



International Trade Committee
7 Millbank
London
SW1P 3JA

2nd May 2019

Dear Committee members,

Main Estimate Memorandum 2019-20

1. Overview

a) Introduction

The UK Export Finance (trading name of Export Credits Guarantee Department) Main Estimate for 2019-20 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 2017 to 2020](#).

2019-20 is the final year of UKEF's Business Plan for the period 2017-20. The plan outlines steps to increase the scale of support UKEF provides, become more customer-centric, and ensure support is relevant to both UK exporters and their UK supply chain.

Key objectives include:

- Increase the number of customers annually supported
- Grow the value of support provided by financial products
- Retain the trust and confidence of HMT and Ministers by complying with financial objectives set by HMT and the rules and regulations to which UKEF is subject to
- Increasing awareness, understanding and take-up of UKEF support among UK exporters, suppliers and intermediaries through a marketing campaign to promote UKEF services as part of the GREAT campaign

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 and Programme 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 (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 the 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 2019-20 as the portfolio grows.

All DEL and AME amounts are Voted net.

c) Description of significant budgets sought

Provision sought are as follows:

Capital AME (Voted) –

- Net capital (drawings less repayments) of **£936.8m**

Resource AME (Voted) –

- Funding requirement of **£124.8m**

Net Cash requirement (NCR) – £658.8m

Budgetary summary

	Net Spending total	Compared to final budget last year		Compared to original budget year	
	Amounts sought this year (Main Estimate 2019-20)	(Supplementary Estimate 2018-19)		(Main Estimate 2018-19)	
	£m	£m	%	£m	%
Resource DEL*	1.3	1.3	0.0%	1.3	0.0%
Capital DEL	0.3	0.3	0.0%	0.3	0.0%
Resource AME	124.8	133.4	-6.4%	102.4	21.9%
Capital AME	936.8	725.4	29.1%	671.4	39.5%
Net Cash Requirement	658.8	363.6	81.2%	363.6	81.2%

* Includes GREAT Marketing budget (RDEL Prog.) of £1.3m

Under the Direct Lending Facility UK Export Finance provides loans up to a cumulative maximum of £3 billion (total scheme limit announced Budget 2014) 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 Autumn Budget in October 2018 provided a boost to exports by extending UK Export Finance's direct lending scheme by £1 billion in each of 2020-21 and 2021-22.

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

Budget type	2015/16		2016/17		2017/18		2018/19*		2019/20*
	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	40.0	40.0	40.7	40.7	43.1	43.1	44.8
Resource AME	32.5	32.5	164.0	120.0	85.0	148.0	102.4	133.4	124.8
Capital AME	303.3	403.3	1,936.0	936.0	1,289.0	525.0	671.4	725.4	936.8

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

d) Key drivers of DEL spending changes since last year

The gross Resource DEL change is attributed to:

- i. Year on year budget uplift in line with SR15 settlement, **£0.9m**
- ii. Additional funding by HMT of SCAPE pension costs increase, **£0.6m**
- iii. Increase in depreciation, **£0.1m**

e) Income and Expenditure trends

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 2019-20:

Gross Spending and income, £m					
	2015-16*	2016-17*	2017-18*	2018-19**	2019-20**
RDEL expenditure	30.8	30.4	33.6	43.1	44.8
RAME expenditure	4.4	38.4	135.3	329.2	638.6
RAME income	(141.6)	(218.2)	(174.0)	(268.7)	(557.2)
Operating deficit (surplus)	(106.4)	(149.4)	(5.1)	103.6	126.2

Source: *Audited outturn

**Supply Estimates

f) Funding: Spending Review and Budgets

At the last Spending Review 2015 it was agreed with HM Treasury that all departmental RDEL (excl. depreciation) is 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.

UKEF have subsequently received **£1.3m** of Programme RDEL via the budget cover transfer from the Department for International Trade (DIT). This represents the GREAT marketing funds allocation and is ring fenced for marketing expenditure only. This fund allocation is in addition to UKEF's RDEL budget set at the Spending Review 2015.

