



UK Export
Finance

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International Trade Committee
7 Millbank
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9th April 2020

Dear Committee members,

Main Estimate Memorandum 2020-21

1. Overview

a) Introduction

The UK Export Finance (trading name of Export Credits Guarantee Department) Main Estimate for 2020-21 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 the UK Export Finance Business Plan 2020-24 which is expected to be finished in the summer.

2020-21 is the first 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:

- Support exports from companies of all sizes and in all sectors, subject to market needs; comply with relevant UKEF, government and international policies
- Implement the Target Operating Model, our new method of examining how UKEF needs to be organised to realise its business objectives
- Build business pipeline through improving awareness of UKEF's offer to its customers and partners through the marketing and communications activities, and through the appointment of new IEFEs (International Export Finance Executives) in key markets around the world
- Retain the confidence of ministers and operate within the consent of HM Treasury

b) COVID – 19

As this Estimate was being prepared the full extent of the pandemic's impact was becoming apparent. At this point there remains a significant amount of uncertainty about the way in which Covid-19 will impact the department's control totals, as time is required to carry out full assessment. For the purposes of this Estimate a stress test has been carried out on UKEF's portfolio to review the impact of potential claims and this has been incorporated into the required provision for 2020-21.

UKEF ambit has been updated to ensure it covers the department for the activities and the support it may be giving to HM Treasury or other government departments as a result of Covid-19. These RDEL costs are expected to be marginal and may not always relate to export. Refer to Departmental Expenditure Limit - "Expenditure arising from" part of the ambit for detail.

c) 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 this normally represents Information Technology (IT) hardware but can include software related costs.
- Annually Managed Expenditure (AME) covers net spending which is more difficult to control and forecast (and therefore is 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)
- 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 forecast loans in 2020-21 as the portfolio grows.

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

d) Description of significant budgets sought

Provisions sought are as follows:

- **Capital AME (Voted)** – Net capital (drawings less repayments) of **£2,787.3m**
- **Resource AME (Voted)** – Funding requirement of **£376.5m**
- **Net Cash requirement (NCR)** – **£2,696.4m**

The following table shows the budgets sought compared to the prior year's Supplementary and Main Estimates:

	Net Spending total: Amounts sought this year	Compared to final year budget last year		Compared to original budget year	
	(Main Estimate 2020-21)	(Supplementary Estimate 2019-20)		(Main Estimate 2019-20)	
	£m	Change, £m	% change	Change, £m	% change
Resource DEL*	0.001	0.92	-99.9%	1.3	-99.9%
Capital DEL	0.3	0.3	0.0%	0.3	0.0%
Resource AME	376.5	124.8	201.6%	124.8	201.7%
Capital AME	2,787.3	836.8	233.0%	936.8	197.5%
Net Cash Requirement	2,696.4	558.4	382.9%	658.8	309.3%

*In 2019 includes GREAT Marketing budget (RDEL Prog.) of £1.3m

e) Key drivers of DEL spending changes since last year

The increase in Capital AME sought is partially due to the Budget in March 2020 which provided a boost to exports by extending UK Export Finance's direct lending scheme and allocating two additional tranches of recyclable direct lending capacity:

- £2 billion for clean growth projects and £1 billion for defence and security
- one-off £2 billion direct lending increase announced at the 2018 Budget has been made permanently available

Under the Direct Lending Facility UK Export Finance provides loans up to a cumulative maximum of **£8 billion** (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, Euro or Japanese Yen, however to date loans have only been in US Dollars and Euro.

The increase reflects the additional direct lending requirement that the department estimates it will use in 2020-21. This will not be the full amount of the budget increase because it will take time to build up to these amounts.

Also included in this Estimate is the Qatar transaction, c£0.7 billion, to support the purchase of Typhoon aircrafts from BAE Systems and MBDA.

The increase in Resource AME is mostly driven by (i) the increased expected claims owing to Covid-19, (ii) the increased FX movements in relation to the increased direct lending activities (which are mostly US dollar denominated).

The gross Resource DEL change is attributed to the budget uplift in line with Spending Review 2019 (SR19) settlement and the Budget 2020 announcement -

- Headcount growth in 2020-21 and all related costs
- Increase in project costs to account for the Financial Reporting Changes (IFRS 9 and 17 implementation), £4.0m
- Marketing costs, £2.0m
- International Export Finance Executives network, £2.0m

- Funding for two additional Export Finance Manager (EFM) posts, £0.5m, as announced at the Budget 2020

f) Funding: Spending Review and Budgets

At the last Spending Review 2019 UKEF received a significant uplift to its RDEL settlement of c29% to continue with the success already achieved in supporting UK exporters. The increased funding will go towards further augmenting the deal execution function, marketing activities, growing the international network, and making the changes to UKEF financial reporting that the department is required to do. It will allow UKEF to invest in additional resource in order to gain strength in key areas and improve the systems, processes and technology.

