UK Export Finance

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International Trade Committee
7 Millbank
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27th January 2023

Dear Committee members,

Supplementary Estimate Memorandum 2022-23

1. Overview

a) Background

UK Export Finance (UKEF – the trading name of the Export Credits Guarantee Department) Supplementary Estimate for 2022-23 seeks the necessary resources and cash to support the operations of the Department. This ensures the continuing function of UKEF to complement the private market by assisting exporters and investors, principally in the form of insurance and guarantees to banks, but also direct lending to support exports.

The purpose of this memorandum is to explain to the Select Committee the drivers of this Supplementary Estimate and any impact on the delivery of the UKEF's Business Plan 2020-2024.

UK Export Finance Business Plan 2020-2024 is in its third year, reflecting the government's ambition to boost UK exports, support economic security and resilience, and spread opportunity across the UK.

Against a challenging domestic and global economic backdrop, underpinned by slowing growth and increasing volatility – in part driven by the implications of Russia's invasion of Ukraine – UKEF's support for UK businesses remains vital.

Key delivery objectives of UKEF's Business plan include:

- providing export finance, insurance and guidance to help UK companies of all sizes sell overseas, supporting delivery of the government's Export Strategy
- continuously adapt and focus UKEF activity on sectors and countries where its support will have the greatest economic benefit for exporters and suppliers of all sizes and across all of the UK
- ensure UKEF retains the confidence of its ministers by rigorously managing risk, improving efficiency and operating within the consent of HM Treasury

- improve awareness and understanding among UK companies, international buyers, prime contractors, sponsors, banks and insurers about export finance and insurance support available from UKEF and the private sector

b) Spending controls

- **Departmental Expenditure Limit (DEL)** – covers spending as set out and agreed in the spending review. DEL for UKEF represents costs associated with running the department.
    - **Resource DEL (RDEL)** - For UKEF this represents the administrative cost associated with running the department (known as Administration DEL). This covers costs such as staff, estates and other costs involved with running and delivering UKEF's services.
    - **Capital DEL (CDEL)** - For UKEF this typically represents IT hardware, but can include software related costs; in 2022-23 this also represents the cost of the office refurbishment at 1 Horse Guards Road, which is part of the wider Smarter Working Programme
- **Annually Managed Expenditure** (**AME**) - covers net spending which is more difficult to control and forecast (set annually rather than for the Spending Review period)
    - **Resource AME (RAME)** - For UKEF this represents underwriting and export finance activities, including income received while supporting exporters
    - **Capital AME (CAME)** - For UKEF this represents lending activity (mostly Direct Lending Facility related – see below)
- **Net Cash Requirement (NCR)** - This is a requirement as, although the cash generated in the course of UKEF's business activity is significant, the department requires substantial cash to fund its lending activity in 2022-23 as the portfolio continues to grow.

All **DEL** and **AME** amounts are Voted net.

Resource DEL – background information

As previously agreed with HM Treasury, UKEF continues to operate on a zero-net cost to the taxpayer basis, where it offsets its operational costs (RDEL) with income generated from the premium it charges for its products.

Direct Lending – background information

Under the Direct Lending Facility UK Export Finance provides loans up to a cumulative maximum of £8 billion (the total scheme limit was increased at Budget 2020) to overseas buyers to finance the purchase of capital goods and/or services from exporters carrying on business in the UK. These loans can be made in Sterling, US Dollars, Euros or Japanese Yen. At present the loan book consists of loans in Sterling, US Dollars and Euros only.

c) Description of budget changes sought

The changes to provision sought are shown below. The drivers of these changes are provided in section 1(d).

Resource DEL (Voted) – the decrease of **£6.5m** represents RDEL budget update for unutilised funding in return for a corresponding increase in next year's budget, as agreed with HMT Spending team.

As part of this Estimate, UKEF has bid for additional RDEL (ring fenced) depreciation budget of **c£0.3m**, as the SR21 allocation was flat at **£0.5m** and did not take account of the additional capital pressures in 2022-23. See "*Historic RDEL table*" below for more detail.

Capital DEL (Voted) – the decrease of **£1.5m** represents CDEL budget update of unutilised funding in return for a corresponding increase in next year's budget, as agreed with HMT Spending team.

