
Export Credits Guarantee Department

Resource Accounts 1999–2000

**Export Credits
Guarantee Department
Resource Accounts
1999–2000**

(For the year ended 31 March 2000)

*Ordered by the House of Commons to be printed
20 DECEMBER 2000*

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Export Credits Guarantee Department**Resource Accounts****Foreword****Statutory Powers**

1. The Export Credits Guarantee Department (ECGD) is a Department of the Secretary of State for Trade and Industry. ECGD derives its statutory authority from the Export and Investment Guarantees Act 1991. Its primary function under this Act is to facilitate exports of goods and services by the provision of guarantees and insurance (Section 1 of the Act). Section 2 enables ECGD to provide Overseas Investment Insurance. ECGD is able to make any arrangements considered to be in the interests of the proper management of the ECGD portfolio (Section 3). Section 4 permits transactions under these sections to be on such terms and conditions as ECGD considers appropriate and states that the powers are exercisable only with the consent of the Treasury. Section 13 requires ECGD to consult the Export Guarantees Advisory Council (EGAC) when determining whether there is a national interest case for providing reinsurance support.

2. The financial statements which follow, are prepared in accordance with the Accounts Direction (reproduced at Annex A) issued under Section 5 of the Exchequer and Audit Departments Act 1921. They cover all effective guarantees up to 31 March 2000 issued under Sections 1-4 of the Export and Investment Guarantees Act 1991.

Ministers

3. The Ministers who had responsibility for the Department were:

The Rt Hon Stephen Byers MP—Secretary of State for Trade and Industry

Brian Wilson MP—Minister for Trade (to end July 1999)

The Rt Hon Richard Caborn MP—Minister for Trade (from August 1999 onwards)

Appointment of Permanent Head of the Department and the Management Board

4. ECGD's Accounting Officer is Mr Vivian Brown who was appointed as Chief Executive on 10 November 1997 following an open competition run by the Civil Service Commission. The Chief Executive's contract of employment is for an indefinite period up to the normal Civil Service retirement age of 60. The appointment would be terminated in accordance with the terms in the Civil Service Management Code.

5. The Management Board supports the Accounting Officer in managing and directing the Department and its staff so that it achieves its business and financial objectives within agreed resources and budgets. The Management Board consists of the Accounting Officer and the following:

Mr Tom Jaffray—Principal Establishment and Finance Officer

Mr Victor Lunn-Rockliffe—Group Director, Asset Management

Mr John Weiss—Group Director, Underwriting

Mr Nicholas Ridley—General Counsel

The remuneration of the Management Board is determined in accordance with the rules for the Senior Civil Service (SCS).

Activities of ECGD

6. These financial statements present the results of ECGD's activities in issuing guarantees against loss for exporters of UK goods and services, reinsurance (Supplemental Reinsurance and Transitional Reinsurance), Tender to Contract Cover, administration of discontinued credit insurance facilities and Overseas Investment Insurance. These activities are referred to in the Resource Accounts as underwriting activities.

7. ECGD also performs other functions, accounted for as Public Expenditure which are also included in these statements. These consist of the provision of Fixed Rate Export Finance (FREF) to exporters of UK goods and services, together with arrangements for capital market funding of fixed rate export finance loans, and for certain interest rate swap arrangements. These activities are referred to in the Resource Accounts as export finance activities.

8. There are no other entities included within the accounting boundary.

Accounts 1, 2, 3 and 4

9. The financial statements are disaggregated into four Accounts—1, 2 and 3 cover ECGD's underwriting activities while Account 4 covers export finance activities.

Account 1—guarantees issued for project business prior to April 1991 and guarantees issued by the Insurance Services Group of ECGD (the main part of which was privatised on 1 December 1991) for which ECGD retains all contingent liabilities ("Insurance Services Business").

Account 2—guarantees issued for project business since April 1991, Overseas Investment Insurance guarantees (all years), Tender to Contract and Reinsurance (Supplemental Reinsurance and Transitional Reinsurance) since the privatisation of the main part of Insurance Services Group on 1 December 1991.

Account 3—guarantees issued, on the written instruction of Ministers, for project business since April 1991, which ECGD's Accounting Officer had advised did not meet normal underwriting criteria.

Account 4—the provision of Fixed Rate Export Finance (FREF) to exporters of UK goods and services, together with arrangements for capital market funding of fixed rate export finance loans and for certain interest rate swap arrangements.

Underwriting Activities Results (Accounts 1, 2 and 3)

10. ECGD's trading results cover activities under accounts 1, 2 and 3 noted in paragraph 6 above while account 4 covers its public expenditure activities.

11. Healthy business levels and a stable world economy contributed to the overall underwriting surplus of £56.9 million in 1999–2000 down from £145.2 million in 1998–99.

12. Increased claims payments arising largely from the agreed Indonesian Debt Rescheduling have produced a cash outflow of £67.5 million compared with a cash inflow of £102.1 million in 1998–99.

Financial Year	1996–97	1997–98	1998–99	1999–2000
	£m	£m	£m	£m
Cash Inflow/(outflow)	144.0	128.7	102.1	(67.5)

Account 1

13. The financial objective for Account 1 is to maximise recoveries and manage assets and liabilities in a way that minimises the net cost to the Exchequer. The results for 1999–2000 show that there continues to be net cash inflow of £58.8 million (1998–99—£57.4 million). A number of key figures are monitored in order to assess how well the Account 1 objective is being achieved. These are listed below.

	1999–2000	1998–99
	£m	£m
Net Cash inflow	58.8	57.4
Including:		
Political Claims	(70.8)	(93.1)
Buyer Default Claims	(9.0)	(5.0)
Recoveries	169.1	162.2
Interest received	175.9	259.1
Borrowing from Consolidated Fund	3,430.1	3,522.8

14. There is a deficit of £1.9 million in 1999–2000 compared to a surplus of £21.6 million in 1998–99.

Account 2

15. Over the years, Ministers have periodically issued assurances to Parliament that ECGD is required to break even over the long term. Given the nature of ECGD's business, and the highly uncertain nature of the risks which it covers, it will clearly be many years before the outcome of any particular underwriting year's business can be known. To this extent the break even formula is of limited value in enabling ECGD to manage its insurance business.