As part of SR19 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 from the premium it charges for its products.

It was also agreed that GREAT marketing budget which was previously partially funded by the Department for International Trade (DIT) via BCT (Budget Cover Transfer) RDEL Programme will be transferred to RDEL Administration and will be fully offset with trading income in 2020-21 in the same way as other operating costs.

g) New policies and programmes

There are no new policies or programmes included in the amounts sought from previous years. Any potential claims arising from the impact of the Coronavirus have been included in the Estimate with the total claims of **£132m** (cost) included in RAME.

h) Income and Expenditure trends

Historic Resource and Capital 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
Resource DEL (gross)	40.0	40.0	40.7	40.7	43.1	43.1	44.8	44.4	57.3
Resource AME	164.0	120.0	85.0	148.0	102.4	133.4	124.8	124.8	376.5
Capital AME	1,936.0	936.0	1,289.0	525.0	671.4	725.4	936.8	836.8	2,787.3

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

Table below captures the overall **Resource DEL** expenditure (admin costs), **Resource AME** expenditure and **Resource AME** income trends for the past four years and plans presented in Main Estimates for 2020-21:

Gross Spending and income, £m					
	2016-17*	2017-18*	2018-19*	2019-20**	2020-21**
RDEL expenditure	30.4	33.6	37.6	44.0	57.3
RAME expenditure	38.4	135.3	289.6	638.6	646.7
RAME income	(218.2)	(174.0)	(454.9)	(556.5)	(327.5)
Operating deficit (surplus)	(149.4)	(5.1)	(127.7)	126.1	376.5

Source: *Audited outturn

**Supply Estimates

2. Spending and income detail

a) Explanation of DEL Expenditure

RDEL Admin	£m
Staff costs	27.7
Non-Staff costs	29.6
Total	57.3

b) Explanation of AME Income & Expenditure

INCOME –

Category	£m
Admin income	57.3
Export Credits (section B)	180.8
Fixed Rate Export Finance / Export Finance Assistance (section C)	0.4
Refinanced Loans and Interest Equalisation (section D)	0.2
Direct Lending (section E)	88.8
Total	327.5

EXPENDITURE –

Category	£m
Export Credits (section B)	297.9
Fixed Rate Export Finance / Export Finance Assistance (section C)	0.8
Direct Lending (section E)	347.9
Total	646.6

Note: Total net RAME is different to the voted control total because of the Premium Offset Mechanism (POM) where RAME income is used to offset RDEL costs, £57.3m

c) Ring fenced budgets

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

Resource DEL

Ring fenced budgets Amounts sought this year (Main Estimate 2020-21)		Compared to final budget last year (Supplementary Estimate 2019-20)		Compared to original budget last year (Main Estimate 2019-20)	
		Change, £m	Change, %	Change, £m	Change, %
Depreciation	£0.4m*	+£0.0m	0%	+£0.0m	0%

*rounded

3. Performance measures

UK Export Finance's business plan talks about high level objectives (see below for measures of performance) for the department's current financial year 2020-21:

- Increase in the number of customers supported by providing export finance, insurance and guidance to help UK companies sell overseas, supporting delivery of the Government's Export Strategy –

Performance measure: number of customers supported

- Ensure we retain confidence by rigorously managing risk, improving efficiency and operating with the consent of HM Treasury –

Performance measure: maintaining the performance within the agreed financial parameters (Risk appetite, Premium to Risk Ratio, Premium Adequacy Index)

- Increased awareness amongst the exporters –

Performance measure: generate 5000 business leads, further increase the awareness of UKEF among the target market

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

1. This Estimate covers the planned budgetary expenditure of the Export Credits Guarantee Department (ECGD) and its support of UK exporters.
2. The total Resource DEL is to cover the running costs of the Department. Administration RDEL is a token amount (of £1k) with the gross costs covered from the premium income that the Department receives.
3. Income received by ECGD in the course of supporting exporters scores against its Resource AME. In 2020-21 income will predominately be premium earned. Income arising from Direct Lending loans is interest earned.
4. Capital AME expenditure is for the drawdown of Direct Lending loans.

Part I

£

	Voted	Non-Voted	Total
Departmental Expenditure Limit			
Resource	1,000	-	1,000
Capital	300,000	-	300,000
Annually Managed Expenditure			
Resource	376,537,000	-	376,537,000
Capital	2,786,958,000	-	2,786,958,000
Total Net Budget			
Resource	376,538,000	-	376,538,000
Capital	2,787,258,000	-	2,787,258,000
Non-Budget Expenditure	-		
Net cash requirement	2,696,390,000		

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.

