



UK Export
Finance

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International Trade Committee
7 Millbank
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26th January 2021

Dear Committee members,

Supplementary Estimate Memorandum 2020-21

1. Overview

a) Introduction

UK Export Finance (UKEF – the trading name of the Export Credits Guarantee Department) Supplementary Estimate for 2020-21 seeks the necessary resources and cash to support the functions of the Department. This ensures the continuing function of UKEF to complement the private market by providing assistance to 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 how the changes are going to contribute to the delivery of the departmental objectives as per UKEF's Business Plan 2020-2024.

2020-21 is the first year of [UK Export Finance Business Plan 2020-2024](#) and reflects the government's ambition for the UK to become an exporting powerhouse, overcome international obstacles to UK business and strengthen trade relationships with its partners around the world.

As the world deals with the COVID-19 crisis it is essential that the UK reaches out to partners to maintain and enhance trading opportunities. UKEF plays an important part by encouraging and financing companies of all sizes so that the benefits of exporting are felt throughout the UK.

Key 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

Spending controls cover net spending which is subject to limits set in Spending Reviews.

- **Resource DEL (RDEL)** - For UKEF this represents the administrative cost associated with running the department (known as Administration DEL)
- **Capital DEL (CDEL)** - For UKEF this normally represents IT hardware but can include software related costs
- **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 2020-21 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).

Capital AME (Voted) – A decrease of **£1.3bn** to reflect the reduction in the funding requirement for direct lending drawings to March 2021 based on the latest business information available.

Resource AME (Voted) – An increase of **£376.9m** to reflect the changes in the claims related provisions and underwriting fund movements (insurance reserving).

Resource DEL (Voted) – A decrease of **£0.5m** to reflect the RDEL to CDEL transfer in order to cover the additional UKEF capital requirement.

Capital DEL (Voted) – An increase of **£0.5m** as per above. A Contingencies Fund Advance has been provided to enable the purchase of additional laptops in advance of the Supplementary Estimate being voted.

Net Cash Requirement (NCR) – Total decrease of **£1.0bn** to reflect the changes shown above.

The following table shows the percentage change from Main Estimate 2020/21 and the Supplementary Estimate 2019/20:

	Amounts sought Supplementary Estimate 2020/21	Main Estimate 2020/21		Supplementary Estimate 2019/20	
	£m	£m	% change to amounts sought for 2020/21	£m	% change to amounts sought for 2019/20
Resource DEL*	-0.5	0.0	0%	0.9	-155%
Capital DEL	0.8	0.3	167%	0.3	167%
Resource AME	753.4	376.5	100%	124.8	504%
Capital AME	1,487.0	2,787.0	-47%	836.8	78%
Net Cash Requirement	1,696.4	2,696.4	-37%	558.4	204%

* Negative figure represents net RDEL income as a result of RDEL to CDEL transfer where voted DEL income remains unchanged from the Main Estimate 2020-21.

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

Budget type	2016/17		2017/18		2018/19*		2019/20*		2020/21		
	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)	40.0	40.0	40.7	40.7	43.1	43.1	44.8	44.4	57.3	- 0.5	56.8
Resource AME	164.0	120.0	85.0	148.0	102.4	133.4	124.8	124.8	376.5	376.9	753.4
Capital AME	1,936.0	936.0	1,289.0	525.0	671.4	725.4	936.8	836.8	2,787.0	- 1,300.0	1,487.0

*Note: Includes RDEL Prog. for GREAT Marketing allocation of £1.3m

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

i. Net Resource DEL (RDEL) decrease of **c£0.5m** –

The change is a result of utilising RDEL to fund additional CDEL requirements in 2020-21. The requirement has arisen due to an urgent need to refresh UKEF's existing IT equipment (laptops) to meet the needs of the department and manage its response to Covid-19. Contingency funding has been provided to allow the department to purchase the laptops in early Q4 2020-21.

ii. Resource AME (RAME) increase of **£376.9m** –

This represents changes in claims-related provisions, underwriting fund movements and foreign exchange movements (which UKEF is not allowed to hedge). This is partially in response to COVID-19 and the resultant changes in UKEF business activity.

