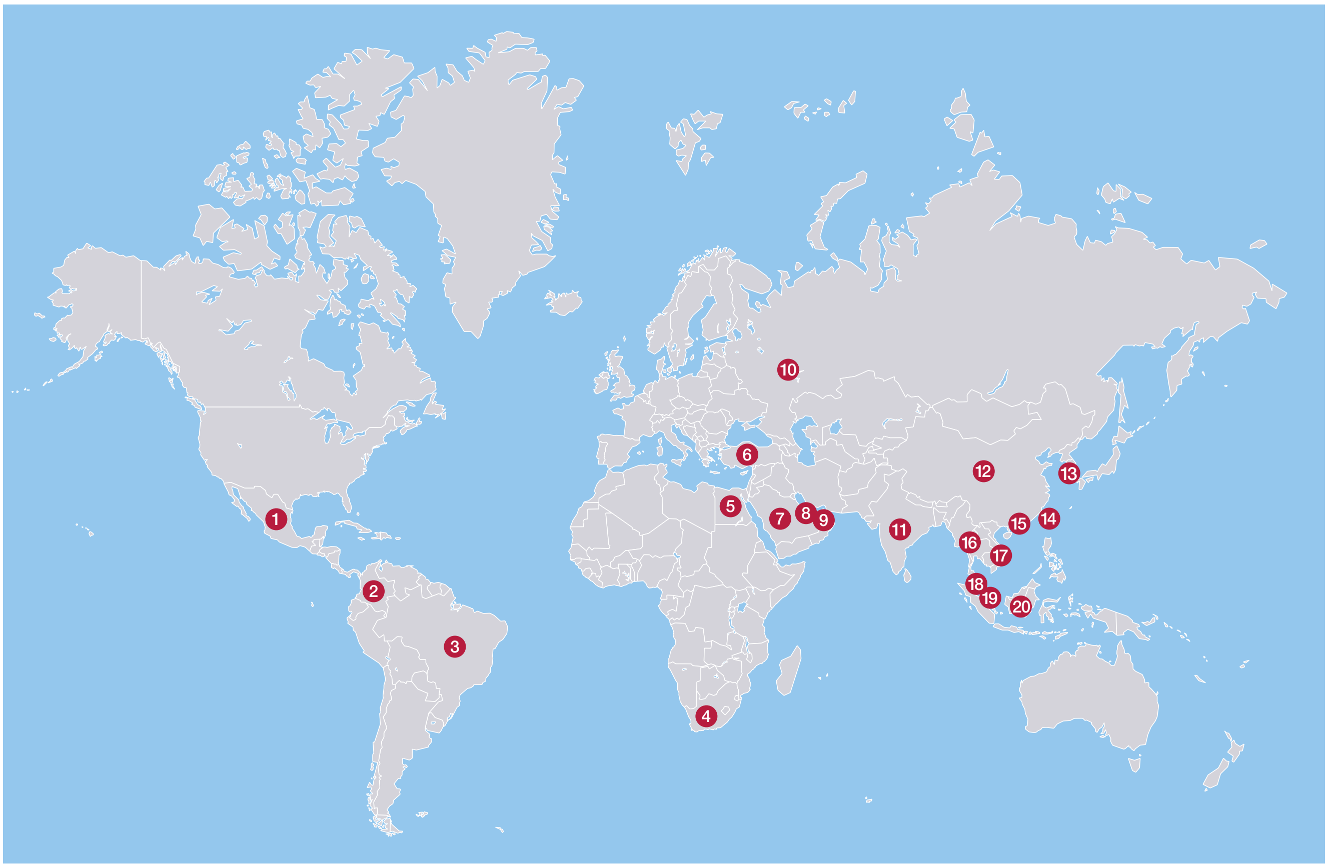
2.19 Using economic and political analysis, the FCO has identified 29 emerging markets,[18] which it forecasts will experience significant growth and offer the greatest future opportunities for UK companies. In 2011 it began to reallocate staff to, and created new positions in, emerging markets such as China and Turkey in order to increase the capacity of the overseas posts to help promote export growth (**Figure 12**).

18 The FCO refers to these markets as "emerging powers", where there is an economic or political imperative for FCO activities.

