National Audit Office

Departmental Overview, November 2018

Department for International Trade and UK Export Finance

Department for International Trade (DIT) and UK Export Finance (UKEF)

This overview summarises the work of the Department for International Trade and UK Export Finance including what the organisations do, how much they cost, recent and planned changes, and what to look out for across their main business areas and services.

Overview

Department for International Trade and UK Export Finance

DIT and UKEF (the UK's export credit agency) are separate government departments. Their funding is approved separately by Parliament through separate estimates and they submit separate annual reports and accounts to Parliament.

However, they are structurally connected, as they share a Secretary of State, and the chair and chief executive of UKEF both sit on DIT's Board. They also work together closely in supporting UK businesses.

PART ONE

The Department for International Trade

PART TWO

UK Export Finance

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The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund, nationally and locally, have used their resources efficiently, effectively, and with economy. The C&AG does this through a range of outputs including value-for-money reports on matters of public interest; investigations to establish the underlying facts in circumstances where concerns have been raised by others or observed through our wider work; landscape reviews to aid transparency; and good-practice guides. Our work ensures that those responsible for the use of public money are held to account and helps government to improve public services, leading to audited savings of £741 million in 2017.

Design & Production by NAO External Relations
DP Ref: 11776-001

About the Department for International Trade

The Department for International Trade (DIT) is the UK government's international economic department responsible for bringing together policy, promotion and financial expertise to break down barriers to trade and investment and help businesses succeed, delivering a new trade policy framework for the UK as it leaves the European Union.

DIT was established in July 2016. The new Department took over responsibility for the UK's trade policy (excluding the negotiations over an agreement with the European Union), promoting opportunities to invest in the UK from overseas, and promoting exports.

This meant that DIT took over functions from predecessor government organisations, including:

- absorbing the whole of the former UK Trade and Investment;
- the Export Control Joint Unit, which includes the Export Control Organisation (from the Department for Business, Energy & Industrial Strategy (BEIS)) supplemented by expertise from the Foreign & Commonwealth Office and Ministry of Defence;
- the GREAT campaign (to enhance the UK's standing overseas) from the Cabinet Office; and
- trade policy from BEIS.

Note

1 DExDU – Department for Exiting the European Union; HMT – HM Treasury; FCO – Foreign & Commonwealth Office; Defra – Department for Environment, Food & Rural Affairs; DCMS – Department for Digital, Culture, Media & Sport; HMRC – HM Revenue & Customs; BEIS – Department for Business, Energy & Industrial Strategy; WTO – World Trade Organization; DHSC – Department of Health & Social Care; MHRA – Medicines and Healthcare products Regulatory Agency; UKEF – UK Export Finance; IPO – Intellectual Property Office

DIT works with other departments to support its mission

Source: Comptroller and Auditor General, *Implementing the UK's Exit from the European Union: The Department for International Trade*, Session 2017–2019, HC 713, National Audit Office, January 2018, p. 26

The Department for International Trade's performance against objectives

To support and encourage UK businesses to drive sustainable international growth

DIT reported **£30.5 billion** of export wins in 2017-18. This figure is not comparable to data for 2016-17 due to changes in how these data are validated. Export wins, a metric developed by DIT to measure its activity, is the value of the deals that DIT has assisted businesses in making overseas for the next five years. Businesses report this value to DIT.

There were **30 trade envoys** in 2017-18 who conducted **52 overseas visits**. In 2016-17, **20 trade envoys** conducted more than **50 overseas visits**.

Ensure the UK remains a leading destination for international investment and maintains its number one position for international investment stock in Europe

DIT supported **1,682 inward investment projects** in 2017-18. This figure is not comparable to data for 2016-17 due to changes in how these data are validated.

Use trade and investment to underpin the government's agenda for a Global Britain and its ambitions for prosperity, stability and security worldwide

In 2017-18 ministers undertook **76 visits** compared with **83 visits** undertaken in 2016-17. The GREAT Britain campaign was involved in **144 countries** in both 2016-17 and 2017-18.

Build DIT as an effective international economic department where our people are expert, enterprising, engaged and inclusive

In its annual report, DIT reports that it has delivered capability programmes for staff at all levels and supported the establishment of the trade faculty.

Open markets, building a trade framework with new and existing partners which is free and fair

In its annual report DIT reports that it has created the Trade Remedies Authority, is working to transition to the UK's independent membership of the World Trade Organization and has engaged with more than 70 countries to secure high-level political agreement to ensure continuity in existing trading relationships.

Source: Department for International Trade, *Annual Report and Accounts 2017-18; Single Departmental Plan* (updated 23 May 2018)

Where the Department for International Trade spends its money

DIT spent £372 million in 2017-18.[1] It generated income of £34 million in addition to this. The figures on this page reflect expenditure net of any income received.

Of DIT's £372 million expenditure, DIT spent 47% on international trade and investment and 12% on the overseas network it maintains around the world. DIT employs staff in embassies and consulates who provide expertise and local knowledge about overseas markets.