Capital AME (Voted) – A decrease of **£1.30bn** to reflect the reduction in the funding requirement for direct lending drawings to March 2023 based on the latest business information available. Main Estimate 2022-23 included CAME provision of £750m to support forecast Ukraine related business. This has not materialised with the support now being expected to be via UKEF financial guarantees instead of the direct lending. Additionally, some of the other forecast direct lending deals have not materialised in the current financial year.

Resource AME (Voted) – An increase of **£392.0m** which represents the losses that will be incurred by UKEF to support four specific Ukraine deals likely to become effective in 2022-23 and, as yet unspecified, deals under the Ukraine Reconstruction Initiative that may come forward at short notice in 2022-23. In March 22, UKEF was directed via ministerial direction[1] to remain open to support UK exports to Ukraine in the national interest, despite the risks involved in the provision of UKEF support in Ukraine no longer meeting UKEF's normal underwriting criteria.

Net Cash Requirement (NCR) – Total decrease of **£1.0bn** to reflect the impact on cash of the changes described above, specifically in relation to direct lending.

The following table shows the percentage change from the Main Estimate 2022-23 and the Supplementary Estimate 2022-23:

	Net Spending total	**Compared to the original budget**		**Compared to the budget last year**	
	Amounts sought Supplementary Estimate 2022-23	**Main Estimate 2022-23**		**Supplementary Estimate 2021-22**	
	£m	**£m**	% change to amounts sought for ME22/23	**£m**	% change to amounts sought for SE21/22
Resource DEL (net)[2]	0.0	0.0	0%	0.0	0%
Capital DEL	2.2	3.7	(41%)	1.6	38%
Resource AME	1,109.4	717.4	55%	648.4	71%
Capital AME	799.0	2,099.0	(62%)	1,601.1	(50%)
Net Cash Requirement	1,135.4	2,135.4	(47%)	1,543.1	(26%)

Historic ***Resource*** and ***Capital AME*** estimate changes are shown below:

Budget type	**2018/19**		**2019/20**		**2020/21**		**2021/22**		**2022/23**		
	Main Est, £m	**Supp Est, £m**	**Main Est, £m**	**Supp Est, £m**	**Main Est, £m**	**Supp Est, £m**	**Main Est, £m**	**Supp Est, £m**	**Main Est, £m**	**Voted Change, £m**	**Supp Est, £m**
Resource DEL (gross)	43.1	43.1	44.8	44.4	57.3	56.8	75.1	75.1	91.1	- 6.2	84.9
Capital CDEL	0.3	0.3	0.3	0.3	0.3	0.8	1.6	1.6	3.7	- 1.5	2.2
Resource AME	102.4	133.4	124.8	124.8	376.5	753.4	748.4	648.4	717.4	392.0	1,109.4
Capital AME	671.4	725.4	936.8	836.8	2,787.0	1,487.0	1,881.1	1,601.1	2,099.0	- 1,300.0	799.0

*Resource DEL (gross) 2022-23 Voted Change includes additional depreciation budget of **c£0.3m**.

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1039833/DIT_SoS_letter_to_UKEF_AO_Louis_Taylor_-_Ukraine_Market_Appetite_Uplift.pdf;

https://www.gov.uk/government/publications/maintenance-of-uk-export-finance-cover-limit-for-ukraine/letter-from-secretary-of-state-for-international-trade-confirming-retention-of-ukefs-cover-for-ukraine

[2] For UKEF its operating costs are fully offset by the premium income generated, also known as premium offset mechanism (POM). As part of the Supplementary Estimate 22-23 RDEL cost and income have been reduced by the same amount, £6.5m, giving the total net budget change of zero; however, to allow the Parliament to Vote the Estimate a token £1k has been submitted on HMT's OSCAR system (this is a token amount).

d) Key drivers of spending changes since original budget this year

Resource and Capital DEL **(RDEL and CDEL)** total decrease of **c£7.7m**[3] -

This is largely a result of the budget update agreed with HMT where 2022-23 unutilised funding will be moved into 2023-24, with a corresponding increase in 2023-24 DEL budget(s). In 2022-23 the change is offset by additional depreciation budget that department bid for earlier this year.

Capital AME **(CAME)** decrease of **£1.30bn** -

The budget reduction is a result of the changes in the latest business forecast compared to the original budget for the period to March 2023. Specifically, the reduction is largely due to the surrender of £750m of budget originally set aside for potential direct lending (DL) to Ukraine in 2022-23; this is no longer needed as support in 2022-23 is now being provided via buyer credit guarantees and insurance. Additionally, some of other direct lending deals did not materialise this year, and other deals have either moved to the next financial year 2023-24, or their probability has reduced to <25% and they have been excluded from the Estimate.