Figure 12

UKTI prioritisation of staff resources

UKTI is focusing its resources on high-growth economies



1 Mexico UKTI – 27 FCO – 3	**5 Egypt** UKTI – 11 FCO – 2	**9 UAE** UKTI – 27 FCO – 0.5	**13 South Korea** UKTI – 13 FCO – 13	**17 Vietnam** UKTI – 13 FCO – no data
2 Colombia UKTI – 5 FCO – 4	**6 Turkey** UKTI – 16 FCO – 7	**10 Russia** UKTI – 30 FCO – 9	**14 Taiwan** UKTI – 14 FCO – 4	**18 Malaysia** UKTI – 14 FCO – 4
3 Brazil UKTI – 48 FCO – 32.5	**7 Saudi Arabia** UKTI – 15 FCO – 3	**11 India** UKTI – 89 FCO – 23	**15 Hong Kong** UKTI – 20 FCO – 6	**19 Singapore** UKTI – 15 FCO – 5
4 South Africa UKTI – 18 FCO – 8	**8 Qatar** UKTI – 8 FCO – none	**12 China** UKTI – 74 FCO – 56	**16 Thailand** UKTI – 14 FCO – 3	**20 Indonesia** UKTI – 10 FCO – none

Note

1 Staff numbers taken from NAO survey of posts refer to UKTI and FCO staff focused on trade promotion work.

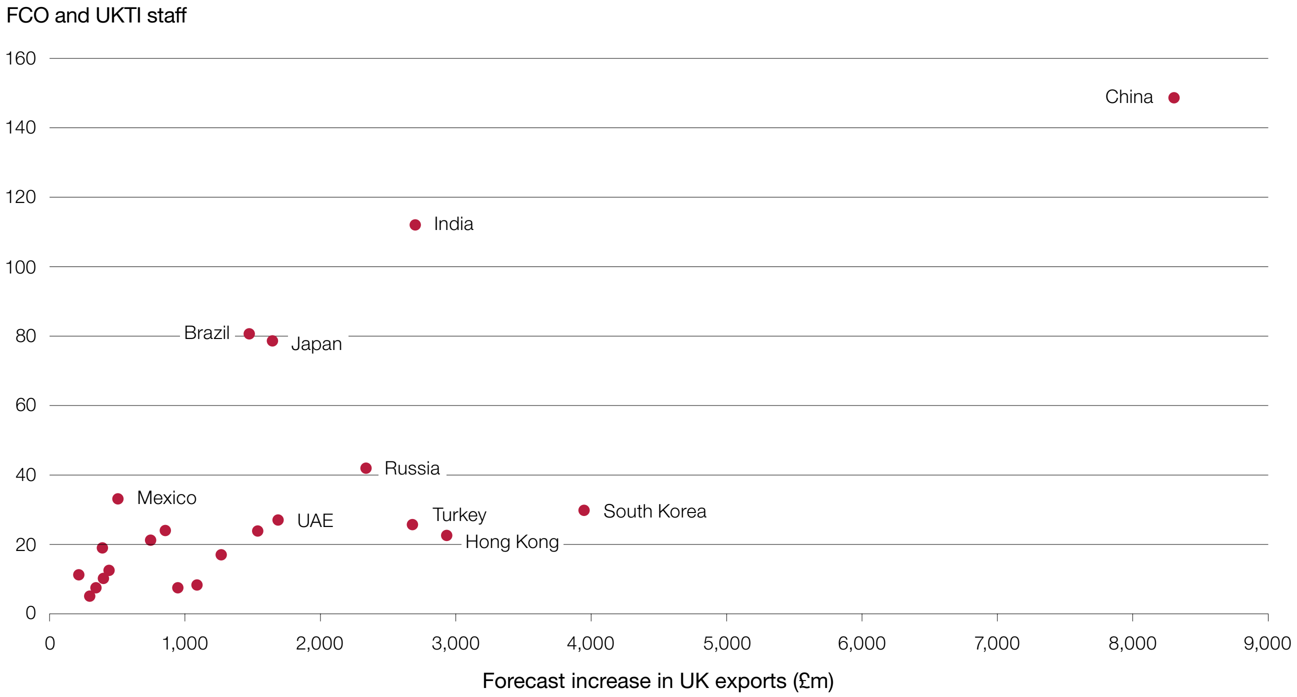
Source: National Audit Office survey of Foreign & Commonwealth and UK Trade & Investment posts overseas