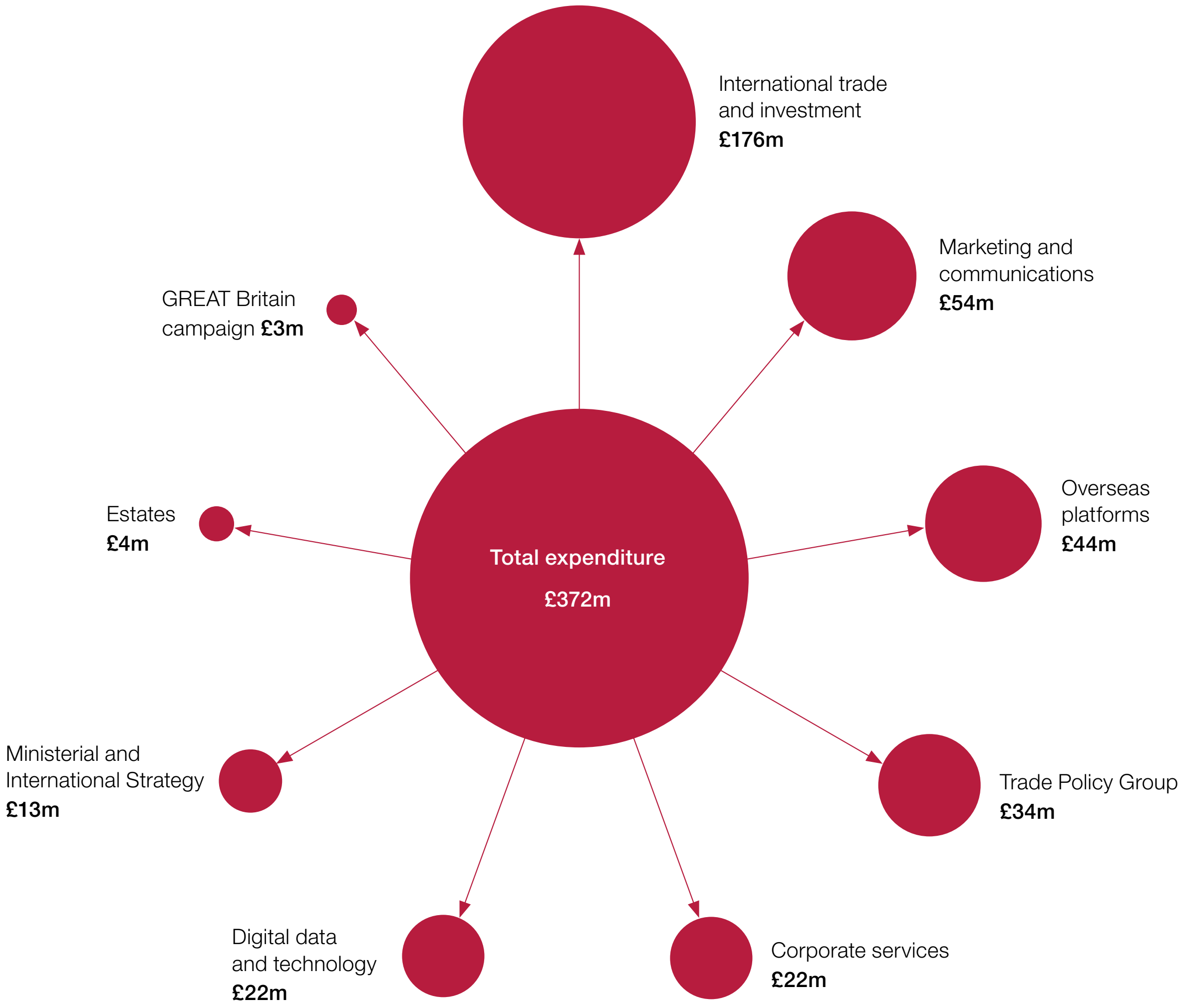
15% of the budget was spent on marketing the UK overseas, including the GREAT Britain campaign.

13% was spent on the Trade Policy Group and Ministerial and International Strategy.

13% of the budget was spent on corporate services, digital and estates.

DIT's income primarily consisted of income from fees for the Pan-American Games 2019 in Lima and income from the lease of 55 Whitehall. Other income includes charges for events, sponsorships and the overseas market introduction service.

DIT Spend by operating segment



Note

1 The figures for expenditure in this table are net of income received.

Source: Department for International Trade, *Annual Report and Accounts 2017-18*

1 The £372 million expenditure quoted here differs from spend against Department for International Trade's budget as disclosed in the main estimates and on page 6. This is due to differences between accounting and budgeting treatment of some types of expenditure. The totals are reconciled on page 120 of the Department for International Trade, *Annual Report and Accounts 2017-18*.