It was also agreed with HMT that UKEF would contribute further **£0.7m** of its own RDEL to marketing expenditure by re-classifying its RDEL budget from Admin into Programme. This brought the total GREAT marketing fund to **£2.0m** in 2019-20.

Therefore, UKEF's net RDEL position in 2019-20 is **£1.3m**.

2. Spending and income detail

a) Explanation of DEL Expenditure

<u>RDEL Admin</u>	<u>£m</u>
Staff Costs	26.5
Non Staff Costs	<u>16.3</u>
<u>RDEL Prog</u>	
Marketing Costs	<u>2.0</u>
Total Operating costs	<u>44.8</u>

b) Explanation of AME Income & Expenditure

INCOME –

Category	£m
Admin income	43.5
Export Credits (section B)	471.9
Fixed Rate Export Finance / Export Finance Assistance (section C)	1.2
Refinanced Loans and Interest Equalisation (section D)	0.5
Direct Lending (section E)	40.2
Total	557.2

EXPENDITURE –

Category	£m
Export Credits (section B)	485.8
Fixed Rate Export Finance / Export Finance Assistance (section C)	1.9
Direct Lending (section E)	150.9
Total	638.6

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 2019-20)		Compared to final budget last year (Supplementary Estimate 2018-19)		Compared to original budget last year (Main Estimate 2018-19)	
		Change, £ m	Change, %	Change, £ m	Change, %
Depreciation	£0.4m*	+£0.1m	+33%	+£0.1m	+33%
GREAT marketing (RDEL Prog)	£2.0m	£0.0m	0.00%	£0.0m	0.00%

*rounded

3. Performance measures

UK Export Finance's business plan (see [here](#)) talks about high level objectives (see below for measures of performance) for the department's current financial year 2019-20:

- Increase in the number of customers supported –

Performance measure: number of customers supported

- Compliance with financial objectives set by HM Treasury –

Performance measure: maintaining the performance within the agreed financial parameters (Risk appetite, PRR, PAI)

- Increased awareness amongst the exporters –

Performance measure: generate 5000 business leads, significantly improve the awareness of UKEF among the addressable market

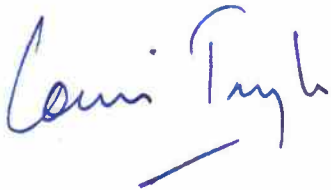
4. Accounting Officer Approval

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

A handwritten signature in blue ink that reads "Louis Taylor". The signature is written in a cursive style with a horizontal line underneath the name.

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. The net amount requested is broken down between Administration and Programme. Administration RDEL is a token amount (of £1k) with the gross costs covered from the premium income that the Department receives. Programme RDEL represents the GREAT fund allocation from the Department for International Trade towards marketing related expenditure of £1.3m.
3. Income received by ECGD in the course of supporting exporters scores against its Resource AME. In 2019-20 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	1,301,000	-	1,301,000
Capital	300,000	-	300,000
Annually Managed Expenditure			
Resource	124,842,000	-	124,842,000
Capital	936,811,000	-	936,811,000
Total Net Budget			
Resource	126,143,000	-	126,143,000
Capital	937,111,000	-	937,111,000
Non-Budget Expenditure	-		
Net cash requirement	658,819,000		

Amounts required in the year ending 31 March 2020 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).

Income arising from:

Some underwriting activity and notional income in respect of the Apprenticeship Levy.