2.20 UKTI regularly realigns resources to focus on its 20 priority, high-growth markets based on the market performance and demand from UK companies to access those markets. **Figure 13** shows the current allocations. In 2012 UKTI set out its intention to allocate at least 50 per cent of resources to high-growth markets by 2020. UKTI also reviews 90 countries where it does not have a presence to ensure it does not overlook opportunities in other markets. FCO and UKTI have planned their resourcing in West Africa to create a 'hub and spoke' system, where FCO staff deliver UKTI work in smaller posts supported by a regional UKTI team in a larger 'hub'. A similar system operates in Mongolia, which previously did not have any staff doing commercial work, and the post is very positive of the benefits. The aim is to have UKTI and FCO support UK trade in smaller posts without funding entirely new UKTI staff.

2.21 Although the FCO and UKTI are trying to work together more, they have different criteria for prioritising countries, which reflects their different objectives. For example, UKTI focuses solely on economic conditions, while FCO decision-making is informed by economic considerations in addition to a wider set of issues, such as political analysis and security priorities. Currently, this analysis has produced complementary outcomes as UKTI and the FCO are largely focusing on the same markets.

Figure 13
FCO and UKTI allocation of staff

FCO and UKTI have allocated more staff to emerging markets with high forecast growth



Note

1 Analysis is based on estimated UK share of forecast increases in country imports from 2012 to 2018.

Source: National Audit Office analysis of World Economic Outlook data and National Audit Office survey of Foreign & Commonwealth Office and UK Trade & Investment overseas posts

FCO has provided training for staff to raise commercial awareness, but may not be making the most of business placements by heads of mission

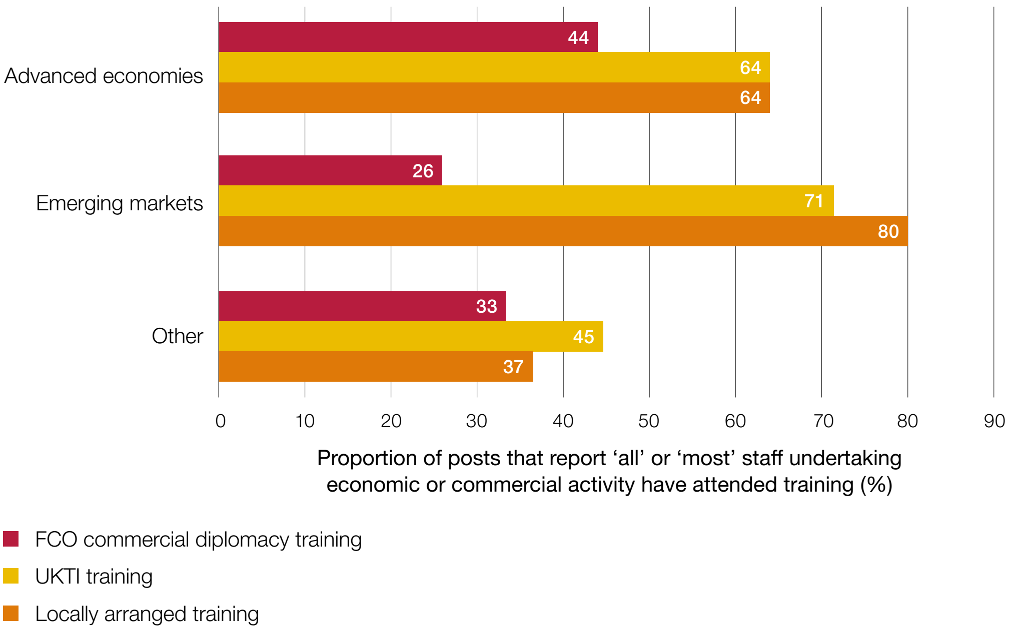
2.22 Successfully assisting exporters requires commercial skills and an awareness of specific sectors and the local markets. The FCO has recruited some new staff with commercial skills, but is still predominantly reliant on training generalists. It has also provided training to increase commercial awareness among staff. During 2012, over 350 UK and locally engaged staff attended economics training courses. Eight hundred staff attended 'commercial diplomacy awareness' workshops. Our survey indicated that the greatest proportion of staff who have undertaken 'commercial diplomacy' training are based in mature economies, rather than in emerging markets, which are the focus of effort for UKTI and FCO (**Figure 14**). Over 25 per cent of all posts surveyed responded that no staff had undertaken the training but more positively, in 80 per cent of the emerging economies, 'most' or 'all' staff have had some form of training.