16. In recognition of this, since the institution of Account 2 in 1991–92, Ministers have set ECGD a more measurable objective. Specifically, the Department is charged to maintain the ratio of its reserves (the sum of cumulative surpluses/deficits and the Underwriting Funds on its "open" years) to its estimate of Expected Loss on amounts at risk under its guarantees—this ratio is defined as the Reserve Coverage Ratio—at a value of at least 1.5. Underwriting Funds are shown in the Resource Accounts as provisions for losses on future claims. ECGD calculates Expected Loss using its Portfolio Management System (PMS). The target Reserve Coverage

Ratio is used to determine the balance, which Ministers require ECGD to strike between providing competitive insurance support to exporters and the risk to the taxpayer that ECGD will not break even. As at 31 March 2000, the Reserve Coverage Ratio achieved was 1.5. Details of Underwriting Funds and Surpluses, the estimated Expected Loss on underwriting years and the Reserve Coverage Ratio in each of the last five years are given in the table below.

Financial Year	1995–96	1996–97	1997–98	1998–99	1999–2000
Underwriting Funds and Cumulative Reserves	£489.3m	£600.3m	£747.7m	£871.9m	£964.9m
Expected Loss	£241.7m	£250.9m	£752.5m	£640.5m	£625.2m
Reserve Coverage	2.0	2.4	1.0	1.3	1.5

18. Expected losses have fallen from £640.5 million at 31 March 1999 to £625.2 million at 31 March 2000. This reduction is due to run off of high risk exposure. Claims increased mainly as a consequence of the Indonesian debt rescheduling.

19. Other key financial highlights for Account 2 include:

	1999–2000	1998–99
	£m	£m
Premium income	102.5	81.3
Claims authorised	(214.1)	(45.3)
Recoveries of claims	15.6	10.7
Underwriting fund balance	(915.3)	(882.1)
Balance with Consolidated Fund	683.8	769.2
Surplus for year	59.9	127.5
Cumulative surplus/(deficit)	49.6	(10.2)

Account 3

20. There have been three new instructions on Account 3 in 1999–2000 none of which materialised into new business during the course of the year. In 1999–2000 £3.5 million was required to increase the Underwriting Funds following changes in Expected Loss. The notional balance with the Consolidated Fund is £62.6 million (1998–99 — £59.4 million).

Account 4 (Export Finance Activities)

21. The financial objective of Account 4 is to manage assets and liabilities in order to minimise the costs and uncertainty to the Exchequer.

22. ECGD's FREF scheme enables banks to offer overseas buyers of UK capital goods the benefits of fixed interest loans, often on attractive terms. The rates are determined by ECGD in accordance with the OECD Consensus arrangements. The FREF scheme—which is operated as a public expenditure programme—ensures that the banks receive an agreed return at a margin above their floating cost of funds (LIBOR). If this return proves to be higher than the agreed fixed interest rate, ECGD pays the difference to the banks. The reverse happens when the agreed return is lower than the fixed rate.

23. ECGD has sought to reduce the cost of FREF support through refinancing arrangements agreed with the banks. This involved replacing bank funds with cheaper funds raised in the capital markets by the Guaranteed Export Finance Corporation plc (GEFCO)—a private sector funding vehicle managed by Lloyds TSB Bank plc and established as a charitable trust. GEFCO's borrowings are included in the UK's national accounts since its payment liabilities are guaranteed unconditionally by ECGD. No new GEFCO bond issues were made in 1999–2000. At 31 March 2000, five guaranteed bonds remained outstanding with a total value of £1.2 billion. Two thirds of these funds are swapped into sub-LIBOR rates to generate public expenditure savings, with the balance held in fixed rate form to contribute towards ECGD's overall hedge against interest rate movements under the FREF scheme.

24. Since March 1999, ECGD has carried forward its refinancing programme using public funds Voted by Parliament, since these are substantially cheaper than funds raised by GEFCO in the capital markets. Over the year, ECGD refinanced a further £1 billion of FREF loans on this basis. In total £591.9 million sterling loans and \$551.4 million US dollar loans were refinanced, generating total savings over the life of the transactions estimated at around £30 million by reference to the alternative commercial funding costs.

25. As at 31 March 2000, loans outstandings under the FREF scheme were £7,663 million (up 13.6 per cent on the previous year.). US dollar loans accounted for £5,111 million of this total (up 30.72 per cent on the previous year). Sterling loans represented £2,272 million (down 11.6 per cent on the previous year). Other currencies accounted for £280 million, 3.8 per cent of FREF loan outstandings at year-end. Under export

finance activities, ECGD guarantees interest rates on loans provided to UK companies to fund capital exports. Under this scheme, ECGD is responsible for paying or receiving interest, depending upon the level of general market interest rates. The loan principal to which the interest relates is not included in ECGD's balance sheet, since no loan is made to or by ECGD. Since April 1999, loans to third parties have been provided by GEFCO, with ECGD loaning funds to GEFCO for this purpose. The operating result for 1999–2000 is a deficit of £37.9 million which is significantly reduced from the £75.3 million deficit reported in 1998–99.

26. Other key figures are outlined in the table below:

	1999–2000	1998–99
	£m	£m
Cashflow for the year:		
Operating Activities	(39.6)	(58.0)
Capital Expenditure	(980.2)	(263.0)
	<u>(1,019.8)</u>	<u>(321.0)</u>
Operating Result	(37.9)	(75.3)
General Fund (net debtors and creditors)	6.3	(17.0)

Operating Expenses

27. Operating expenses reduced by £1.7 million to £23.9 million. ECGD's staffing level increased slightly from a full time equivalent of 360 at 31 March 1999 to 365.7 at 31 March 2000.

Segmental Information

28. The Annual Report contains information regarding ECGD's top ten markets for guarantees issued and the Department's exposure as at 31 March 2000. Note 2 of ECGD's accounts outlines the results by Account.