Managing public money: DIT's budget and planned spend

Departmental underspend in 2017-18

DIT spent £381 million[1] against a budget of £394 million[2] in 2017-18. DIT reported that the £14 million underspend was due to "slower than anticipated recruitment" in the Trade Policy Group and that £4.5 million was "ring-fenced" for EU exit but not spent at the end of the year.

Note

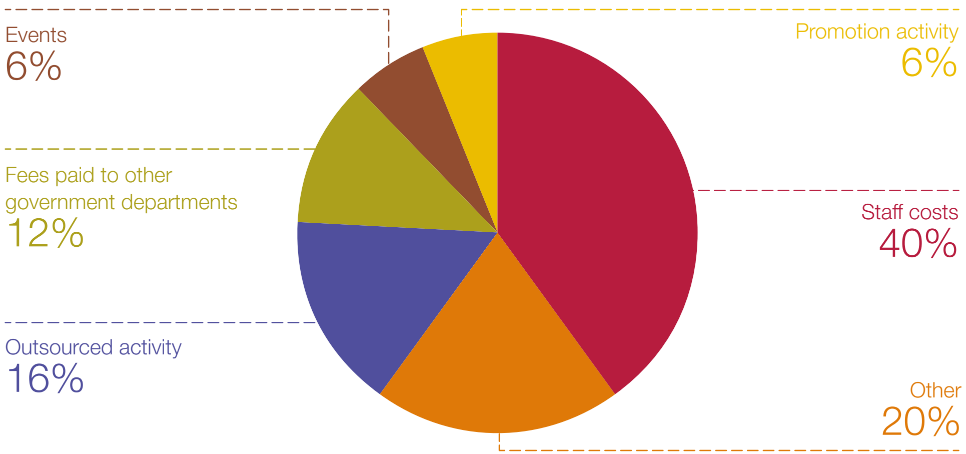
1 The £381 million expenditure quoted here differs from the £372 milion expenditure on page 5. This is due to differences between accounting and budgeting treatment of some types of expenditure. The totals are reconciled on page 120 of the Department for International Trade, *Annual Report and Accounts 2017-18*.

2 The £394 million budget covers running costs. In addition, DIT had a capital budget of £19.1 million in 2017-18, of which it spent £15.8 million.

Source: Department for International Trade, *Annual Report and Accounts 2017-18*

Department for International Trade expenditure, by category (2017-18)

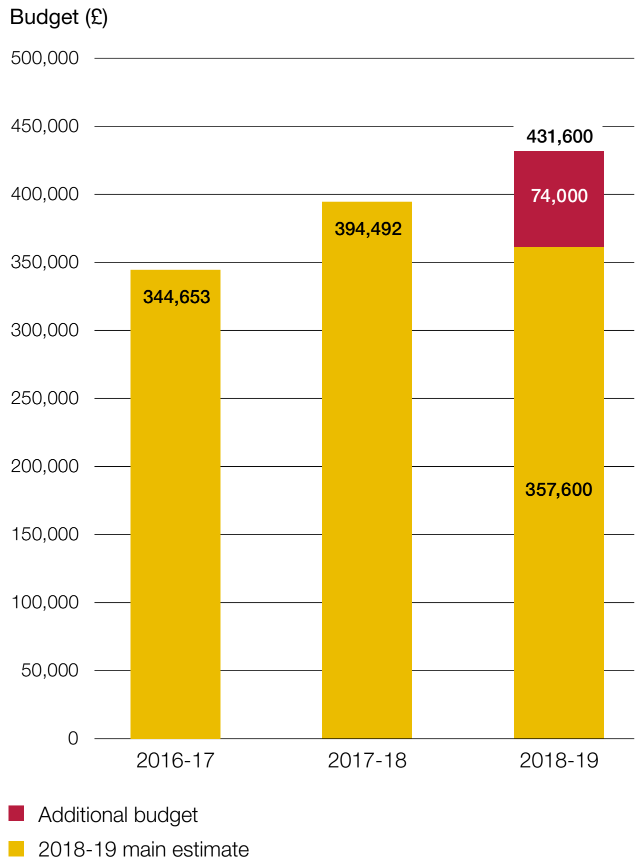
Most of DIT's budget is consumed by staff costs, outsourced services and fees paid to other government departments



Source: Department for International Trade, *Annual Report and Accounts 2017-18*

Department for International Trade's resource budget 2016 to 2019

DIT's budget rose over the past three years



The Department has requested an additional £74 million in 2018-19 for EU exit work. The Permanent Secretary told the Committee of Public Accounts on 7 March 2018 that DIT is planning for "different scenarios" which require "different numbers of staff".

Notes

1 For 2018-19 the main estimate is shown in yellow. The Department stated in its 2017-18 annual report and accounts that it will request an additional £74 million for EU exit work in the 2018-19 supplementary estimates. This additional amount in shown in red.

2 The Department received £6.3 million of additional capital funding in 2016-17, 19.1 million in 2017-18 and will have £3.5 million in 2018-19.