2.23 Thirty-nine out of some 108 new heads of mission have participated in the business placement scheme in some of the UK's leading industry sectors. Currently, the FCO is not maximising the potential benefit of this scheme, as only nine of those who participated have yet to take up post in one of the FCO's designated emerging economies. However, heads of mission also organise briefings with business independently of this scheme.

Figure 14

Percentage of staff provided with FCO and UKTI training across the network

Many staff have had some form of commercial training



Source: National Audit Office survey of overseas posts

Only small amounts of FCO programme funding for growth are intended to directly support the promotion of UK exports

2.24 Over the past two years UKTI has sought to improve the skills of its senior management in London and at post by recruiting staff with business experience. These include the new managing directors for trade and for marketing, and the chief operating officer, as well as staff in key overseas markets such as the Directors for China and India. UKTI's aim of bringing in external expertise is to better respond to the needs of exporters.

2.25 In 2012-13 the FCO and UKTI spent approximately £420 million on promoting UK exports out of their total spend of £2.28 billion. This includes staff, administrative costs and overheads. In terms of activity it covers the promotion of defence exports, and support provided by UKTI staff based in the UK to exporters, both of which were excluded from the scope of our examination. As part of this £420 million, the FCO has available small funds specifically designed to promote economic growth. Both UKTI and FCO staff at post can bid for these funds (**Figure 15**).

Figure 15
Sources of programme funding

Most programme funding for growth does not directly support export growth

Fund	Allocation in 2012-13 (£m)	Purpose of the fund
Prosperity fund	19.0	Used for 350 projects in 14 priority emerging markets to: • open markets; • ensure access to resources (energy); and • promote sustainable global growth (climate change).
Commercial diplomacy fund	3.0	Aims to support projects that create opportunities for UK business overseas, inward investment or the promotion of the UK's economic and commercial reputation overseas. All bids have to be signed off by UKTI and FCO staff at post and both FCO and UKTI assess bids together in London.
Emerging powers programme fund	0.5	Aims to help strengthen the FCO's overall relationships with 29 emerging markets by building closer links between the UK and the 29 nations. The four key areas of work are: 1 Soft power[1] 2 Trade and investment 3 International security 4 Open economies.

Note

1 Gaining influence through attraction rather than coercion, for example using cultural or economic tools.

Source: National Audit Office analysis of Foreign & Commonwealth Office financial data

2.26 At least 75 per cent of the Prosperity Fund must comply with Official Development Assistance (ODA) requirements, as part of the government's target to provide 0.7 per cent of the UK's Gross National Income in foreign aid. ODA funding aims to promote the economic development and welfare of developing countries and must be of primary benefit to the recipient country – although 'coincidental benefits' to the UK are allowed. The FCO's aspiration is that UK business may benefit indirectly by creating the conditions overseas that allow British businesses to export, for example helping a country tackle corruption creates a better business environment for UK companies.

2.27 The bidding processes for these funds are considered time-consuming and overly bureaucratic by staff, particularly given the sums available. In addition, FCO programme funding is usually allocated on a single-year basis. This can inhibit the effective and efficient use of the resources as funding often has short lead times, meaning that planning of activities can be hurried, as activities must be implemented in the same financial year. Multi-year programmes would provide greater certainty of funding and permit longer-term projects.

2.28 Some FCO and UKTI posts use GREAT campaign funding to promote exports. The campaign is a Number 10 initiative launched in 2011-12 ahead of the London Olympics and involves the FCO, UKTI, the British Council and Visit Britain. The campaign was designed to promote the British brand and maximise the economic legacy of the Olympics. It initially focused on promoting tourism but in addition now focuses on: encouraging more foreign students to study in the UK, inward investment, and exports. The focus on exports began in April 2013 and so it is too early to assess the impact of this funding. The GREAT team in London is a joint FCO/UKTI funded team, with shared work plans and objectives.

Part Three

What more needs to be done

The Departments have recognised the need for further change in how they promote UK exports

3.1 This part examines how UK Trade & Investment (UKTI) and the Foreign & Commonwealth Office (FCO) are changing their approach to increasing growth and exports given current progress. It also assesses how the FCO and UKTI measure the impact of their performance.