Future developments

29. On 25 July Stephen Byers, Secretary of State for Trade and Industry, announced in Parliament the conclusion of a Review of ECGD's Mission and Status. The Review concluded that the status of ECGD as a Government Department should remain unchanged but that there should be some fundamental changes to the way ECGD operates. In particular, although there would be no change to ECGD's risk-reward balance, and its Financial Objective would remain broadly the same, ECGD would need to play a greater part in helping Government achieve its wider international objectives, to do more to widen its direct customer base amongst smaller exporters, and to boost its operations in terms of greater transparency and improved corporate governance.

30. The Report of the Review also announced that ECGD would be seeking to establish a Trading Fund by April 2002. The question of whether ECGD should also be an Agency—in addition to being an independent Government Department—would be addressed in the context of the work to establish a Trading Fund.

31. The Government remains strongly committed to the multilateral debt initiative for the Heavily Indebted Poor Countries (HIPCs) and announced in December 1999 that the UK will unilaterally relieve the HIPCs of their official obligations to the UK once they qualify for relief within the framework of the enhanced HIPC initiative. ECGD is at the forefront of ensuring that this policy is implemented smoothly. ECGD may only write off debt within the context of a Paris Club rescheduling and, where the UK commitment goes beyond that, ECGD's accounts will be compensated by the Department for International Development (DFID). It is expected that, by the end of 2000, 16 countries will have qualified for enhanced HIPC treatment.

Payment policy

32. The Department's payment policy is that all invoices should be paid on contractual due date or, where there is no contractual provision, within 30 days of receipt. This policy is in accordance with the requirements laid down in Government Accounting and follows the CBI code on prompt payment of commercial debt. During 1999–2000 ECGD paid 98.6 per cent of invoices within this target and creditor days were less than one day (1998–99 less than one day).

Introduction of the Euro

33. The Department's financial systems comply with the requirements for accounting for the Euro. Any related costs are not expected to be material.

ECGD's Recruitment Policy

34. ECGD is committed to the core principles of fair and open competition for recruitment and of selection on

merit, as laid down in the guidance from the Civil Service Commissioners.

35. ECGD's systems are subject to scrutiny by ECGD's Internal Audit Division on a regular basis. A member of Central Services Division (independent of the relevant recruitment exercise) undertakes an annual review on a sample basis of the recruitment exercise based on Internal Audit methodology. Any corrective action required is then taken to ensure that the required standard is delivered. These systems are also subject to audit by the Civil Service Commissioners.

36. The following recruitment schemes resulted in the appointment of a number of staff from outside the Civil Service:

- Fourteen candidates at Pay Band 1, two candidates at Pay Band 2 and seven candidates at Pay Band 3 appointed in conjunction with Capita RAS. Of the successful candidates thirteen were women and ten were from an ethnic minority group.
- Eleven candidates at Pay Band 6 appointed to the Executive Development Programme (EDP) scheme in conjunction with Capita RAS. Of the successful candidates seven were women and three were from an ethnic minority group. One of the successful candidates was appointed under modified selection arrangements for disabled applicants.
- One candidate at Pay Band 5, one candidate at Pay Band 7 and two candidates at Pay Band 10 appointed to business/scientific analyst posts. Of the successful candidates two were women and one was from an ethnic minority group.
- One candidate at Pay Band 11 appointed to Chief Accountant.
- One Pay Band 1 re-appointed on a fixed term contract under the government New Deal initiative.
- One Pay Band 3 reinstated to an executive post.
- General Counsel SCS, appointed on a fixed term contract by fair and open competition.
- Two of the successful candidates from the above schemes have declared a disability.

Audit

37. ECGD's accounts are audited by the Comptroller and Auditor General.

Signed

H V B Brown
Accounting Officer
11th December 2000

Statement of Accounting Officer's Responsibilities

1. Under Section 5 of the Exchequer and Audit Departments Act 1921 the Treasury have directed the Accounting Officer to prepare financial statements in accordance with the Accounts Direction at Annex A. The accounts are prepared on an accruals basis and must give a true and fair view of the Operating Account, Balance Sheet and cash flows of ECGD.

2. In preparing the accounts the Accounting Officer is required to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements and select and apply suitable accounting policies on a consistent basis;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Department will continue in operation.

3. The Treasury has appointed an Accounting Officer who through his letter of appointment is responsible for the preparation of the Accounts. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable, and for the keeping of proper records, are set out in the Accounting Officer's Memorandum issued by the Treasury, and published in "Government Accounting" (The Stationery Office Limited).

Statement on the System of Internal Financial Control

1. This statement is given in respect of the resource account for the ECGD. As Accounting Officer, I am aware of the need for effective internal financial control and acknowledge my responsibility for the system for such control operated in connection with the resources concerned. The system provides reasonable, but not absolute, assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors and irregularities are either prevented or would be detected within a timely period.
2. The system of financial control is based on a framework of regular management information, financial regulations, administrative procedures including segregation of duties, and various levels of delegation specified by HM Treasury and by the Management Board of ECGD.
3. In particular, it includes;
 - the preparation of a Corporate Plan which focuses on ECGD's risk environment, key objectives and milestones;
 - setting targets to measure financial and other performance;
 - regular monitoring by the Management Board of the key business and financial objectives for the year;
 - regular detailed budgeting and reporting of operating results, balance sheets and cashflows, are reviewed by management with particular regard for variances from budgets;
 - a portfolio management system (PMS) for integrating the management of ECGD's exposure with the assessment and pricing of risk. Recourse is made to the Market Committee, the Export Guarantees Advisory Council (EGAC) and where appropriate the Export Guarantees Committee (EGC) for advice on individual markets;
 - arrangements for approving individual authorities with large or unusual transactions submitted to the Underwriting Committee, where appropriate with advice from the EGAC banking members. Similar arrangements are in place for handling claims and recoveries through the Claims and Recoveries Management Committee;
 - a Treasury Management Committee recently set up to oversee the management and control of Treasury risks and to provide an assurance that Treasury Management activities meet agreed objectives and policies;
 - all staff responsible for handling new business, claims or recoveries casework have individual Letters of Authority setting the scope of their delegation and their responsibilities. All new business cases falling to me as Accounting Officer to authorise are first referred to a banking member of the EGAC for advice;
 - as appropriate, formal project management disciplines.
4. ECGD has an internal audit service. The work of internal audit concentrates on areas of key activities determined in accordance with an analysis of risk to which ECGD is exposed. The analysis of risk and annual internal audit plan are endorsed by the Audit Committee and approved by me. The internal auditors report to the Audit Committee and me on a regular basis. The Director of Internal Audit has issued an Assurance Statement which provides his opinion on the adequacy and effectiveness of the internal control systems and the extent to which they can be relied upon.
5. My review of the effectiveness of the system of internal financial control is informed by the Audit Committee, the work of the internal auditors, assurances from the Group Directors, the Director of Finance, and comments made by the external auditors in their management letter and other reports.
6. I am aware of the recommendations of the Turnbull Committee and am taking reasonable steps to introduce a statement of internal control for the year ending 31 March 2002. These arrangements will be kept under review in the light of any further guidance issued by the Treasury.

