



UK Export
Finance

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International Trade Committee
House of Commons
London
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28th March, 2018

Dear Sirs,

Main Estimate Memorandum 2018-19

Introduction

UK Export Finance (UKEF) is the operating name of the Export Credits Guarantee Department.

The Export Credits Guarantee Department Main Estimate for 2018-19 seeks the necessary resources and cash to support the functions of the Department. These are continuing functions which 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 Committee with an explanation of how the resources and cash sought in the Main Estimate will be applied to achieve departmental objectives. The departmental objectives are outlined in the UKEF business plan 2017-20 which is available to be viewed.

The provision sought can be broken down by budgetary limits as follows:

Departmental Expenditure Limit (DEL):

Resource – Gross expenditure covering the running cost of departmental operational activities (however in 2018-19 the net cost is only a token £1k, as gross costs are offset using some of the Resource AME premium income that the department earns). For 2018-19 (as outlined in the Spending Review 2015 Settlement Letter) HM Treasury set the level at £41.8m which can be used to offset expenditure.

In 2018-19 the department will receive £1.3m of Programme RDEL via the budget cover transfer from Department for International Trade which represent the GREAT marketing funds allocation and is



intended for marketing expenditure only. The allocation is in addition to UKEF RDEL which was set at the Spending Review 2015.

As agreed with HMT UKEF will contribute further £0.7m of its own RDEL to marketing by re-classifying it from Admin into Programme. This will bring the total GREAT marketing fund to £2.0m in 2018-19.

Capital – Net expenditure that funds the purchase of fixed assets necessary to the running of UKEF's operational activities, mostly IT related. For 2018-19 HM Treasury set the level at £0.3m.

Annually Managed Expenditure (AME):

Resource – a) premium and interest earned on underwriting and lending activities offset against interest costs, b) potential losses on assets acquired when paying claims, c) foreign exchange movements due to UKEF's foreign currency denominated net asset exposure, which HM Treasury does not permit to be hedged and which can be significant, d) movements in provisions for future claims, all of which can be either income or expense.

Capital – for the provision of direct loans (drawings) offset against subsequent recoveries.

Net Cash Requirement:

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 2018-19 as the portfolio grows.

Note that all DEL and AME amounts are Voted.

Departmental Activity

2018-19 is the second 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 areas of focus include:

- Improving efficiency and delivery of higher volumes of trade finance support through the new bank partnership model introduced in 2017
- Taking a proactive approach to bringing business to the UK, using the "supplier fair" model to connect UK companies directly with projects UKEF is supporting



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- Expanding support for exporters' UK supply chain with eligibility for trade finance products and a new invoice finance guarantee product to be launched in 2018
- Ensuring that UKEF's products meet the needs of exporters with an evidence-based product review, for example launching a refreshed Overseas Investment Insurance
- 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
- Enhancing UKEF's digital services to improve customer and stakeholder engagement
- Collaborating generously with colleagues across DIT and other Government departments to embed UKEF support within the wider UK Government offer to business
- Continuing to be disciplined in risk management and use of resources in order to continue to operate at no net cost to the taxpayer and within the terms of our SR15 settlement and Treasury Consent.

UKEF will continue to support UK exports and investment by providing a range of guarantees, loans and insurance to help UK exporters:

- Win export contracts, by offering their buyers guarantees on commercial lending and direct loans to help them buy from the UK
- Fulfil international contracts, with guarantees on working capital and contract bonds provided by banks
- Get paid, with export insurance, bond insurance and guarantees on letters of credit
- Invest overseas with confidence, with overseas investment insurance

Summary of budgetary changes

<u>£m</u>	2016-17 Audited Outturn	2017-18 Provision	2018-19 Main Estimate
Resource DEL (<i>Admin</i>)	0.0	(0.5)	0.0
Resource DEL (<i>Programme</i>)*	0.0	0.0	1.3
Capital DEL	0.1	0.8	0.3
Resource AME	-149.4	148.4	102.3
Capital AME	250.7	524.9	671.3
Net Resource Requirement	-149.4	147.9	103.6
Net Cash Requirement	-21.4	339.4	363.6

* Represents the GREAT funds



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Of significance in this Main Estimate is the inclusion of £0.67bn Capital AME to fund direct loans to overseas buyers to finance the purchase of capital goods and/or services, from an exporter carrying on business in the UK.

IFRS impact

There is no impact on UKEF for the following changes in Accounting Standards in 2018-19:

- IFRS 9 – financial instruments – UKEF has deferred adoption until 2021
- IFRS 13 – Revenue from contracts with customers – UKEF does not have any income within the scope of this standard

Yours sincerely

Louis Taylor



Glossary

Annually Managed Expenditure (AME) – AME is spending included in Total Managed Expenditure (TME), which does not fall within Departmental Expenditure Limits (DELs). Expenditure in AME is generally less predictable and controllable than expenditure in DEL.

Departmental Expenditure Limit (DEL) – A Treasury budgetary control for spending that includes that expenditure which is generally within the departments control and can be managed with fixed multi-year limits. Some elements may be largely demand-led.

Spending Review (SR) – A cross-government review of departmental aims and objectives and analysis of spending programmes. Results in the allocation of multi-year budgetary limits. The current SR period is SR(15) so covering financial years 2016-17 to 2019-20.

Settlement Letter (SL) – The formal record of a departmental settlement for a spending review period written by HM Treasury to Departmental Accounting Officer.

Net Cash Requirement – The limit voted by Parliament reflecting the maximum amount of cash that can be released from the Consolidated Fund to a department in support of expenditure in its Estimate. In the case of a negative net cash requirement, the department must generate a surplus of at least that amount.