3.2 Based on current forecasts, meeting the ambition to double exports to £1 trillion by 2020 will be extremely challenging. Part Two of this report demonstrates that this ambition and the new emphasis on trade have galvanised efforts at post and in the UK. However, at this point, the FCO and UKTI now acknowledge that they need to do more and are working towards a new approach which emphasises closer working, a more coordinated approach to increasing exports through a series of prioritised projects, better evaluation of performance and further training and outsourcing of some of UKTI's work to delivery partners.

The FCO is changing how it promotes growth, and is adopting a more coherent programme and project management-orientated approach

3.3 The FCO is aware that it needs better processes for promoting growth, and is therefore implementing its Future Prosperity plans, established in January 2013. The programme aims to deliver 30 growth-related projects, led by the FCO Prosperity Directorate in London, which is setting up a programme office to help manage its activities. This idea is still in its infancy, and it is too early for us to comment on progress. We have seen some signs of project and programme management at some posts we visited, for example, Colombia and Brazil had recently created a project office or had dedicated project managers, to help manage projects funded by FCO programme money.

3.4 In February 2013 the FCO established a prosperity programme board, to run several projects centrally, and help move towards a more programme-orientated approach. The FCO's Director of Prosperity chairs the board, which comprises senior representatives from UKTI, the Department for Business, Innovation & Skills (BIS) and other key government departments. These are positive developments but given the scale of the challenge, it is surprising that it has taken over two years for such an approach to be developed.

FCO must improve how it evaluates its impact if it is to provide assurance that its spending is justified and it allocates resources efficiently

3.5 We recognise the challenges with quantifying the value of FCO's activities to the UK economy, and that there are many factors that impact on export performance that are outside of the Department's control. However, it needs to be able to demonstrate that its spending yields tangible results and to understand the costs and benefits of different types of activities. At the least, while avoiding creating a cumbersome system of measurement, we would expect to see clear assessment of what activities give greatest impact given the costs incurred. It can provide specific examples of where it has added value and shares these with ministers and its network of overseas posts every two months. However, at this stage, the FCO can only point to activities which it considers to have the greatest impact and there is no evidence to aid prioritisation of effort. For example, most of the posts we visited had hosted a ministerial trade delegation. All were positive about the benefits but noted that the visits require significant effort to organise. The FCO does not systematically assess the benefits these events bring to the UK economy. We also heard a number of instances where direct FCO and UKTI intervention at local level helped UK companies secure opportunities and overcome specific trade barriers. Several UK companies we spoke to while overseas noted that they valued this kind of support.

3.6 Measuring outcomes arising from its activities has been a problem for the FCO. In 2011 the Committee of Public Accounts asked the FCO about how it measured the impact of its commercial activities. The FCO noted that while UKTI had specific criteria to measure its impact on markets, it did not have a specific metric of its own for measuring the commercial impact of individual posts. The FCO considered that the impact of the support it provided, such as making contacts and providing political advice, was not always readily quantifiable, but accepted that it had progress to make on monitoring and evaluation and was developing a programme to do this.[19]

3.7 The FCO is now beginning this work and aims, as part of its new approach, to develop metrics in consultation with Department for International Development, UKTI and BIS, drawing on the help of external consultants.

19 HC Committee of Public Accounts, *Spending Reduction in the Foreign & Commonwealth Office*, Forty-eighth Report of Session 2010–12, HC 1284, September 2011, paragraph 8.

The FCO needs better reporting to allow central oversight of progress

3.8 The increased focus on exports within the FCO has clearly galvanised efforts but current reporting mechanisms make it difficult to assess overall progress in assisting businesses to increase exports. The FCO has three main reporting mechanisms relevant to its work enhancing growth. However, these focus on reporting evidence of success (rather than being more objective), tend to be qualitative in nature and rarely report outcomes. It is therefore difficult for the FCO to evaluate progress in increasing exports and identifying which activities are not having sufficient impact. The main elements of reporting are:

- **Business reporting.** The FCO produces annual business plans for each country. These plans state the goals, outcomes and activities at post. Posts report performance against objectives centrally twice a year. This information is largely qualitative and is not validated but is challenged and reviewed by London-based teams. Reports provide a useful yardstick to monitor post performance, but this information, although open to challenge, is not collated to provide a meaningful overview of overall performance on increasing exports across the FCO network.
- **'Dip Tels'.** These are official FCO reports that posts generate to inform on international developments, and can be used to identify trends and emerging issues.
- **Monthly impact reporting.** This collates all information from posts, for example from dip tels stating achievements in growth in a given month. This is largely narrative with mainly qualitative information, although there is some quantitative data, usually in terms of deals secured. It is not used to provide an overall picture of progress in promoting exports, or to aid resource allocation.