Source: Department for International Trade, *Main estimates 2018-19, Annual Report and Accounts 2017-18*

Relevant events and developments

2016

Jul 2016
Department for International Trade established

Nov 2016
Launch of the website great.gov.uk, a single platform for UK exporting companies

2017

27 Mar 2017
Antonia Romeo appointed Permanent Secretary

10 Aug 2017
Crawford Falconer appointed as Chief Trade Negotiation Adviser and Second Permanent Secretary

Oct 2017
Publication of *Preparing for our future UK trade policy*

7 Nov 2017
Trade Bill first reading in the House of Commons. The Bill is currently in committee stage in the House of Lords.

20 Nov 2017
Taxation (cross-border trade) Act first reading in the House of Commons. The Act received royal assent on 13 September 2018.

2018

Feb 2018 to Jul 2018
Nine new Her Majesty's Trade Commissioners appointed to lead UK trade and investment activity across the world

29 Mar 2018
National Trade Academy Programme launched

29 Mar 2018
Secretary of State for International Trade, Dr Liam Fox MP, issues ministerial direction to spend money on Trade Remedies Authority

1 May 2018
The 'International Trade Profession' is launched to develop trade expertise across government

July 2018
New consultations published for four trade deals (with US, New Zealand, Australia and CPTPP)[1]

Aug 2018
Publication of *the UK's Export Strategy*

Oct 2018
Publication of most recent version of DIT's Single Departmental Plan

2019

29 Mar 2019
Date on which the UK leaves the European Union per the Article 50 process

- Establishing the new Department and appointing personnel
- Publication of policy and strategy
- Parliamentary process
- Progress towards delivering UK trade policy

Note

1 CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

Developing an international trade policy for the UK

In October 2017, DIT published *Preparing for our future UK trade policy*. The document set out the five components of the UK's approach to its trade policy.

1 Trade that is transparent and inclusive

The government committed to consulting with Parliament, the devolved legislatures and administrations, the Crown Dependencies, Gibraltar, local government, civil society, trade unions, businesses and the public in forming its trade policy.

Accountability to Parliament is discussed on page 12 of this Departmental Overview.

2 Supporting a rules-based global trading environment

The government committed to intensifying the UK's support for robust and free and open international trade rules and to rebuilding momentum for trade liberalisation.

This includes a commitment to remain part of the World Trade Organization's Government Procurement Agreement. The government has also said that it will be prepared to participate in other plurilateral arrangements.

3 Boosting our trade relationships

The government is committed to ensuring continuity in its current trade and investment relationships, including those covered by European Union (EU) third country Free Trade Agreements and other EU preferential arrangements.

The government is committed to seeking opportunities to pursue an ever more ambitious free trade agenda.

4 Supporting developing countries to reduce poverty

The government is committed to putting in place a system of unilateral trade preferences which will, at a minimum, provide the same level of access as the current EU trade preference scheme.

The government is committed to working closely with DIT to offer a fully integrated trade and development policy.

5 Ensuring a level playing field

The government is committed to having a trade remedies system in place by the time the UK requires it, and a trade disputes system.

A new department

DIT was created by merging elements of several government organisations. DIT stated in its annual report 2017-18 that “ensuring complete, accurate and consistent data on its workforce has been a challenge” due to “inherited legacy issues”.

Staff changes

We reported that DIT initially employed
2,504 staff
in June 2016

As at 31 May 2018, the Department disclosed
3,781 staff
worked on DIT objectives

New senior appointments

	Appointment	Date
Antonia Romeo	Permanent Secretary	27 March 2017
Crawford Falconer	Chief Trade Negotiation Adviser and Second Permanent Secretary	10 August 2017
Catherine Vaughan	Director General and Chief Operating Officer	4 September 2017
John Mahon	Director General Export	23 April 2018
Mark Slaughter	Director General Investment	20 June 2018

In addition, the Department appointed nine HM Trade Commissioners between February and July 2018, and reorganised its overseas network into geographical regions led by them (as listed in the table opposite).

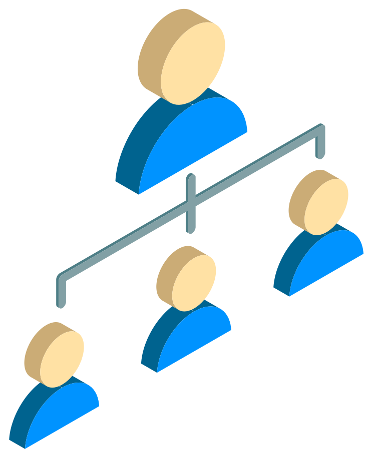
Source: Department for International Trade, *Annual Report and Accounts 2017-18*

Department for International Trade staff overseas network, by region (December 2017)[1]

International region	DIT headcount
Europe	307
Asia Pacific	215
China and Hong Kong	196
North America	180
Latin America and the Caribbean	132
Middle East	116
South Asia	114
Africa	85
Eastern Europe and Central Asia	71
Total	**1,416**

Note

1 The data refer to DIT’s staff overseas in embassies and consulates and excludes DIT’s domestic staff who are working in the UK. The data relate to staff in position as at 31 December 2017.