H V B Brown
Accounting Officer
11th December 2000

SCHEDULE 1

Summary of Resource Outturn is the Parliamentary control schedule which compares outturn with estimate for both resource expenditure and the overall cash requirement.

	*ESTIMATE Gross expenditure	A in A	Net Total	OUTTURN Gross expenditure	A in A	Net TOTAL	Prior Year
For Year ended 31 March 2000	£000	£000	£000	£000	£000	£000	£'000
Request for resources 1 (Export Finance)	(206,705)	141,834	(64,871)	(203,781)	165,908	(37,873)	(75,264)
Request for resources 2 (Underwriting)	(307,673)	307,672	(1)	(230,488)	287,390	56,902	145,180
TOTAL RESOURCES	(514,378)	449,506	(64,872)	(434,269)	453,298	19,029	69,916
NET CASH REQUIREMENT						1,265,245	
<i>Reconciliation of Resources to Cash Requirement</i>							
Total Resources (Schedule 2)						19,029	
Net Resource Outturn			(68,399)			(157,710)	
Voted Capital Items: Capital			(1,000,520)			(980,181)	
Accruals to Cash Adjustments							
Capital Charges			212,480			180,624	
Depreciation			300			392	
Other non-cash items			(124,400)			52,633	
Increase/(decrease) in debtors			(22,200)			(137,365)	
Increase/(decrease) in creditors			(39,325)			(223,395)	
Purchase of Fixed Assets						(243)	
Net Cash Requirement (Schedule 4)			(1,042,064)			1,265,245	
Analysis of income payable to the Consolidated Fund							
Appropriations in Aid disclosed under outturn above include the following income which relates to the department, but is not authorised to be applied as Appropriations in Aid and is payable to the Consolidated Fund.							
						Income	
Net Operating Income (Schedule 2)						19,029	
Income from Insurance activities classified as CFER					(17,483)		
Income from Insurance activities classified as surplus A in A					(130,489)		
Income from Export Finance activities classified as CFER					(28,767)		
						(176,739)	
Net Resource Outturn						(157,710)	

* The estimate is for indicative purposes only and therefore a column for variance has not been included.

SCHEDULE 2

Operating Statement

For Year ended 31 March 2000

	Note	1999-2000 £000	1998-99 £000
Underwriting			
Earned Premiums	3	101,777	80,902
Interest Earned	4	177,447	261,766
Claims Charge for the year	5	(60,090)	(78,005)
Changes in provisions for losses on future claims	16	2,105	78,183
Staff Costs	6	(12,924)	(12,207)
Other administrative and operating costs	7	(8,975)	(11,245)
Foreign Exchange Adjustment	8	6,061	8,058
Capital Charge		(148,499)	(182,272)
Net Income from Underwriting		56,902	145,180
Export Finance			
Interest Make-up Scheme:			
Net Interest Payable	9	(40,042)	(72,388)
Directly Funded Export Finance Loans:			
Interest Income		40,854	0
Capital Charge		(35,922)	0
Staff Costs	6	(624)	(625)
Other administrative and operating costs	7	(1,413)	(1,528)
Foreign Exchange Adjustment	8	(726)	(723)
Net expenditure on Export Finance		(37,873)	(75,264)
Net operating income for the year		19,029	69,916
Net Resource Outturn (per Schedule 1)		(157,710)	(315,223)

There are no other recognised gains and losses for the year

SCHEDULE 3

Balance Sheet

31 March 2000

	Note	1999–2000	1998–99
		£000	£000
Fixed Assets	10	3,444	3,593
Debtors due after one year	11	2,786,067	1,966,248
		2,789,511	1,969,841
Debtors due within one year	11	933,932	692,715
Cash at Bank and in Hand	12	189,767	386,614
Total Current Assets		1,123,699	1,079,329
Creditors due within one year	15	259,495	473,825
Total Net Current Assets		864,204	605,504
Provisions for losses on future claims	16	1,127,825	1,129,930
Total Net Assets		2,525,890	1,445,415
Taxpayers' Equity			
Consolidated Fund Balance	17	3,926,936	2,957,218
Cumulative trading deficit	17	(1,407,385)	(1,494,782)
General Fund	17	6,339	(17,021)
		2,525,890	1,445,415