Some posts produce their own reports to central London teams. For example, Seoul produces quarterly reports which are based on outcomes and flag up risks. However, this type of reporting is not systematically applied across all posts. UKTI has extensive central monitoring of performance but there is limited joint monitoring to assess how UKTI and the FCO together at post are contributing to promoting exports.

3.9 The GREAT campaign (paragraph 2.28) requires a more quantified approach to reporting than other growth-related activities. Posts must demonstrate the benefits of their planned events and specify a forecast rate of investment. The central GREAT team are assessing whether they can quantify the benefits further. They are encouraging posts to think more about the outcomes of their events, rather than the inputs/outputs. This is a shift in thinking for posts and could be a valuable basis on which to build further ways of demonstrating the value of the FCO's wider work to promote exports.

Historically, UKTI performance measures at overseas posts have not assessed the impact of activities on the UK economy but it is now increasingly looking to measure actual business outcomes

3.10 UKTI is a target-driven organisation, with a strong focus on measuring its performance through various metrics. UKTI's targets for post have focused on volume of activity, revenue raised from their services and the quality of service, rather than the value to the UK economy (**Figure 16**). UKTI is increasingly looking to target actual business outcomes as part of its change management programme. In 2012 it introduced a performance measure called 'trade growth value' to quantify the estimated value of UKTI assistance. UKTI staff estimate the monetary value of their support to companies that have secured contracts, which is then validated by the company. This will help UKTI assess the value of its activities in terms of business secured. UKTI also has performance measures in place for quantifying and monitoring the value of inward investment to the UK.

Figure 16
UKTI metrics

Many of UKTI's metrics of posts' performance generally measure activity rather than contribution to the UK economy

Trade growth value – measurement of value of UKTI assistance when companies secure contracts. Target of £20 billion for 2012-13.

Service deliveries – number of UKTI services provided to companies.

Chargeable business services – revenue gained from providing chargeable services to companies.

Quality rating – survey of companies to provide a quality rating for UKTI services.

Significant business assists – number of businesses that have received UKTI assistance. Target is 40,000 in 2013-14, increasing to 50,000 per year by 2015.

Source: National Audit Office summary of UK Trade & Investment metrics at post

Posts are positive about the focus on high-value opportunities but there is some uncertainty about prioritisation

3.11 In 2012-13, in response to additional funding, UKTI and HM Treasury agreed to double to 50,000 by 2014-15 the number of companies UKTI helps (from 25,000 in 2011-12). Posts' ability to meet these targets is often dependent, at least in part, on the capacity of UKTI's teams across the UK to identify suitable companies that are willing and able to export, and are therefore potential customers for UKTI services overseas. In addition, HM Treasury increased the target for UKTI's 'high-value opportunities' work from £5 billion to £10 billion. High-value opportunities are long-term projects and the economic benefits may not be seen for many years. UKTI acknowledges that not all high-value opportunities will succeed and that its investment may not yield returns in some cases; as such, it reassesses the chances of success. UKTI has halted work on some high-value opportunities after this assessment showed failure was likely. The Department has acknowledged that high-value opportunities could be more closely linked to the industrial strategies produced by BIS.

3.12 All overseas posts we visited were positive about the high-value opportunity programme but some felt it was not clear how they should be prioritising these activities while still achieving challenging targets to help businesses. Despite additional funding, increasing both targets has created a tension in some overseas posts between the need to hit routine service delivery targets for helping companies, and the recent shift to identifying and pursuing high-value opportunities.

UKTI needs to implement lessons from the evaluation of its pilot initiative to use external partners

3.13 By 2017 UKTI intends to deliver a range of business services through the network of business-led bodies, including British Chambers of Commerce overseas. This new approach, known as the 'Overseas Business Networks Initiative', aims to provide additional capacity, enabling UKTI itself to focus resources on high-value opportunities while the business bodies provide the more day-to-day business services. UKTI is piloting this approach in 20 posts at the cost of £8 million and has started an evaluation.

