UK Export Finance

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International Trade Committee
14 Tothill Street
London
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27th January 2022

Dear Committee members,

# Supplementary Estimate Memorandum 2021-22

## 1. Overview

### a) Background

UK Export Finance (UKEF – the trading name of the Export Credits Guarantee Department) Supplementary Estimate for 2021-22 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 second year, reflecting the government's ambition for the UK to a) become an exporting powerhouse, b) overcome international obstacles to UK business and c) strengthen trade relationships with its partners worldwide.

As the world continues to deal with the COVID-19 crisis, it remains paramount that the UK continues the engagement with its partners to maintain and enhance trading opportunities. UKEF plays an integral role 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

- **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 2021-22 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 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

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 **£280.0m** to reflect the reduction in the funding requirement for direct lending drawings to March 2022 based on the latest business information available.

**Resource AME (Voted)** – A decrease of **£100.0m** to reflect the changes in the claims related provisions, underwriting fund movements (insurance reserving), impairment and foreign exchange movement.

**Net Cash Requirement (NCR) –** Total decrease of **£600.0m** to reflect the changes shown above and changes to the working capital, i.e. adjustments to debtors and creditors.

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

| | Net Spending total | Compared to the original budget | | Compared to the budget last year | |
|---|---|---|---|---|---|
| | Amounts sought Supplementary Estimate 2021/22 | Main Estimate 2021/22 | | Supplementary Estimate 2020/21 | |
| | £m | £m | % change to amounts sought for ME21/22 | £m | % change to amounts sought for SE20/21 |
| Resource DEL* | 0.0 | 0.0 | 0% | -0.5 | -100% |
| Capital DEL | 1.6 | 1.6 | 0% | 0.8 | 100% |
| Resource AME | 648.4 | 748.4 | -13% | 753.4 | -14% |
| Capital AME | 1,601.1 | 1,881.1 | -15% | 1,487.0 | 8% |
| Net Cash Requirement | 1,543.2 | 2,143.2 | -28% | 1,696.4 | -9% |

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

| Budget type | 2017/18 | | 2018/19 | | 2019/20 | | 2020/21 | | 2021/22 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | Supp Est, £m |
| Resource DEL (gross) | 40.7 | 40.7 | 43.1 | 43.1 | 44.8 | 44.4 | 57.3 | 56.8 | 75.1 | 75.1 |
| Resource AME | 85.0 | 148.0 | 102.4 | 133.4 | 124.8 | 124.8 | 376.5 | 753.4 | 748.4 | 648.4 |
| Capital AME | 1,289.0 | 525.0 | 671.4 | 725.4 | 936.8 | 836.8 | 2,787.0 | 1,487.0 | 1,881.1 | 1,601.1 |

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

i. Capital AME **(CAME)** decrease of **£280.0m** -

The budget reduction is a result of the changes in the latest business forecast compared to the original budget for the period to March 2022. 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 2022-23, or their probability has reduced to <25% and they have been excluded from the Estimate.

ii. Resource AME **(RAME)** decrease of **£100.0m** –

This represents changes in claims-related provisions, underwriting fund movements, impairments and foreign exchange movements (which UKEF is not allowed to hedge). This is a result of changes in UKEF forecast and its business activity.

## 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 2021-22:

| £m | 2017-18* | 2018-19* | 2019-20* | 2020-21* | 2021-22** |
|---|---|---|---|---|---|
| RDEL expenditure (gross) | 33.6 | 37.6 | 41.4 | 48.8 | 75.1 |
| RAME expenditure | 135.3 | 289.6 | 64.6 | 581.8 | 939.1 |
| RAME income | (174.0) | (454.9) | (322.8) | (413.4) | (365.9) |
| Operating deficit/ (surplus) | (5.1) | (127.7) | (216.8) | 217.2 | 648.4 |

**Audited outturn*

***Supplementary Estimate 2021-22*

## f) Funding: Spending Review and Budgets

As part of Spending Review 2020 (SR20) 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 SR20.

## 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 2021/22 and the Supplementary Estimate 2020/21 of these ring-fenced amounts.

| | **Amounts sought (Supplementary Estimate 2021-22)** | Main Estimate 2021-22 | | Supplementary Estimate 2020-21 | |
|---|---|---|---|---|---|
| | | £m | % change to amounts sought for 2021/22 | £m | % change to amounts sought for 2020/21 |
| Depreciation | **£0.5m*** | £0.5m* | 0.0% | £0.4m* | 25.0% |