Exiting the European Union

DIT was formed in July 2016, in response to the EU referendum result and the UK's decision to exit the European Union. It has overall responsibility for promoting British trade across the world, including preparing for and then negotiating Free Trade Agreements and market access deals with non-EU countries. The National Audit Office's (NAO's) January 2018 report on DIT's preparedness for EU exit sets out DIT's progress including planning for different EU exit scenarios, securing additional funding from HM Treasury and identifying areas where it can reduce some activities to focus more effort on EU exit work.

Exiting the European Union work streams led by DIT at April 2018

As at April 2018, DIT was leading on nine of the exiting the European Union work streams.

These cover both current EU trade and future trade agreements, multilateral trade policy, trade remedies and disputes, export control, unilateral preferences and tariff arrangements after the UK has left the EU. Specific examples include: creation of the Trade Remedies Authority, which will investigate complaints of unfair trading practices affecting UK industry post-EU exit; achieving transition at the World Trade Organization (WTO); securing independent UK membership of the Agreement on Government Procurement; and securing continuity of the EU's existing Free Trade Agreements and Economic Partnership Agreements.

Legislation

DIT's legislative programme includes trade issues covered in the European Union (Withdrawal) Act, the Sanctions and anti-Money Laundering Act, the Trade Bill, the Taxation (Cross Border Trade) Act.

Finance

The government allocated **£74 million for 2018-19** to DIT to help prepare for EU exit. DIT announced in its 2017-18 annual report that it would request these additional resources as part of the supplementary estimates process.

Challenges for the Department

The NAO's January 2018 report on DIT's preparations for EU exit identified a number of challenges, facing the department at that time, including:

- that "developing specialist trade skills will be particularly challenging" and that DIT is in competition with other departments for finite staffing resources. In particular, the report noted that the "civil service model of moving staff every few years is not best suited to building deep sector-specific skills such as in trade and negotiations skills";
- that in January performance indicators for current EU exit workstreams were in development; and
- that DIT needs to work closely with other government departments and to develop its own internal organisation.

DIT also acknowledges that it is crucial that it maintains a constructive relationship with the devolved administrations.

Supporting inward investment and exporting companies

DIT is responsible for driving growth in the value of **UK exports** and promoting **inward investment** to the UK. Specific investment and export teams have been created within the department to undertake, implement and monitor work in this area.

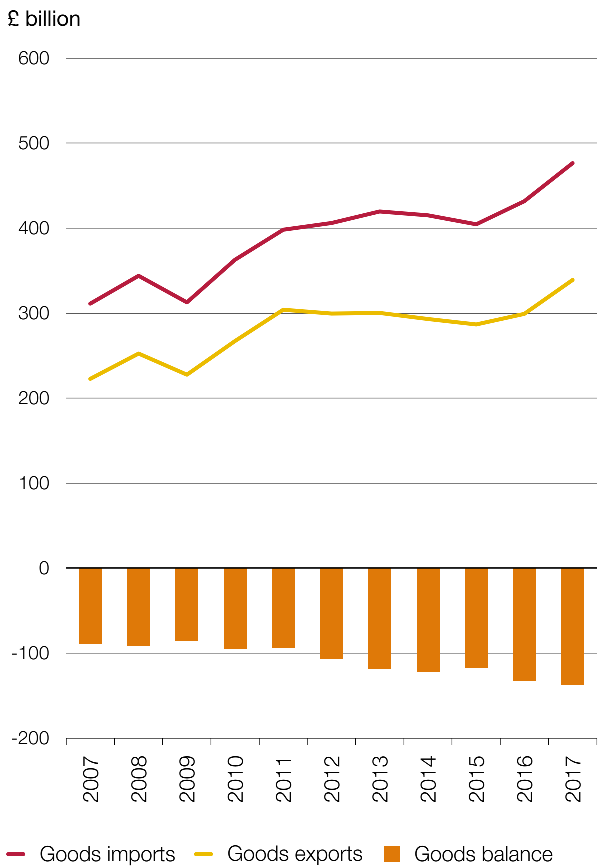
DIT works to promote the UK as a place for **inward investment** by:

- Promoting the UK and its businesses overseas
- Developing and maintaining relationships with investors
- Providing support and guidance to inward investors