SCHEDULE 4**Cashflow Statement**

for year ended 31 March 2000

	1999–2000	1998–99
	<u>£000</u>	<u>£000</u>
Net cash (outflow)/inflow from Operating Activities	(107,082)	44,218
Capital expenditure and financial investment	(980,424)	(263,400)
Returns on investments	208,875	261,385
Payments to the Consolidated Fund	(386,614)	(474,237)
Financing from the Consolidated Fund	1,068,399	342,040
Decrease in cash in period	<u>(196,846)</u>	<u>(89,994)</u>
Reconciliation of Operating Cost to Operating Activities		
Net operating income	19,029	69,916
Adjust for non-cash transactions	233,648	174,554
Returns on investments	(208,875)	(258,633)
Adjust for movements in working capital other than cash	(150,884)	58,381
Net cash (outflow)/inflow from Operating Activities	<u>(107,082)</u>	<u>44,218</u>
Analysis of Capital Expenditure and Financial Investment		
Purchases of Fixed Assets	(243)	(400)
Advances of Export Finance Loans	(999,424)	(263,000)
Repayments of Export Finance Loans	19,243	—
Net cash outflow from investing activities	<u>(980,424)</u>	<u>(263,400)</u>
Analysis of Financing		
From Consolidated Fund—Supply	1,068,399	342,040
Decrease in Cash	196,846	89,994
Total cash requirement for the Department	<u>1,265,245</u>	<u>432,034</u>
Less Non-Supply cash required		
Net cash requirement (Schedule 1)	1,265,245	432,034

SCHEDULE 5

Resources by Departmental Aims

	1999-2000 Gross Expenditure	Gross Income	Net
	<u>£000</u>	<u>£000</u>	<u>£000</u>
To help exporters of UK goods and services to win business and UK firms to invest overseas by providing guarantees, insurance and reinsurance against loss			
Objective 1			
To help UK companies win as much worthwhile export business as possible when it benefits the UK economy as a whole	(169,208)	190,911	21,703
Objective 2			
To secure an efficient market by ensuring as much as practicable a "level playing field" internationally in relation to government supported Export Credit Agencies	(818)	0	(818)
Objective 3			
To recover as much as possible of the debt in respect of claims paid in a manner consistent with the Government's policy on debt forgiveness	(177,759)	175,903	(1,856)
TOTAL	(347,785)	366,814	19,029

Note 2.2 analyses capital employed by account. Accounts 2, 3 and 4 are all designed to achieve Objective 1 with Account 1 allocated to Objective 3. No capital is employed with respect to Objective 2.

Notes to the Accounts

1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the *Resource Accounting Manual* (RAM) issued by HM Treasury. The department has agreed with the Treasury that it is necessary to make disclosures in the operating cost statement and balance sheet which vary from the standard disclosures in the RAM. The disclosures reflect the specialised and long term nature of insurance activity, and a requirement that the department measure performance over more than one financial year, particularly where deficits are funded by the Exchequer. The capital charging regime has also been varied to reflect the cost of Exchequer funding in past years. Details of the particular accounting policies adopted by the department are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

Nature of ECGD's Underwriting Activity (Accounts 1–3)

Due to the nature of ECGD's activities, the outcome is subject to considerable uncertainty primarily as a result of:

unpredictability—losses arising from political risks are very difficult to assess and calculate with any degree of confidence, particularly over the longer term;

the long term nature of the risks underwritten—the underwriting cycle, up to 30 years if a Paris Club recovery is involved, means that the outcome may not be known with certainty for many years;

the narrow base of risk—ECGD has a far narrower risk base than would normally be obtained in commercial insurance and its risk base is also subject to an uncertain degree of systemic risks, which narrows the base even further. This makes the underwriting outcome extremely volatile—even if it were possible to assess the risks with confidence.

Many claims and subsequent recoveries take several years to materialise. Although the financial results cannot be established with certainty, ECGD sets provisions for irrecoverable claims based upon current perceptions of risk employing a substantial degree of experience and judgement. The level of the provision has been set on the basis of information which is currently available. Whilst ECGD considers that claims provisions and related recoveries are fairly stated on the basis of the information currently available to it, the ultimate liability will vary as a result of subsequent information and events. This may result in significant adjustments for the amounts provided. These estimates and methods of estimation are reviewed annually, and if adjustments prove necessary, they will be reflected in future accounts.

Accounts 1, 2, 3 and 4

In the notes to the Resource Accounts the financial statements are disaggregated into four accounts—1, 2 and 3 cover ECGD's underwriting activities while Account 4 covers export finance activities.

Account 1—guarantees issued for project business prior to April 1991 and guarantees issued by the Insurance Services Group of ECGD (the main part of which was privatised on 1 December 1991) for which ECGD retains all contingent liabilities ("Insurance Services Business").

Account 2—guarantees issued for project business since April 1991, Overseas Investment Insurance guarantees (all years), Tender to Contract and Reinsurance (Supplemental Reinsurance and Transitional Reinsurance) since the privatisation of the main part of Insurance Services Group on 1 December 1991.

Account 3—guarantees issued, on the written instruction of Ministers, for project business since April 1991, which ECGD's Accounting Officer had advised did not meet normal underwriting criteria.

Account 4—the provision of Fixed Rate Export Finance (FREF) to exporters of UK goods and services, together with arrangements for capital market funding of fixed rate export finance loans and for certain interest rate swap arrangements.

(a) Accounting convention

These accounts have been prepared under the historical cost convention. No revaluation of fixed assets has taken place.

(b) Premium Income

Premium income for the underwriting year is recognised as detailed below:

- (i) Project Business: the income on all guarantees becoming effective during the year (including income for which deferred payment terms have been agreed);

Note to the Accounts (continued)

- (ii) Overseas Investment Insurance: the amount due in the financial year in which the annual cover commences;
- (iii) Reinsurance: premiums due based on notifications received in the year from export credit insurers;
- (iv) Insurance Services Group facilities: the amount due on all business declared on ECGD policies during the financial year.

(c) ECGD Export Finance Activities

Interest income and expenditure is accounted for on an accruals basis.

(d) Interest Earned—Underwriting Activities

Income from interest is recognised when it is received because of the inherent risk associated with the receipt of international debt. It mainly comprises amounts received during the year under signed bilateral rescheduling agreements.

(e) Claims and Recoveries

- (i) Claims are recognised when authorised.
- (ii) Recoveries—where a realistic prospect of full or partial recovery exists, the estimated recovery proceeds, net of estimated expenses in achieving the recovery, are included as assets in the Balance Sheet, as “Recoverable Claims”. When ECGD considers that it is no longer practicable or cost effective to pursue recovery, recoverable claims are formally abandoned and the amounts are deducted from recoverable assets and written off to the surplus/deficit for the year to the extent that existing provisions are not adequate to cover such amounts.