£

	Voted Total	Allocated in Vote on Account	Balance to complete or surrender
Departmental Expenditure Limit			
Resource	1,000	1,000	-
Capital	300,000	300,000	-
Annually Managed Expenditure			
Resource	376,537,000	56,179,000	320,358,000
Capital	2,786,958,000	1,124,565,000	1,662,393,000
Non-Budget Expenditure	-	-	-
Net cash requirement	2,696,390,000	999,469,000	1,696,921,000

Part II: Resource to cash reconciliation

£'000

	2020-21 Plans	2019-20 Provisions	2018-19 Outturn
Net Resource Requirement	376,538	125,758	-127,705
Net Capital Requirement	2,787,258	837,111	426,527
Accruals to cash adjustments	-467,406	-404,435	-386,998
<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	-272
New provisions and adjustments to previous provisions	-270,434	-466,160	-279,633
Departmental Unallocated Provision	-	-	-
Supported capital expenditure (revenue)	-	-	-
Prior Period Adjustments	-	-	-
Other non-cash items	-375,684	-168,989	40,650
<i>Adjustments to reflect movements in working balances:</i>			
Increase (+) / Decrease (-) in stock	-	-	-
Increase (+) / Decrease (-) in debtors	89,782	197,802	-151,192
Increase (-) / Decrease (+) in creditors	89,360	33,194	3,449
Use of provisions	-	148	-
Removal of non-voted budget items	-	-	-
<i>Of which:</i>			
Consolidated Fund Standing Services	-	-	-
Other adjustments	-	-	-
Net Cash Requirement	2,696,390	558,434	-88,176

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

£'000

	2020-21 Plans	2019-20 Provisions	2018-19 Outturn
Gross Administration Costs	57,296	42,226	38,195
<i>Less:</i>			
Administration DEL Income	-57,295	-42,758	-38,195
Net Administration Costs	1	-532	-
Gross Programme Costs	646,745	640,731	241,674
<i>Less:</i>			
Programme DEL Income	-	-700	-700
Programme AME Income	-270,208	-513,741	-368,679
Non-budget income	-	-	-
Net Programme Costs	376,537	126,290	-127,705
Total Net Operating Costs	376,538	125,758	-127,705
<i>Of which:</i>			
Resource DEL	1	768	1,288
Capital DEL	-	-	-
Resource AME	376,537	124,990	-128,993
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	376,538	125,758	-127,705
<i>Of which:</i>			
Resource DEL	1	916	1,288
Resource AME	376,537	124,842	-128,993
<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)	376,538	125,758	-127,705

Part III: Note B - Analysis of Departmental Income

£'000

	2020-21 Plans	2019-20 Provision	2018-19 Outturn
Voted Resource DEL	-57,295	-43,458	-38,895
<i>Of which:</i>			
Administration			
Sales of Goods and Services	-57,259	-42,746	-37,595
<i>Of which:</i>			
A Export Credit Guarantees and Investments	-57,259	-42,746	-37,595
Other Income	-36	-12	-600
<i>Of which:</i>			
A Export Credit Guarantees and Investments	-36	-12	-600
Total Administration	-57,295	-42,758	-38,195
Programme			
Sales of Goods and Services	-	-700	-700
<i>Of which:</i>			
A Export Credit Guarantees and Investments	-	-700	-700
Total Programme	-	-700	-700
Voted Resource AME	-270,208	-513,741	-368,679
<i>Of which:</i>			
Programme			
Sales of Goods and Services	-175,115	-464,011	-296,106
<i>Of which:</i>			
B Export Credits	-175,115	-464,011	-296,106
Interest and Dividends	-95,093	-49,730	-72,573
<i>Of which:</i>			
B Export Credits	-5,679	-7,898	-40,808
C Fixed Rate Export Finance / Export Finance Assistance	-401	-1,192	-1,189
D Refinanced Loans and Interest Equalisation	-235	-478	-799
E Direct Lending	-88,778	-40,162	-29,777
Total Programme	-270,208	-513,741	-368,679
Total Voted Resource Income	-327,503	-557,199	-407,574
Voted Capital AME	-136,037	-73,836	-59,167
<i>Of which:</i>			
Programme			
Repayments	-136,037	-73,836	-59,167
<i>Of which:</i>			
D Refinanced Loans and Interest Equalisation	-2,056	-4,610	-4,995
E Direct Lending	-133,981	-69,226	-54,172
Total Programme	-136,037	-73,836	-59,167
Total Voted Capital Income	-136,037	-73,836	-59,167

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

No CFER income or receipts are expected in 2020-21 or 2019-20. No CFER income or receipts were received in 2018-19.

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.