*rounded

## 3) 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.<br>*Financial objectives* -<br>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 for its support 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 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 |
|---|---|---|---|
| The decrease of **£100m** represents change in the period in relation to claims provision, underwriting fund movement, impairment and impact of the foreign exchange movement. | | -100,000,000 | |
| **Total change in Resource AME (Voted)** | | **-100,000,000** | **-100,000,000** |
| The reduction of **£280m** represents lower Direct Lending drawings when compared to the Main Estimate 2021-22, where some budgeted deals did not materialise, and others moved into 2022-23. | | -280,000,000 | |
| **Total change in Capital AME (Voted)** | | **-280,000,000** | **-280,000,000** |
| The reduction of **£600m** mostly represents lower Direct Lending (CAME) drawings for the period, together with revised claims provision, foreign exchange movement and adjustment to the working capital (debtors and creditors). | | -600,000,000 | |
| **Total change in Net Cash Requirement** | | **-600,000,000** | **-600,000,000** |

## Part I

£

| | Voted | Non-Voted | Total |
|---|---|---|---|
| **Departmental Expenditure Limit** | | | |
| Resource | - | - | - |
| Capital | - | - | - |
| **Annually Managed Expenditure** | | | |
| Resource | **-100,000,000** | - | -100,000,000 |
| Capital | **-280,000,000** | - | -280,000,000 |
| **Total Net Budget** | | | |
| Resource | **-100,000,000** | - | -100,000,000 |
| Capital | **-280,000,000** | - | -280,000,000 |
| **Non-Budget Expenditure** | - | | |
| **Net cash requirement** | **-600,000,000** | | |

Supplementary amounts required in the year ending 31 March 2022 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.

## 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 Annually Managed Expenditure (AME)** | | | | | | | | | |
| **Voted Expenditure** | - | 748,384 | - | -100,000 | - | 648,384 | 1,881,142 | -280,000 | 1,601,142 |
| *Of which:* | | | | | | | | | |
| B Export Credits | - | 326,237 | - | -150,000 | - | 176,237 | - | - | - |
| E Direct Lending | - | 422,144 | - | 50,000 | - | 472,144 | 1,881,748 | -280,000 | 1,601,748 |
| **Total Spending in AME** | | | **-** | **-100,000** | | | | **-280,000** | |
| **Total for Estimate** | | | **-** | **-100,000** | | | | **-280,000** | |
| *Of which:* | | | | | | | | | |
| **Voted Expenditure** | | | - | -100,000 | | | | -280,000 | |
| **Non Voted Expenditure** | | | - | - | | | | - | |

£'000

| | Present Plans | Changes | Revised Plans |
|---|---|---|---|
| **Net Cash Requirement** | **2,143,186** | **-600,000** | **1,543,186** |

# Part II: Revised subhead detail including additional provision

£'000

**Revised**
**Plans**

| | Resources | | | | | | Capital | | |
|---|---|---|---|---|---|---|---|---|---|
| | Administration | | | Programme | | | | | |
| | Gross | Income | Net | Gross | Income | Net | Gross | Income | Net |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| **Spending in Departmental Expenditure Limits (DEL)** | | | | | | | | | |
| **Voted expenditure** | 75,149 | -75,148 | 1 | - | - | - | 1,600 | - | 1,600 |
| *Of which:* | | | | | | | | | |
| A Export Credit Guarantees and Investments | 75,149 | -75,148 | 1 | - | - | - | 1,600 | - | 1,600 |
| **Total Spending in DEL** | **75,149** | **-75,148** | **1** | **-** | **-** | **-** | **1,600** | **-** | **1,600** |
| **Spending in Annually Managed Expenditure (AME)** | | | | | | | | | |
| **Voted expenditure** | - | - | - | 939,147 | -290,763 | 648,384 | 1,725,019 | -123,877 | 1,601,142 |
| *Of which:* | | | | | | | | | |
| B Export Credits | - | - | - | 430,303 | -254,066 | 176,237 | - | - | - |
| C Fixed Rate Export Finance / Export Finance Assistance | - | - | - | 368 | -264 | 104 | - | - | - |
| D Refinanced Loans and Interest Equalisation | - | - | - | - | -101 | -101 | - | -606 | -606 |
| E Direct Lending | - | - | - | 508,476 | -36,332 | 472,144 | 1,725,019 | -123,271 | 1,601,748 |
| **Total Spending in AME** | **-** | **-** | **-** | **939,147** | **-290,763** | **648,384** | **1,725,019** | **-123,877** | **1,601,142** |
| **Total for Estimate** | **75,149** | **-75,148** | **1** | **939,147** | **-290,763** | **648,384** | **1,726,619** | **-123,877** | **1,602,742** |
| *Of which:* | | | | | | | | | |
| **Voted Expenditure** | 75,149 | -75,148 | 1 | 939,147 | -290,763 | 648,384 | 1,726,619 | -123,877 | 1,602,742 |
| **Non Voted Expenditure** | - | - | - | - | - | - | - | - | - |