(f) Operating Expenses

All operating expenses are charged in the year they are incurred. Costs are allocated or apportioned on an activity basis.

Operating expenses include the cost of early retirement. (See Note 6)

(g) Capital Charge

A charge reflecting the cost of the capital utilised by the Department, is included in operating costs. The cost is charged or credited on the balance with the Consolidated Fund. A floating interest rate applies to Account 1–3 and a fixed interest rate applies to Account 4. The interest rates are agreed with the Treasury.

(h) Tangible Fixed Assets

Tangible fixed assets consist of leasehold improvements and computer and telecommunication equipment. Depreciation is provided at rates calculated to write off the cost less estimated residual value over the estimated useful economic lives, as follows:

Leasehold improvements	Period of lease
Computer and telecommunication equipment	3–5 years

(i) Leases

Rentals under operating leases are charged to the resource accounts in equal annual instalments over the period of the lease.

(j) Provisions for Losses on Future Claims

The Fund Basis of accounting has been applied because the nature of the business is such that the Annual Basis would not be appropriate. Insufficient information is available on claims payable and recoveries on claims paid, for reliable estimates to be made at the end of each financial year.

Under the Fund Basis of accounting, premium, net of provisions for any unrecovered claims and expenses is carried forward as a fund, and profit recognition is deferred until the end of four years (for business written in respect of cash based risk where no credit after delivery has been extended to the customer) or ten years (for business written in respect of extended credit risks) from the start of an underwriting year. However, as Account 1 is in run off and in substantial deficit, this Account is considered as a whole. Where the fund for any underwriting year is considered insufficient to meet estimated future net claims or losses, a transfer is made from the cumulative surplus/deficit to cover the potential shortfall. In assessing the adequacy of a Fund, account is taken of future investment income.

Provisions are estimated according to the categories of risk, as follows:

Political: Risks associated with a country which could potentially affect every insured transaction in that country, e.g. currency transfer difficulties or other events of a political nature such as war, government interference etc.

Buyer: Risks directly associated with transactions, e.g. buyer or borrower insolvency.

(k) Consolidated Fund Balance

To reflect the long term nature of ECGD's activities, and recognising that operating and investment cashflows in a particular year will not always be sufficient to service operating commitments, a cumulative balance with the Consolidated Fund is maintained and disclosed on the face of the balance sheet. The balance with the Consolidated Fund moves from year to year in response to the cashflows arising from ECGD's operating and investment activities and attracts capital charges where voted monies have been used to fund underwriting activities and directly funded export loans.

(l) Cumulative Surplus/Deficit

ECGD seeks to measure its performance on an on-going basis for underwriting activities by maintaining a cumulative surplus/deficit. This is moved each year by the net operating cost/income for underwriting activities.

(m) Foreign Exchange

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the balance sheet date, and resulting differences are charged or credited to the operating statement.

(n) Pension costs

The total pensions liability up to normal retiring age in respect of each employee is charged to the year in which the employee takes early retirement and a provision for future pension payments is created. Pensions and related benefits payments to the retired employee until normal retiring age are then charged annually against the provision. In addition to the early retirement costs the normal superannuation costs of ECGD staff are also fully charged to the Resource Account.

Under rules announced by the Treasury in November 1992, bodies may advance fund all or part of their outstanding pensions liability at 31 March each year, by making lump sum payments to the Paymaster General's Office. This advance funding is included as a prepayment in the balance sheet and is written down as the funding matures in accordance with calculations made by the Government Actuary's Department.

Note to the Accounts (*continued*)

2 Analysis by Account

2.1 Operating Statement

	1999-2000 Account 1	Account 2	Account 3	Account 4	Total
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Underwriting					
Earned Premiums	24	102,526	(773)	0	101,777
Interest Earned	175,879	1,568	0	0	177,447
Claims Charge for the year	(22,281)	(37,809)	0	0	(60,090)
Changes in provisions for losses on future claims	38,938	(33,299)	(3,534)	0	2,105
Staff Costs	(4,219)	(8,632)	(73)	0	(12,924)
Other administrative and operating costs	(1,797)	(7,127)	(51)	0	(8,975)
Foreign Exchange Adjustment	3,200	2,888	(27)	0	6,061
Capital (Charge)/income	(191,600)	39,762	3,339	0	(148,499)
Net (Expenditure)/Income arising from Underwriting	(1,856)	59,877	(1,119)	0	56,902
Export Finance					
Interest Make-up Scheme					
Net Interest Payable	0	0	0	(40,042)	(40,042)
Directly Funded Export Finance Loans					
Interest Income	0	0	0	40,854	40,854
Capital Charge	0	0	0	(35,922)	(35,922)
Staff Costs	0	0	0	(624)	(624)
Other administrative and operating costs	0	0	0	(1,413)	(1,413)
Foreign exchange adjustment	0	0	0	(726)	(726)
Net expenditure on Export Finance	0	0	0	(37,873)	(37,873)
Net operating (expenditure)/income for the year	(1,856)	59,877	(1,119)	(37,873)	19,029

Comparatives for the totals are given in the face of Schedule 2.

2.2 Balance Sheet

	31-3-2000 Account 1	Account 2	Account 3	Account 4	Total
	£000	£000	£000	£000	£000
Fixed Assets	0	3,444	0	0	3,444
Debtors due after one year	1,700,317	56,317	0	1,029,433	2,786,067
	1,700,317	59,761	0	1,029,433	2,789,511
Debtors due within one year	437,429	233,223	7,062	256,218	933,932
Cash at Bank and in Hand	147,699	1,511	0	40,557	189,767
Total Current Assets	585,128	234,734	7,062	296,775	1,123,699
Creditors due within one year	162,489	13,256	7,062	76,688	259,495
Total Net Current Assets	422,639	221,478	0	220,087	864,204
Provisions for losses on future claims	81,797	915,345	130,683	0	1,127,825
Total Net Assets	2,041,159	(634,106)	(130,683)	1,249,520	2,525,890
Taxpayers' Equity					
Consolidated Fund Balance	3,430,072	(683,750)	(62,567)	1,243,181	3,926,936
Cumulative trading (deficit)/surplus	(1,388,913)	49,644	(68,116)	0	(1,407,385)
General Fund	0	0	0	6,339	6,339
Total	2,041,159	(634,106)	(130,683)	1,249,520	2,525,890

Comparatives for the totals are given in the face of Schedule 3.