iii. Capital AME (CAME) decrease of £1.3bn -

The budget reduction is a result of the changes in the latest business forecast compared to the original budget for the period to March 2021. This is mostly driven by the fact that some Direct Lending deals did not materialise this year, and other deals have either moved to the next financial year 2021-22, or their probability has reduced to <25% and they have been excluded from the Estimate.

e) Income and Expenditure trends

Table below captures the overall **Resource DEL** (admin costs) and **Resource AME** (income) trends for the past five years and plans presented in Supplementary Estimate for 2020-21:

£m	2016-17*	2017-18*	2018-19*	2019-20*	2020-21**
RDEL expenditure (gross)	30.4	33.6	37.6	41.4	56.8
RAME expenditure	38.4	135.3	289.6	64.6	1,370.5
RAME income	(218.2)	(174.0)	(454.9)	(322.8)	(674.3)
Operating deficit/ (surplus)	(149.4)	(5.1)	(127.7)	(216.8)	752.9

*Audited outturn

**Supplementary Estimate 2020-21

f) Funding: Spending Review and Budgets

As part of Spending Round 2019 (SR19) HM Treasury reconfirmed that all UKEF RDEL (excl. depreciation) would continue to be offset by trading income, so it is zero on a net basis. For this reason, the voted net RDEL position is typically a token **£1k** reflecting the fact UKEF covers its administration costs from the premium it charges for its products.

UKEF’s overall DEL budget has not changed since SR19. In the Supplementary Estimate, £500k has been switched from the gross RDEL budget to CDEL to fund the purchase of new laptops. There is no change to the amount of trading income UKEF will offset against gross RDEL expenditure, resulting in a net RDEL position of **-£499k**.

2) 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. The following table shows the percentage change from Main Estimate 2020/21 and the Supplementary Estimate 2019/20 of these ring fenced amounts.

	Amounts sought (Supplementary Estimate 2020-21)	Main Estimate 2020-21		Supplementary Estimate 2019/20	
		£m	% change to amounts sought for 2020/21	£m	% change to amounts sought for 2020/21
Depreciation	£0.4m*	£0.4m*	0.0%	£0.4m*	0.0%

*rounded

3) Performance measures

UKEF's high level objectives (see below for measures of performance) for the current financial year 2020-21 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. <i>Financial objectives -</i> HMT has set UKEF several key financial objectives. 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 us to operate at no net cost to the taxpayer over time. UKEF is compliant with these key objectives and they are regularly reported to HMT.
Increased awareness amongst the exporters	Generate 5000 business leads, significantly improve the awareness of UKEF among target audience

4) 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,



Louis Taylor

Export Credits Guarantee Department

Introduction

This Supplementary Estimate is required for the following purposes:

£

Changes in budgets, non-budget voted provision and cash	Increases	Reductions	Total
<p>The reduction of £500,000 represents transfer of RDEL resource budget to CDEL in order to fund additional capital requirement to replace UKEF laptops; this is partially in response to COVID-19</p>		-500,000	
Total change in Resource DEL (Voted)		-500,000	-500,000
<p>The increase of £377m represents change in the period in relation to claims provision, underwriting fund movement and impact of the foreign exchange movement</p>	376,883,000		
Total change in Resource AME (Voted)	376,883,000		376,883,000
<p>The increase of £500,000 represents transfer of RDEL resource budget to CDEL in order to fund additional capital requirement to replace UKEF laptops; this is partially in response to COVID-19. Contingency funding has been sought to enable UKEF to purchase the laptops in Q4 2020-21</p>	500,000		
Total change in Capital DEL (Voted)	500,000		500,000
<p>The reduction of £1.3bn represents lower Direct Lending drawings when compared to the Main Estimate 2020-21, where some budgeted deals moved into 2021-22 and others did not materialise. A one-off provision of £0.8bn included in the Main Estimate 2020-21 following the Budget 2020 announcement has also been removed from the Estimate.</p>		-1,300,000,000	
Total change in Capital AME (Voted)		-1,300,000,000	-1,300,000,000
<p>The reduction of £1.0bn represents lower Direct Lending (CAME) drawings for the period.</p>		-1,000,000,000	
Total change in Net Cash Requirement		-1,000,000,000	-1,000,000,000