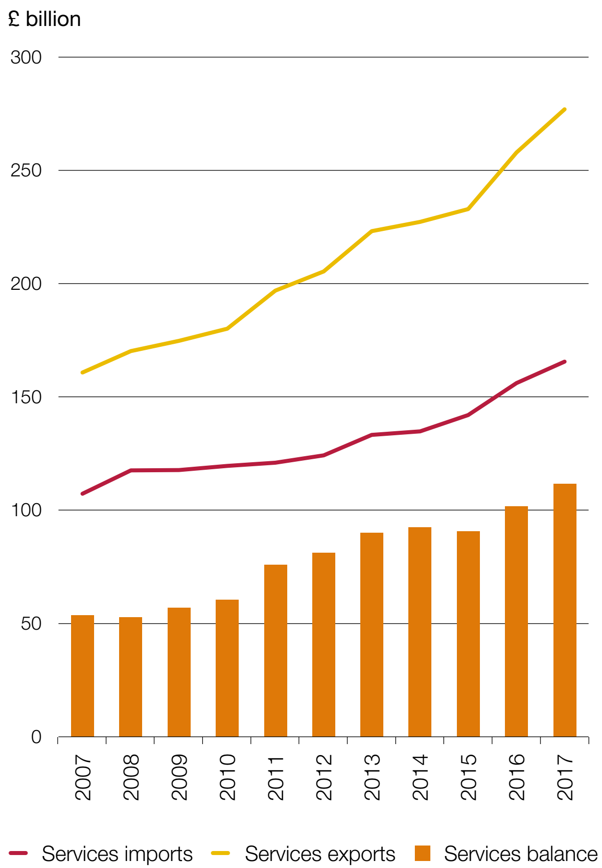
DIT supports UK companies who wish to **export overseas** through:

- Raising awareness of how exporting can help firms and the support available to them as part of the 'Exporting is GREAT' campaign
- Workshops and masterclasses (for example, the E-Exporting programme provides UK companies with e-commerce related support)
- A network of overseas partners which give UK exporters practical and cultural advice on developing exports
- International Trade Advisors who work with Small and Medium-sized Enterprises to help them develop an export plan and build their capability and knowledge to undertake international business

Trade in goods exports, imports and balances, 2007–2017



Trade in services exports, imports and balances, 2007–2017



Source: Office for National Statistics, *UK Balance of Payments: The Pink book 2018*

Investment into the UK from abroad tripled from 2016, from 7.9% of nominal GDP in 2016 to 23.5% in 2017.

In August 2018, DIT published its *Export Strategy.* DIT has set a target to increase the share of UK GDP devoted to exports from 30% to 35%. DIT says this is a long-term ambition and has not given a date for its realisation.

Accountability to Parliament

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DIT is accountable to Parliament in three separate ways

Financial accountability

DIT is accountable to Parliament for its spending. The Committee of Public Accounts holds DIT to account for the efficiency, effectiveness and economy with which it spends money.

DIT has to spend money in accordance with the authority granted through the estimates process and its legal authorities.

In March 2018, the Secretary of State issued a Ministerial Direction to the Department to enable spending of up to £8.9 million on the new Trade Remedies Authority. The Direction enabled DIT to begin spending money on establishing the Authority in advance of the Trade Bill completing its stages in Parliament.

Trade agreements

DIT has proposed accountability arrangements for trade deals. It identified two main areas:

- Agreements rolled over from previous EU agreements. The process for these agreements is set out in the Trade Bill. The bill received second reading in the House of Lords in September.
- New trade agreements:
  - The Secretary of State promised in July 2018 that DIT would consult widely on new trade agreements before beginning negotiations.
  - New trade agreements would count as treaties under the Constitutional Reform and Governance Act 2010. The government would have to bring forward primary legislation to implement them.

Accountability for policy

The International Trade Committee holds DIT to account for its administration and policy.

The Trade Remedies Authority is a non-departmental public body and as such is held to account by Parliament through DIT.