Resource AME **(RAME)** increase of **£392.0m** –

In March 22, UKEF was directed via ministerial direction[4] to remain open to support UK exports to Ukraine in the national interest, despite the risks involved in the provision of UKEF support in Ukraine no longer meeting UKEF's normal underwriting criteria. Since the Main Estimate, UKEF support for UK exports to Ukraine in 2022-23 has come forward in the form of buyer credit guarantees or insurance rather than direct lending. As a result, **Resource AME** (**RAME**) budgetary provision is required as part of the Supplementary Estimate to cover the losses that will be incurred in entering into these types of deals. UKEF will be supporting the financing of projects identified by the Government of Ukraine as priorities, including defence and reconstruction initiatives.

e) Funding: Spending Review and Budgets

At Spending Review 2021 UKEF received an uplift to its RDEL settlement (c21%) to continue with its successful support of UK exporters. The uplift in funding has gone towards the increase of UKEF's workforce, change projects (notably, changes to UKEF international financial standards that UKEF is required to implement) and ongoing IT costs to support the planned headcount increase. It allows UKEF to be better resourced and continue supporting exporters. UKEF continues to manage increased volumes and complexity of business, whilst managing inflationary pressures, within its SR21 settlement through continued de- and re-prioritisation of activity, organisational transformation, and realisation of efficiencies.

As part of SR21 it was agreed with HM Treasury that all UKEF RDEL continues to be offset from trading income so is zero on a net basis. For this reason, the voted net RDEL position is a token **£1k** reflecting the fact that UKEF covers its administration costs (and risks) from the premium it charges for its products.

f) New policies and programmes

From 1st April 2022 the department is adopting new accounting policy IFRS16 Leases, which will see part of its office rent capitalised and depreciated through to 2026-27 when the lease is due to expire.

[3] Includes additional depreciation budget of c£300k in 2022-23

[4] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1039833/DIT_SoS_letter_to_UKEF_AO_Louis_Taylor_-_Ukraine_Market_Appetite_Uplift.pdf;

https://www.gov.uk/government/publications/maintenance-of-uk-export-finance-cover-limit-for-ukraine/letter-from-secretary-of-state-for-international-trade-confirming-retention-of-ukefs-cover-for-ukraine

g) Spending (and income) detail - Ring fenced budgets

Within the totals, the following elements of Resource DEL are ring fenced, i.e. savings in these budgets may not be used to fund pressures on other budgets:

	Supplementary Estimate 2022-23	Main Estimate 2022-23		Supplementary Estimate 2021-22	
		£m	% change	£m	% change
Depreciation, IT	£0.8m*	£0.5m*	60%	£0.5m*	60%
IFRS16 Leases	£0.8m*	£0.8m*	0%	£0	n/a
Total	**£1.6m***	**£1.3m***	**23%**	**£0.5m***	**320%**

*rounded

2) Performance measures

UKEF's high level objectives (see below for measures of performance) for the current financial year 2022-23 are set out in its Business Plan 2020-24 and are:

Objective	Performance measure
Provide export finance, insurance and guidance supporting delivery of the Government's Export Strategy	Number of customers supported and overall value of support
Retain the confidence of our ministers by rigorously managing risk, improving efficiency and operating within the consent of HM Treasury	No breaches to Treasury Consent, Reserve Index (RI), Premium to Risk Ratio (PRR) and Pricing Adequacy Index (PAI) above agreed minima. *Financial objectives* - HM Treasury has set UKEF several key financial objectives as part of the standing consent for its operations. Two of them - PRR and PAI - are designed to ensure, as far as practicable, that the premium rates UKEF charges reflect the risk taken on and are sufficient for it to operate at no net cost to the taxpayer over time. UKEF is compliant with these key objectives and regularly reports on them to HM Treasury.
Increased awareness amongst the exporters	Generate 5,000 business leads, significantly improve the awareness of UKEF among target audience

3) Accounting Officer Approval

This memorandum has been prepared according to the requirements and guidance set out by HM Treasury and the House of Commons Scrutiny Unit, available on the Scrutiny Unit website.

As Departmental Accounting Officer I have approved the information included in this Estimates Memorandum.

Yours sincerely,

Tim Reid

Chief Executive,

UK Export Finance