Part I

£

	Voted	Non-Voted	Total
Departmental Expenditure Limit			
Resource	-500,000	-	-500,000
Capital †	500,000	-	500,000
Annually Managed Expenditure			
Resource	376,883,000	-	376,883,000
Capital	-1,300,000,000	-	-1,300,000,000
Total Net Budget			
Resource	376,383,000	-	376,383,000
Capital	-1,299,500,000	-	-1,299,500,000
Non-Budget Expenditure		-	
Net cash requirement †	-1,000,000,000		

Supplementary amounts required in the year ending 31 March 2021 for expenditure by Export Credits Guarantee Department on:

Departmental Expenditure Limit:

Expenditure arising from:

The running of ECGD's operational activity (operating costs of the Department), including Governmental response to the coronavirus Covid-19 pandemic.

Income arising from:

Some underwriting activity, notional income in respect of the Apprenticeship Levy and sponsorship income raised to defray specific marketing costs.

Annually Managed Expenditure:

Expenditure arising from:

Arrangements made by ECGD for supporting or developing UK exports, for insuring UK investments overseas and for transaction and portfolio management, and expenditure arising from the creation and increase in provisions related to ECGD's operational activities.

Income arising from:

Arrangements made by ECGD for supporting or developing UK exports, for insuring UK investments overseas for transaction and portfolio management, and income arising from the release of and decrease in provisions related to ECGD's operational activities.

Export Credits Guarantee Department will account for this Estimate.

† £500,000 has been advanced from the Contingencies Fund to provide cash in respect of £500,000 capital DEL spending supporting the service provided for under section A of this Estimate. A corresponding cash amount is required to enable repayment to be made to the Fund by 31 March 2021.

Part II: Changes Proposed

£'000

Net Resources						Net Capital		
Present		Changes		Revised		Present	Changes	Revised
Admin	Prog	Admin	Prog	Admin	Prog			
1	2	3	4	5	6	7	8	9
Spending in Departmental Expenditure Limits (DEL)								
Voted Expenditure								
1	-	-500	-	-499	-	300	500	800
<i>Of which:</i>								
A Export Credit Guarantees and Investments								
1	-	-500	-	-499	-	300	500	800
Total Spending in DEL								
		-500	-			500		
Spending in Annually Managed Expenditure (AME)								
Voted Expenditure								
-	376,537	-	376,883	-	753,420	2,786,958	-1,300,000	1,486,958
<i>Of which:</i>								
B Export Credits								
-	117,199	-	254,617	-	371,816	-	-	-
E Direct Lending								
-	259,155	-	122,266	-	381,421	2,789,014	-1,300,000	1,489,014
Total Spending in AME								
		-	376,883			-1,300,000		
Total for Estimate								
		-500	376,883			-1,299,500		
<i>Of which:</i>								
Voted Expenditure								
		-500	376,883			-1,299,500		
Non Voted Expenditure								
		-	-			-		

£'000

	Present Plans	Changes	Revised Plans
Net Cash Requirement	2,696,390	-1,000,000	1,696,390

Part II: Resource to cash reconciliation

£'000

	Present Plans	Changes	Revised Plans
Net Resource Requirement	376,538	376,383	752,921
Net Capital Requirement	2,787,258	-1,299,500	1,487,758
Accruals to cash adjustments	-467,406	-76,883	-544,289
<i>Of which:</i>			
<i>Adjustment for ALBs:</i>			
Remove voted resource and capital	-	-	-
Add cash grant-in-aid	-	-	-
<i>Adjustments to remove non-cash items:</i>			
Depreciation	-430	-	-430
New provisions and adjustments to previous provisions	-270,434	-622,988	-893,422
Departmental Unallocated Provision	-	-	-
Supported capital expenditure (revenue)	-	-	-
Prior Period Adjustments	-	-	-
Other non-cash items	-375,684	-100,719	-476,403
<i>Adjustments to reflect movements in working balances:</i>			
Increase (+) / Decrease (-) in stock	-	-	-
Increase (+) / Decrease (-) in debtors	89,782	646,824	736,606
Increase (-) / Decrease (+) in creditors	89,360	-	89,360
Use of provisions	-	-	-
Removal of non-voted budget items	-	-	-
<i>Of which:</i>			
Consolidated Fund Standing Services	-	-	-
Other adjustments	-	-	-
Net Cash Requirement	2,696,390	-1,000,000	1,696,390