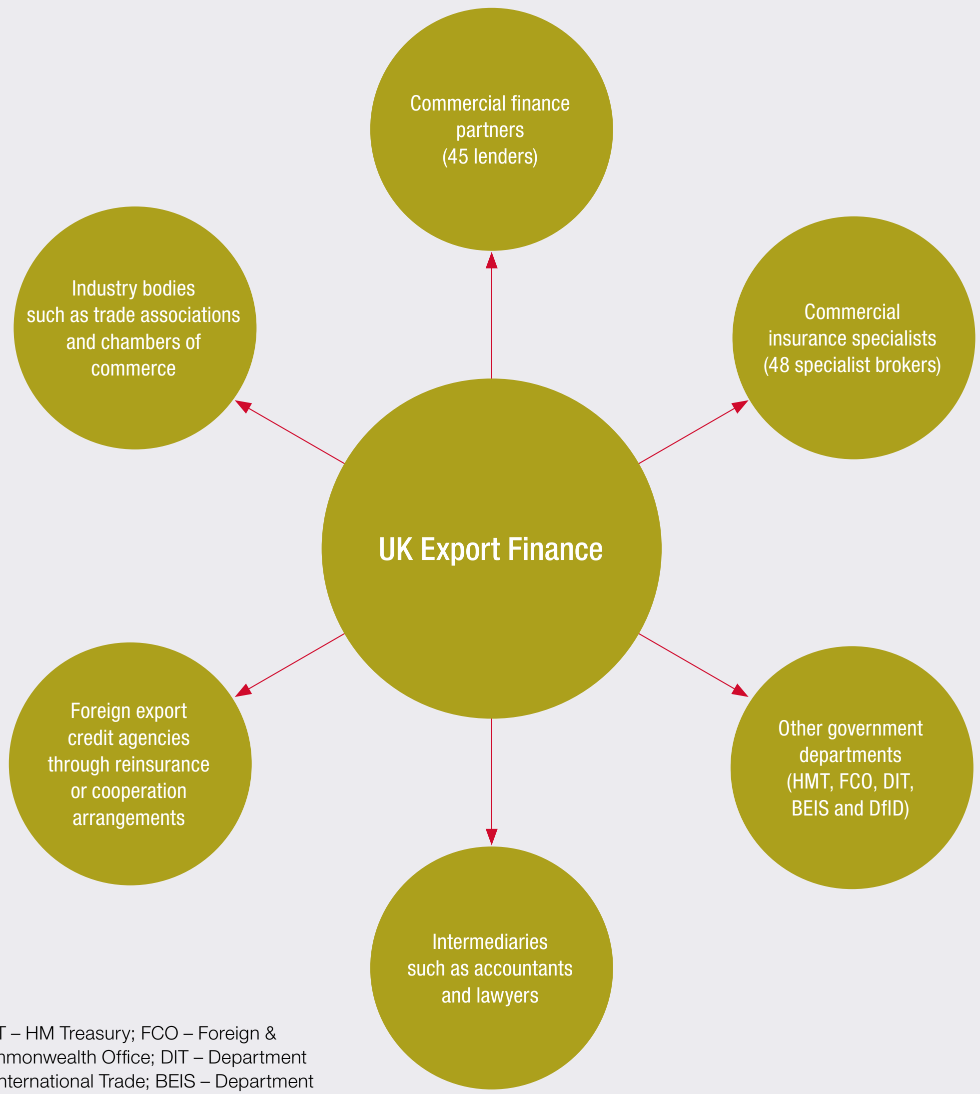
About UK Export Finance

UK Export Finance (UKEF), the trading name for the Export Credits Guarantee Department, is the UK's export credit agency. UKEF works with private sector lenders and credit insurers to ensure that UK companies can access export finance.

UKEF also operates under **international agreements** (principally the Organisation for Economic Co-operation and Development (OECD)) that seek to create a 'level playing field' by setting terms under which export credit agencies can support exports. However, not all export credit agencies are party to these international agreements and competition for UK exporters is increasingly from non-OECD countries whose export credit agencies are not bound by these agreements.

During 2017-18, UKEF "significantly increased" its capacity for more than 100 markets and implemented an increase in its risk appetite (allowed by HM Treasury in the Autumn Statement 2016).

UKEF WORKS WITH OTHER DEPARTMENTS TO SUPPORT ITS MISSION



Note

1 HMT – HM Treasury; FCO – Foreign & Commonwealth Office; DIT – Department for International Trade; BEIS – Department for Business, Energy & Industrial Strategy; Department for International Development (DFID); UKEF – UK Export Finance.

Role in support to exporting companies

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UKEF is responsible for ensuring that **no viable UK export fails due to a lack of finance or insurance,** while operating at no cost to the taxpayer.

UKEF's activities within the UK aim to increase awareness and uptake of short-term trade finance products, particularly by small- and medium-sized enterprises (SMEs). By providing insurance, guarantees, finance and access to private sector support, UKEF helps UK companies to:

- win export contracts by providing attractive financing terms to their buyers;
- fulfil contracts by supporting working capital loans and contract bonds; and
- get paid by providing insurance against buyer default.

In 2017-18:

UKEF directly supported

191

companies

77%

of these companies were SMEs

UKEF's shorter-term trade finance products supported

£466m

of new export contracts and the maximum liability on all new business was £2.5 billion

How UKEF delivers its support

In their 2017–2020 business plan, UKEF set out the suite of products that they offer. These include:

- Short-term credit insurance
- Bond support schemes
- Working capital facilities
- Export credit schemes
- Fixed-rate financing
- Direct lending
- Overseas investment insurance
- Unfair calling insurance
- Letter of credit guarantee

UKEF supplies financing for these products but it also works closely with other departments including DIT and FCO to identify opportunities for UK exports. UKEF continually reviews its product range annually, consulting with stakeholders to ensure it looks with fresh eyes at the needs of exporters.

In January 2018, the UK construction company Carillion went into liquidation. UKEF supported a number of projects in which Carillion was the UK contractor. In these cases, the financial support was provided to Carillon's overseas buyers and so UKEF's exposure is not to Carillion itself.

