



International Trade Committee
7 Millbank
London
SW1P 3JA

13th April 2021

Dear Committee members

MAIN ESTIMATE MEMORANDUM 2021-22

A. Introduction

UK Export Finance's (the trading name of the Export Credits Guarantee Department) Main Estimate for 2021-22 seeks the necessary resources and cash to support the functions of the Department which include continuing functions in order 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 provide the Select Committee with an explanation of how the resources and cash sought in the Main Estimate will be applied to achieve departmental objectives that align to [Government policy and] the [UK Export Finance Business Plan 2020-2024](#).

2021-22 is the second year of UKEF's Business Plan for the period 2020-24. The plan looks to maintain UKEF's position as a world-class Export Credit Agency (ECA) and to deliver on our mission to ensure that no viable UK export fails for lack of finance or insurance from the private sector.

Key objectives include:

- provide export finance, insurance and guidance to help UK companies of all sizes sell overseas, supporting delivery of the government's Export Strategy, the recovery from COVID-19 and responding to ministerial priorities
- 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 and which it can control.

- **Resource DEL (RDEL)** - For UKEF this represents the administrative cost associated with running the department (known as Administration DEL)
- **Capital DEL (CDEL)** - For UKEF in 2021-22 this represents the cost of the planned 1HGR office refurbishment (part of the Smarter Working Programme), as well as IT hardware and 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 2021-22 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

Provisions sought are as follows:

- **Capital AME (Voted)** – Net capital (drawings less repayments) of **£1,881.1m**
- **Resource AME (Voted)** – Funding requirement of **£748.4m**
- **Resource CDEL (Voted)** - Funding requirement of **£1.60m**
- **Net Cash requirement (NCR)** – **£2,143.2m**

The following table shows the percentage change from Main Estimate 2021-22 and the Supplementary and Main Estimates 2020-21:

	Amounts sought Main Estimate 2021/22	Supplementary Estimate 2020/21		Main Estimate 2020/21	
	£m	£m	% change to amounts sought for SE20/21	£m	% change to amounts sought for ME20/21
Resource DEL*	0.0	(0.5)	(100%)	0.0	0%
Capital DEL	1.6	0.8	100%	0.3	433%
Resource AME	748.4	753.4	(1%)	376.5	99%
Capital AME	1,881.1	1,487.0	27%	2,787.0	(33%)

Net Cash Requirement	2,143.2	1,696.4	26%	2,696.4	(21%)
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* Negative figure represents net RDEL income as a result of RDEL to CDEL transfer where voted DEL income remained unchanged from the Main Estimate 2020-21.

Budget type	2017/18		2018/19*		2019/20*		2020/21		2021/22
	Main Est, £m	Supp Est, £m	Main Est, £m						
Resource DEL (gross)	40.7	40.7	43.1	43.1	44.8	44.4	57.3	56.8	75.1
Resource AME	85.0	148.0	102.4	133.4	124.8	124.8	376.5	753.4	748.4
Capital AME	1,289.0	525.0	671.4	725.4	936.8	836.8	2,787.0	1,487.0	1,881.1

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

D. Key drivers of spending changes since last year

Capital AME sought in 2021-22 has increased and is reflective of the latest Direct Lending pipeline / forecast. Direct lending forecasts are based on the judgements of UKEF's underwriters who draw on available transaction pipeline information, market intelligence and the estimated likelihood of transactions materialising within financial year. Customer demand can vary due to external market conditions making the forecasting challenging.

Under the Direct Lending Facility UK Export Finance provides loans up to a cumulative maximum of £8 billion (increased total scheme limit announced 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.

Resource AME has increased from previous year's levels which is mostly driven by:

- (i) the increased expected claims owing to COVID-19, and
- (ii) foreign exchange movements in relation to the direct lending portfolio (c50% of which is denominated in US Dollars and Euros)

COVID-19 has led to a significant increase in Claims, mainly relating to the downturn in the Aero sector. Any potential claims arising from the impact of COVID-19 have been included in the Estimate with the total claims impact of **£270m** included in RAME. UKEF however seeks to recover any claims paid so the payment of a claim does not indicate the ultimate loss.

Resource DEL (gross) change is attributed to the budget increase in line with the Spending Review 2020 (SR20) settlement -

- Headcount growth in 2021-22 and all related costs
- Increase in project costs to account for the Financial Reporting Changes (IFRS 9 and 17 implementation)
- Ongoing IT costs to support the growth in headcount and provide IT support to the Smarter working programme involving office refurbishment in 1 Horse Guards Road
- Marketing costs supporting the latest marketing plan and activities

Capital DEL change is attributed to (i) the costs of the planned office refurbishment (part of the Smarter Working programme) at 1HGR and (ii) IT hardware and software related costs - to support the Smarter Working programme and provide IT support for the planned headcount increase in 2021-22.

E. Funding: Spending Review and Budgets

At Spending Review 2020 UKEF received a notable uplift to its RDEL settlement of c32% to continue with its successful support of UK exporters. The increased funding will go towards the increase of UKEF's workforce (c40%), change projects (including changes to UKEF financial reporting requirements that the department is required to do), marketing activities and growth of its overseas export managers' network. It will allow UKEF to be better resourced and continue supporting the exporters negatively impacted by COVID-19.

As part of SR20 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

There are no new policies or programmes included in the amounts sought from previous years.

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. The following table shows the percentage change from Main Estimate 2020-21 and the Supplementary Estimate 2020-21 of these ring-fenced amounts.

	Amounts sought (Main Estimate 2021-22)	Supplementary Estimate 2020-21		Main Estimate 2020-21	
		£m	% change to amounts sought for SE20-21	£m	% change to amounts sought for ME20-21
Depreciation	£0.5m*	£0.4m*	25.0%	£0.4m*	25.0%

*rounded

H. Performance measures

UKEF's high level objectives (see below for measures of performance) for the current financial year 2021-22 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. <u>Financial objectives</u> - 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

I. 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
Chief Executive
UK Export Finance