3.14 We visited three of the posts within the pilot: Colombia, Brazil and Turkey. We found that FCO and UKTI were working together with business bodies to develop the initiative but there were significant challenges to be overcome. These include:

- the capacity of the Chambers or other business bodies to deliver;
- uncertainty about the framework for delivery; and
- differing appetites of business to take on this new role.

While UKTI intends that the Overseas Business Networks Initiative will enable posts to focus more on strategic and high-value opportunities, it will not be in place until 2017 at the earliest.

Appendix One

Our audit approach

1 We examined whether the Foreign & Commonwealth Office (FCO) and UK Trade & Investment (UKTI) achieve value for money in their efforts to support UK exports to emerging markets, by considering:

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

2 Our assessment is based on an evaluation of the approaches the FCO and UKTI have adopted, as well as what is known about the outcomes secured. The assessment of macroeconomic outcomes is restricted by the time lags associated with realising impacts on export levels and a lack of clear counterfactuals showing what progress would have been without government intervention.

3 Our audit approach is summarised in **Figure 17** overleaf. Our evidence base is described in Appendix Two.

Figure 17
Our audit approach

The objective of government

The FCO's objective is to build Britain's prosperity by increasing exports and investment, opening markets, ensuring access to resources and promoting sustainable global growth. UKTI works with UK-based businesses to help them operate effectively in international markets to deliver measurable improvement in the business performance of UKTI international trade customers.

This will be achieved by

Re-focusing responsibilities of diplomatic staff to include commercial objectives, developing skills and adding private sector expertise.

Reviewing resourcing across the network to prioritise high-growth emerging markets.

Focusing more on high-value opportunities.

Our study

This report examined whether the FCO and UKTI are achieving value for money in their efforts to support UK exports to emerging markets.

Our evaluative criteria

What is UK export performance, and how well do the FCO and UKTI understand this?	Do FCO and UKTI have clear plans and are FCO and UKTI activities at post effective?	Do FCO and UKTI have robust methods and metrics to measure the impact of their work?	What more do FCO and UKTI need to do?

Our evidence

(see Appendix Two for details).

We:	We:	We:	We:
• reviewed the Department's economic analysis of export performance including progress towards the £1 trillion ambition.	• reviewed FCO and UKTI strategy documents; • reviewed country-level business plans; and • reviewed project documentation from overseas posts.	• conducted an assessment of UKTI and FCO performance metrics.	• reviewed the FCO's planning documents regarding the establishment of a programme office; and • examined UKTI's forward strategy and proposed delivery model.

We used the following methods to inform all areas of the study:

- Conducted case study visits to four emerging markets and one established economy.
- Consulted wider stakeholders including UK businesses and business groups.
- Interviews with FCO and UKTI staff, both in the UK and overseas.
- Web survey with FCO and UKTI staff in overseas posts.

Our conclusions

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

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

Appendix Two

Our evidence base

1 We formed independent conclusions on whether the Foreign & Commonwealth Office (FCO) and UK Trade & Investment (UKTI) are securing value for money in their efforts to support UK exports to emerging markets based on the evidence we collected during our fieldwork, which took place between March and June 2013.

2 We applied an analytical framework which covered the key activities that we expected FCO and UKTI to have undertaken to develop a well-informed and prioritised approach. Our audit approach is outlined in Appendix One.

3 What is UK export performance, and how well do the FCO and UKTI understand this?

- We reviewed the Department's analysis of UK export performance, which informs its strategy. We examined the sources and quality of data, the extent of the analysis undertaken and whether the conclusions drawn were reasonable and balanced, given the uncertainty about the future and wider contextual factors.

4 Do FCO and UKTI have clear plans and are FCO and UKTI activities at post effective?

- We assessed the main strategy documents, including the FCO's *Prosperity Directorate Business Plan* and UKTI's *Britain open for business* documents, reviewing the extent to which they refer to evidence and cover the key issues that matter to businesses. To do this we consulted with UK businesses and business groups (including those that focus on exporting companies) by written responses and face-to-face interviews. We also reviewed existing surveys conducted by the FCO, UKTI and business representative groups.

- We reviewed documentation relating to key decisions, including how FCO and UKTI allocated funding to different posts, and the quality of country business plans. We also reviewed Department papers relating to specific programmes, including business cases and other programme-specific documents.