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	1,301,000	1,301,000	-
Capital	300,000	300,000	-
Annually Managed Expenditure			
Resource	124,842,000	46,068,000	78,774,000
Capital	936,811,000	302,116,000	634,695,000
Non-Budget Expenditure	-	-	-
Net cash requirement	658,819,000	312,190,000	346,629,000

Part II: Resource to cash reconciliation

£'000

	2019-20 Plans	2018-19 Provisions	2017-18 Outturn
Net Resource Requirement	126,143	134,675	-5,118
Net Capital Requirement	937,111	725,668	168,407
Accruals to cash adjustments	-404,435	-496,715	-237,730
<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	-329	-127
New provisions and adjustments to previous provisions	-466,160	-206,123	-51,309
Departmental Unallocated Provision	-	-	-
Supported capital expenditure (revenue)	-	-	-
Prior Period Adjustments	-	-	-
Other non-cash items	-168,989	-144,865	-66,267
<i>Adjustments to reflect movements in working balances:</i>			
Increase (+) / Decrease (-) in stock	-	-	-
Increase (+) / Decrease (-) in debtors	197,802	-171,060	-104,584
Increase (-) / Decrease (+) in creditors	33,194	25,516	-15,443
Use of provisions	148	146	-
Removal of non-voted budget items	-	-	-
<i>Of which:</i>			
Consolidated Fund Standing Services	-	-	-
Other adjustments	-	-	-
Net Cash Requirement	658,819	363,628	-74,441

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

£'000

	2019-20 Plans	2018-19 Provisions	2017-18 Outturn
Gross Administration Costs	42,611	40,983	33,628
<i>Less:</i>			
Administration DEL Income	-42,758	-41,128	-34,127
Net Administration Costs	-147	-145	-499
Gross Programme Costs	640,731	362,392	122,405
<i>Less:</i>			
Programme DEL Income	-700	-700	-
Programme AME Income	-513,741	-226,872	-127,024
Non-budget income	-	-	-
Net Programme Costs	126,290	134,820	-4,619
Total Net Operating Costs	126,143	134,675	-5,118
<i>Of which:</i>			
Resource DEL	1,153	1,155	-499
Capital DEL	-	-	-
Resource AME	124,990	133,520	-4,619
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	126,143	134,675	-5,118
<i>Of which:</i>			
Resource DEL	1,301	1,301	-499
Resource AME	124,842	133,374	-4,619
<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)	126,143	134,675	-5,118

Part III: Note B - Analysis of Departmental Income

£'000

	2019-20 Plans	2018-19 Provision	2017-18 Outturn
Voted Resource DEL	-43,458	-41,828	-34,127
<i>Of which:</i>			
Administration			
Sales of Goods and Services	-42,746	-41,128	-34,127
<i>Of which:</i>			
A Export Credit Guarantees and Investments	-42,746	-41,128	-34,127
Other Income	-12	-	-
<i>Of which:</i>			
A Export Credit Guarantees and Investments	-12	-	-
Total Administration	-42,758	-41,128	-34,127
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	-513,741	-226,872	-127,024
<i>Of which:</i>			
Programme			
Sales of Goods and Services	-464,011	-195,187	-69,051
<i>Of which:</i>			
B Export Credits	-464,011	-195,187	-69,051
Interest and Dividends	-49,730	-31,685	-57,973
<i>Of which:</i>			
B Export Credits	-7,898	-6,258	-37,493
C Fixed Rate Export Finance / Export Finance Assistance	-1,192	-1,192	-2,699
D Refinanced Loans and Interest Equalisation	-478	-666	-1,694
E Direct Lending	-40,162	-23,569	-16,087
Total Programme	-513,741	-226,872	-127,024
Total Voted Resource Income	-557,199	-268,700	-161,151
Voted Capital AME	-73,836	-54,465	-45,442
<i>Of which:</i>			
Programme			
Repayments	-73,836	-54,465	-45,442
<i>Of which:</i>			
D Refinanced Loans and Interest Equalisation	-4,610	-4,610	-17,334
E Direct Lending	-69,226	-49,855	-28,108
Total Programme	-73,836	-54,465	-45,442
Total Voted Capital Income	-73,836	-54,465	-45,442

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

No CFER income or receipts are expected in 2019-20 or 2018-19. No CFER income or receipts were received in 2017-18.

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.