# Part II: Resource to cash reconciliation

**£'000**

| | Present Plans | Changes | Revised Plans |
|---|---|---|---|
| **Net Resource Requirement** | **748,385** | **-100,000** | **648,385** |
| **Net Capital Requirement** | **1,882,742** | **-280,000** | **1,602,742** |
| **Accruals to cash adjustments** | **-487,941** | **-220,000** | **-707,941** |
| *Of which:* | | | |
| *Adjustment for ALBs:* | | | |
| Remove voted resource and capital | - | - | - |
| Add cash grant-in-aid | - | - | - |
| *Adjustments to remove non-cash items:* | | | |
| Depreciation | -525 | - | -525 |
| New provisions and adjustments to previous provisions | -602,865 | 209,398 | -393,467 |
| Departmental Unallocated Provision | - | - | - |
| Supported capital expenditure (revenue) | - | - | - |
| Prior Period Adjustments | - | - | - |
| Other non-cash items | -545,540 | - | -545,540 |
| *Adjustments to reflect movements in working balances:* | | | |
| Increase (+) / Decrease (-) in stock | - | - | - |
| Increase (+) / Decrease (-) in debtors | 560,673 | -429,398 | 131,275 |
| Increase (-) / Decrease (+) in creditors | 100,316 | - | 100,316 |
| Use of provisions | - | - | - |
| **Removal of non-voted budget items** | **-** | **-** | **-** |
| *Of which:* | | | |
| Consolidated Fund Standing Services | - | - | - |
| Other adjustments | - | - | - |
| **Net Cash Requirement** | **2,143,186** | **-600,000** | **1,543,186** |

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

| | £'000 |
|---|---|
| | **Revised Plans** |
| Gross Administration Costs | 75,149 |
| *Less:* | |
| Administration DEL Income | -75,148 |
| **Net Administration Costs** | **1** |
| Gross Programme Costs | 939,147 |
| *Less:* | |
| Programme DEL Income | - |
| Programme AME Income | -290,763 |
| Non-budget income | - |
| **Net Programme Costs** | **648,384** |
| **Total Net Operating Costs** | **648,385** |
| *Of which:* | |
| Resource DEL | 1 |
| Capital DEL | - |
| Resource AME | 648,384 |
| Capital AME | - |
| Non-budget | - |
| *Adjustments to include:* | |
| Departmental Unallocated Provision (resource) | - |
| Consolidated Fund Extra Receipts in the budget but not in the SoCNE | - |
| *Adjustments to remove:* | |
| Capital in the SoCNE | - |
| Grants to devolved administrations | - |
| Non-Budget Consolidated Fund Extra Receipts in the SoCNE | - |
| Other adjustments | - |
| **Total Resource Budget** | **648,385** |
| *Of which:* | |
| Resource DEL | 1 |
| Resource AME | 648,384 |
| *Adjustments to include:* | |
| Grants to devolved administrations | - |
| Prior period adjustments | - |
| *Adjustments to remove:* | |
| Consolidated Fund Extra Receipts in the resource budget | - |
| Other adjustments | - |
| **Total Resource (Estimate)** | **648,385** |

# Part III: Note B - Analysis of Departmental Income

| | £'000 |
|---|---|
| | **Revised Plans** |
| **Voted Resource DEL** | **-75,148** |
| *Of which:* | |
| Administration | |
| Sales of Goods and Services | -75,124 |
| *Of which:* | |
| A Export Credit Guarantees and Investments | -75,124 |
| Other Income | -24 |
| *Of which:* | |
| A Export Credit Guarantees and Investments | -24 |
| Total Administration | -75,148 |
| **Voted Resource AME** | **-290,763** |
| *Of which:* | |
| Programme | |
| Sales of Goods and Services | -252,077 |
| *Of which:* | |
| B Export Credits | -252,077 |
| Interest and Dividends | -38,686 |
| *Of which:* | |
| B Export Credits | -1,989 |
| C Fixed Rate Export Finance / Export Finance Assistance | -264 |
| D Refinanced Loans and Interest Equalisation | -101 |
| E Direct Lending | -36,332 |
| Total Programme | -290,763 |
| **Total Voted Resource Income** | **-365,911** |
| **Voted Capital AME** | **-123,877** |
| *Of which:* | |
| Programme | |
| Repayments | -123,877 |
| *Of which:* | |
| D Refinanced Loans and Interest Equalisation | -606 |
| E Direct Lending | -123,271 |
| Total Programme | -123,877 |
| **Total Voted Capital Income** | **-123,877** |

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

No CFER income or receipts are expected in 2021-22.

## 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.