Note to the Accounts (*continued*)

2.3 Cashflow Statement

	1999-2000 Account 1	Account 2	Account 3	Account 4	Total
	£000	£000	£000	£000	£000
Net cash inflow/(outflow) from Operating Activities	58,756	(126,101)	(124)	(39,613)	(107,082)
Capital expenditure and financial investment	0	(243)	0	(980,181)	(980,424)
Returns on investments	192,588	1,105	0	15,182	208,875
Payments to the Consolidated Fund	(384,677)	(957)	0	(980)	(386,614)
Financing from the Consolidated Fund	(103,649)	126,752	124	1,045,172	1,068,399
(Decrease)/increase in cash in Period	(236,982)	556	0	39,580	(196,846)
Reconciliation of operating cost to operating activities					
Net operating income	(1,856)	59,877	(1,119)	(37,873)	19,029
Adjust for non-cash transactions	171,743	28,850	222	32,833	233,648
Returns on investments	(192,588)	(1,105)	0	(15,182)	(208,875)
Adjust for movements in working capital other than cash	81,457	(213,723)	773	(19,391)	(150,884)
Net cashflow inflow/ (outflow) from operating activities	58,756	(126,101)	(124)	(39,613)	(107,082)
Analysis of capital expenditure and financial investment					
Purchases of Fixed Assets	0	(243)	0	0	(243)
Advances of Export Finance Loans	0	0	0	(999,424)	(999,424)
Repayments of Export Finance Loans	0	0	0	19,243	19,243
Net cash outflow from investing activities	0	(243)	0	(980,181)	(980,424)
Analysis of Financing					
From Consolidated Fund— Supply	(103,649)	126,752	124	1,045,172	1,068,399
Decrease in Cash	236,982	(556)	0	(39,580)	196,846
Total cash requirement for the Department	133,333	126,196	124	1,005,592	1,265,245
Less Non-Supply cash required					
Net cash requirement (Schedule 1)	133,333	126,196	124	1,005,592	1,265,245

Comparatives for the totals are given in the face of Schedule 4.

3 Earned Premiums—Underwriting

	Buyer Credit		Specific Guarantee		Overseas Investment Insurance		Supplier Credit Financing Facility		Other		Total	
	1999–2000	1998–99	1999–2000	1998–99	1999–2000	1998–99	1999–2000	1998–99	1999–2000	1998–99	1999–2000	1998–99
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Africa	4,172	2,276	0	2,207	282	17	1	0	0	0	4,455	4,500
Americas	9,467	7,945	1	941	1,483	1,139	2,690	3,217	0	1	13,641	13,243
Asia	46,938	38,608	7,878	7,196	2,081	1,197	1,395	1,359	4,528	0	62,820	48,360
Europe	8,635	11,774	9,901	343	1,251	1,773	689	534	0	0	20,476	14,424
Other	8	2	0	0	0	138	273	35	104	200	385	375
Total	69,220	60,605	17,780	10,687	5,097	4,264	5,048	5,145	4,632	201	101,777	80,902

4 Interest Earned—Underwriting

	1999–2000				1998–99			
	Account 1	Account 2	Account 3	Total	Account 1	Account 2	Account 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Moratorium interest	173,323	0	0	173,323	220,908	0	0	220,908
Other interest	2,556	1,568	0	4,124	38,219	2,643	(4)	40,858
Credited to Trading Account	175,879	1,568	0	177,447	259,127	2,643	(4)	261,766

As at 31 March 2000 Moratorium Interest due but not received was £1,740.1 million (31 March 1999—£1,492.1 million).

Other interest includes delay interest (i.e. interest which is payable on late payment of Moratorium Interest) and also arises from late receipt of premium income.

Export Finance income is outlined in note 9.

5 Claims charge for the year

	1999–2000			1998–99		
	Account 1	Account 2	Total	Account 1	Account 2	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Claims Authorised in Year	(81,480)	(214,119)	(295,599)	(98,090)	(45,516)	(143,606)
Anticipated Recoveries on those Claims	34,393	161,169	195,562	20,264	25,116	45,380
Movement in Provisions on Previous Claims	24,806	15,141	39,947	8,655	11,566	20,221
Charge to Account	(22,281)	(37,809)	(60,090)	(69,171)	(8,834)	(78,005)

Note to the Accounts (*continued*)**6 Staff Numbers and Costs**

A. Staff costs consist of:

	1999-2000	1998-1999
	<u>£'000</u>	<u>£'000</u>
Salaries and Wages	9,837	9,738
Social security costs	777	756
Early Retirement costs	1,511	934
Other pension costs	1,423	1,404
Total	13,548	12,832
Of which: Underwriting	12,924	12,207
Export Finance	624	625

For 1999-2000 contributions of £1,423,000 (1998-99—£1,404,000) were paid to the PCSPS at rates determined by the Government Actuary and advised by the Treasury. These rates were in the range of 12-18.5 per cent of pensionable pay depending on grade.