Part III: Note A - Statement of Comprehensive Net Expenditure & Reconciliation Table

£'000

Revised
Plans

Gross Administration Costs	56,796
<i>Less:</i>	
Administration DEL Income	-57,295
Net Administration Costs	-499
Gross Programme Costs	1,370,452
<i>Less:</i>	
Programme DEL Income	-
Programme AME Income	-617,032
Non-budget income	-
Net Programme Costs	753,420
Total Net Operating Costs	752,921
<i>Of which:</i>	
Resource DEL	-499
Capital DEL	-
Resource AME	753,420
Capital AME	-
Non-budget	-
<i>Adjustments to include:</i>	
Departmental Unallocated Provision (resource)	-
Consolidated Fund Extra Receipts in the budget but not in the SoCNE	-
<i>Adjustments to remove:</i>	
Capital in the SoCNE	-
Grants to devolved administrations	-
Non-Budget Consolidated Fund Extra Receipts in the SoCNE	-
Other adjustments	-
Total Resource Budget	752,921
<i>Of which:</i>	
Resource DEL	-499
Resource AME	753,420
<i>Adjustments to include:</i>	
Grants to devolved administrations	-
Prior period adjustments	-
<i>Adjustments to remove:</i>	
Consolidated Fund Extra Receipts in the resource budget	-
Other adjustments	-
Total Resource (Estimate)	752,921

Part III: Note B - Analysis of Departmental Income

£'000

Revised
Plans

Voted Resource DEL **-57,295**

Of which:

Administration

Sales of Goods and Services

-57,259

Of which:

A Export Credit Guarantees and Investments

-57,259

Other Income

-36

Of which:

A Export Credit Guarantees and Investments

-36

Total Administration

-57,295

Voted Resource AME **-617,032**

Of which:

Programme

Sales of Goods and Services

-577,830

Of which:

B Export Credits

-577,830

Interest and Dividends

-39,202

Of which:

B Export Credits

24,234

C Fixed Rate Export Finance / Export Finance Assistance

-401

D Refinanced Loans and Interest Equalisation

-235

E Direct Lending

-62,800

Total Programme

-617,032

Total Voted Resource Income **-674,327**

Voted Capital AME **-136,037**

Of which:

Programme

Repayments

-136,037

Of which:

D Refinanced Loans and Interest Equalisation

-2,056

E Direct Lending

-133,981

Total Programme

-136,037

Total Voted Capital Income **-136,037**

Part III: Note C - Analysis of Consolidated Fund Extra Receipts

No CFER income or receipts are expected in 2020-21.

Part III: Note D - Explanation of Accounting Officer responsibilities

The Accounting Officer prepares resource accounts for each financial year.

The following individuals are responsible for the expenditure within this Estimate:

Accounting Officer: Louis Taylor

Louis Taylor has personal responsibility for the proper presentation of the department's resource accounts and their transmission to the Comptroller & Auditor General, and is also responsible for the use of public money and stewardship of assets.

In discharging these responsibilities, particular regard is given to:

- observing any accounting and disclosure requirements (including any Accounts Direction) and applying suitable accounting policies on a consistent basis;
- making judgements and estimates on a reasonable basis;
- stating whether applicable accounting standards, as set out in the Financial Reporting Manual (FReM), or an organisation's version of it, have been followed, and explain any material departures in the accounts; and
- preparing the accounts on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for regularity and propriety of the public finances for which an Accounting Officer is answerable, for keeping proper records and safeguarding assets, are also set out in Chapter 3 of Managing Public Money.