5 Do FCO and UKTI have robust methods and metrics to measure the impact of their work?

- We reviewed performance agreements and evidence that posts collect and share relating to the impact of the activities that they undertake. We examined the extent to which performance targets are coherent and consistent with wider goals.

6 Are FCO and UKTI planning changes to these systems, and what more do they need to do?

- We reviewed the FCO's planning documents regarding the establishment of a programme office.
- We examined UKTI's forward strategy and proposed delivery model, and used meetings with staff and other stakeholders to identify key challenges relating to the Overseas Business Network Initiative.

7 We used the following methods to inform all areas of the study:

- We conducted visits to five case-study countries in which the FCO and UKTI operate: China, Turkey, France, Brazil and Colombia. We selected these countries based on market size, strategic importance and to ensure geographic coverage. For each case study we: reviewed relevant programme documents; interviewed country staff; interviewed staff in businesses that have been assisted in country, those funded by programmes which relate to activities to increase exports, and those involved in the new Overseas Business Network Initiative.
- We held teleconferences with a number of other country posts, including Mongolia, Ivory Coast, Mexico, Ghana, South Korea, India and Taiwan, to get a wider view from a range of types of markets to understand how they were promoting UK exports, and how recent strategic change initiatives had affected their ability to do this effectively.
- We conducted a web survey across the FCO's country network, including emerging markets, advanced economies and others (including those with no UKTI presence). This provided additional evidence on the skills and resources at posts, the priority given to commercial and economic activities, and how this has changed since the introduction of the FCO growth objective. We used a standard template to promote consistency in responses. We invited all posts worldwide to respond, and asked for responses from both FCO and UKTI staff in-country, where applicable. We received 230 responses from 142 posts in 122 countries, including 158 FCO and 72 UKTI staff. We followed up with posts to ensure we received as high a response rate as possible, and applied judgement to ensure that we received responses from all posts which are significant export markets, including the 50 largest UK export markets in 2012, while not over-burdening smaller posts or unstable countries with little export potential. We summarised and analysed the responses and reviewed any additional comments made. Where we received more than one response from a post, we identified a single 'lead' response, which we used when undertaking analysis between country groups to ensure that the additional responses did not distort the analysis.

- We met key staff in the FCO and UKTI in order to understand their roles and review documents relating to their work. These included: country desk officers and regional directorates, the emerging powers team, the high-value opportunities team, the network shift team, the high-growth markets team, the economics unit, the policy unit and the programme management team.
- We spoke to the Cour des Comptes in France (the French national audit office) to understand the French approach to commercial diplomacy and to provide a benchmark for international comparison in approaches to export promotion. France was chosen as its diplomatic service is recognised as world-leading.
- We reviewed the cost information relating to commercial and economic activities.

Appendix Three

UK business views of the types of support they would like from government

Services provided by government	Views of UK businesses
General support to exporters	• Services provided should be communicated more clearly to UK businesses through dedicated marketing campaigns. • Services should be tailored for different types of companies. Charging models for services should be fairer to small- and medium-sized companies.
Sharing market knowledge • Providing information on market conditions • Matching companies to business opportunities • Communicating market opportunities	• Reports on markets should be consistently high in quality. • UKTI and FCO should support businesses in developing formal export plans; provide training and expert guidance to ensure that businesses are proactive in their export operations and not reactive. • Market knowledge and research should be tailored to specific sectors at a country level, detailing trade barriers, such as specific regulations and providing the initial networks required, such as British businesses already exporting to the target country, and British Chamber of Commerce and business groups operating in the market. • UKTI and FCO should provide information on the skills required to successfully operate in specific countries and markets, including provision of training for export skills and contacts for legal, regulation and language experts. • Businesses require guidance on how to make best use of market research, such as highlighting in-country trends, how products could be adapted to suit the market and what competitors are doing successfully. Guidance on trade barriers and how to best operate within them would also be useful.
Facilitating networks • Providing business contacts and organising business-to-business communications • Assisting in identifying overseas business partners and distributors • Providing facilities and organising trade shows and networks events	• UKTI should ensure the Trade Access Programme is well known and available to all sizes of business, with sufficient funding available. • Some businesses felt that charging for the use of embassy facilities created the wrong impression about UK support. • Ensure high-level UK support for trade opportunities. This could be through ambassador support or ministerial trade missions in country for all sizes of business. Trade missions should be open to SMEs as well as large multinationals, and business should be notified sufficiently in advance.

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