Construction has completed in the majority of Carillon projects supported by UKEF; in these cases the overseas buyer is repaying the finance, as agreed. Carillion's UK joint venture partners have taken on the contracts in all four of the uncompleted projects, and UKEF continues to support these projects.

Source: UK Export Finance, *Business Plan 2017–2020*, *UKEF Annual Report and Accounts 2017-18*

Financial controls

UK Export Finance funds its administrative costs and the cost of the risk that it takes on through income generated from its customers. Parliament has put in place a number of financial limitations on UKEF's investment activity to ensure there are controls over the risks that UKEF takes on. These controls and performance against them are set out in the table below. They apply to all of the Department's business conducted since 1991.

UKEF performance against its investment activity controls

UKEF Indicator	Performance in 2017-18
A limit on the total amount of taxpayers' money that may be put at risk	UKEF committed £23.5 billion of taxpayers' money against a limit of £61.6 billion
A limit on UKEF's risk appetite – there should be less than a 1% chance of losses over 10 years exceeding £5 billion	UKEF's forecast losses do not exceed £1.4 billion over the next 10 years on a less than 1% chance basis
UKEF has accumulated sufficient revenue to cover possible losses	UKEF's reserve index did not fall below 4.28 against a target minimum of 1
UKEF must earn sufficient premium income to cover all its risks and operating costs over rolling three-year periods	UKEF has earned, or expects to earn, premium income which exceeds risks and costs against each of the rolling three-year periods reported in the 2017-18 accounts (all results were in the range 1.47–1.51 against a target of 1.00)
Each year UKEF must charge enough premium to cover the cost of its risks and most of its administration costs	UKEF charged enough premium to cover the cost of its risks in 2017-18 (ratio achieved of 2.33 against a target of 1.35)

Source: UK Export Finance, *Annual Report and Accounts 2017-18*

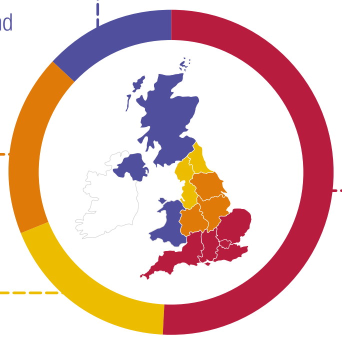
UKEF Ministerial Direction

On 5 July 2018 the Secretary of State for International Trade issued a Ministerial Direction to the Department to provide around £5 billion of financing and insurance to support the export of Typhoon aircraft and associated equipment services to Qatar. This Direction was issued in response to the Accounting Officer advising the Secretary of State that, due to the quantum, the time horizon and political nature of the risks, the transaction would not fit within the Department's normal underwriting criteria. In particular, although the Department considers the overall risk of the transaction to be low and while the Department believes it will receive adequate premium to compensate for the estimated risk, the level of financial exposure is in excess of the Department's financial limits for Qatar, as set by HM Treasury.

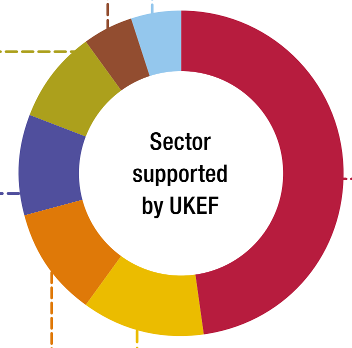
Where UKEF support goes

UKEF support by region and sector

Most UKEF support goes to companies in the South of England (51%), followed by the Midlands (18%), the North of England (13%) and Northern Ireland, Scotland and Wales (18%).

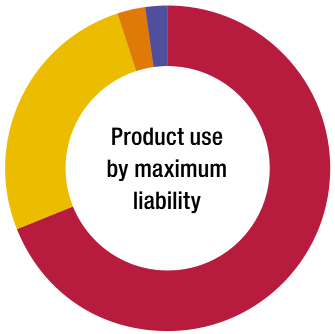


UKEF supported several different sectors across the UK economy in 2017-18. Most of its support went to manufacturing industries.

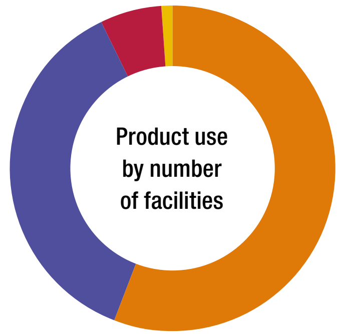


Type of support

UKEF's financial exposure is mostly in its buyer credit and direct loan businesses. Its most frequently used facilities are its Bond or Export Working Capital and Insurance products.



Product use by maximum liability	Type of support	Product use by number of facilities
69%	Buyer credit guarantee	6%
26%	Direct loan to buyer	1%
3%	Bond or Export Working Capital support	56%
2%	Insurance	37%



UKEF's portfolio by international region

UKEF's accounts show that the regional breakdown of its whole portfolio of assets at risk is focused on Africa and the Middle East.

UKEF assets at risk