B. The average number of whole-time equivalent persons employed (including senior management,) during the year was as follows:

Objective	1999-2000	1998-99
	Number	Number
1 To help UK companies win as much worthwhile export business as possible when it benefits the UK economy as a whole	218.3	217.6
2 To secure an efficient market by ensuring as much as practicable a "level playing field" internationally in relation to government supported Export Credit Agencies	10.8	10.8
3 To recover as much as possible of the debt in respect of claims paid in a manner consistent with the Government's policy on debt forgiveness	131.8	131.3
Total	360.9	359.7

C. The salary and pension entitlements of the most senior managers of the Department were as follows:

Name and title	Number	Salary (as defined below)	Real increase in pension at age 60
		<u>£'000</u>	<u>£'000</u>
Chief Executive	1	73 - 110	0 - 2.5
SCS Band 4	3	56 - 93	0 - 2.5
SCS Band 3	1	51 - 87	0 - 2.5

The comparative figures for 1998-99 were as follows:

Name and title	Number	Salary (as defined below)	Real increase in pension at age 60
		<u>£'000</u>	<u>£'000</u>
Chief Executive	1	71 - 107	0 - 2.5
SCS Band 4	3	53 - 90	0 - 2.5

Salaries include gross salaries, performance bonuses payable, reserved rights to London Weighting or London allowances, recruitment and retention allowances and private offices allowances.

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). This is a statutory scheme, which provides benefits on a "final salary" basis at a normal retirement age of 60. Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to 3 years'

pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. Pensions increase in payment in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill-health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

7 Other Administrative and Operating Costs

	1999-2000	1998-99
	£'000	£'000
IT	3,516	3,856
Indirect staff and personnel expenses	1,317	1,307
Business Promotion	250	215
Rent	1,506	1,961
Other establishment costs	955	1,350
Underwriting expenses	642	708
Claims and recovery expenses	718	1,740
Other administration costs	750	600
Depreciation charges	392	517
Travel, subsistence and hospitality	342	519
Expenditure	10,388	12,773
Of which: Underwriting activity	8,975	11,245
Export Finance	1,413	1,528
	10,388	12,773

Auditors remuneration included in the above figures:

	1999-2000	1998-99
	£'000	£'000
Audit Fees	91	90

8 Foreign Exchange Adjustment

	1999-2000					1998-99				
	Account 1	Account 2	Account 3	Account 4	Total	Account 1	Account 2	Account 3	Account 4	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£,000	£,000
Exchange gain on recoverable claims before provisions	25,838	2,475	0	0	28,313	35,911	1,080	0	0	36,991
Exchange loss on other debtors and creditors	0	0	0	(726)	(726)	0	0	0	(723)	(723)
Exchange loss on provisions against recoverable claims	(22,638)	(95)	0	0	(22,733)	(29,243)	(86)	0	0	(29,329)
Exchange gain/(loss) on premium debtors	0	508	(27)	0	481	0	328	68	0	396
Exchange gain/(loss) for year	3,200	2,888	(27)	(726)	5,335	6,668	1,322	68	(723)	7,335

9 Export Finance - Net Interest Payable

	1999-2000	1998-1999
	£'000	£'000
Export Finance Income	102,130	114,348
Receivable under FREF schemes	2,293	13,661
Receivable from hedges	20,639	32,809
Total contributions to interest support	125,062	160,818

Note to the Accounts (*continued*)

	1999–2000	1998–1999
	£'m	£'m
Export Finance Expenditure	(63,380)	(121,821)
Payable under FREF schemes	(62,811)	(62,565)
Payable on hedges	(38,913)	(48,820)
Total interest Support Grants	(165,104)	(233,206)
Net Interest Payable	(40,042)	(72,388)

10. Fixed Assets

	IT Equipment	Leasehold Additions	Total
	£'000	£'000	£'000
Cost			
Balance at 1 April 1999	1,643	4,535	6,178
Additions	243	0	243
Balance at 31 March 2000	1,886	4,535	6,421
Accumulated Depreciation			
Balance at 1 April 1999	1,134	1,451	2,585
Charge for the year	210	182	392
Balance at 31 March 2000	1,344	1,633	2,977
Net book value			
At 31 March 2000	542	2,902	3,444
At 31 March 1999	509	3,084	3,593

11 Debtors

	Note	31-3-2000	31-3-1999
		£'000	£'000
Amounts falling due after one year:			
Premium Debtors	13	41,056	28,500
Recoverable Claims—Rescheduled	14	1,715,578	1,674,748
Export Finance Loans		1,029,433	263,000
Total		2,786,067	1,966,248
Amounts falling due within one year:			
Premium Debtors	13	28,894	26,615
Recoverable Claims	14	644,682	629,026
Export Finance Loans		213,748	0
Other debtors—policy holders		737	942
Other debtors—export finance		42,470	33,034
Prepayments and Accrued Income		3,401	3,098
Total		933,932	692,715

12 Cash at Bank and in Hand

	£'000
Balance at 1 April 1999	386,614
Net cash inflow to Department	189,767
Paid to the Consolidated Fund	(386,614)
Balance at 31 March 2000	189,767

13. Analysis of Premium Debtors

The movement on balances of premium due was

	Account 1	Account 2	Account 3	Total
	£'000	£'000	£'000	£'000
Premium Debtors 1 April 1999	75	54,240	800	55,115
Premiums arising on Guarantees issued	(75)	94,283	6,289	100,497
Cash received In-Year	0	(86,143)	0	(86,143)
Foreign exchange adjustment	0	508	(27)	481
Premium Debtors 31 March 2000	0	62,888	7,062	69,950
Due				
Within 1 year	0	21,832	7,062	28,894
After 1 year	0	41,056	0	41,056
	0	62,888	7,062	69,950

Premium debtors represent premiums on certain major overseas contracts with long contract completion periods where ECGD accepts payment on deferred terms and premium receivable in respect of guarantees not yet effective at the balance sheet date.

14. Recoverable Claims

	Account 1			Account 2			Account
	Political	Buyer	Total	Political	Buyer	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Unrecovered Claims							
- Gross							
Balance as at 1 April 1999	6,105,149	112,752	6,217,901	81,032	13,656	94,688	6,312,589
Reclassifications	(6,122)	6,122	0	(3,764)	3,764	0	0
Claims in the year	76,938	4,542	81,480	184,015	30,104	214,119	295,599
Recoveries in the year	(167,871)	(1,181)	(169,052)	(2,760)	(12,791)	(15,551)	(184,603)
Recoveries abandoned in the year	(20,257)	(10,238)	(30,495)	0	0	0	(30,495)
Foreign Exchange Adjustment (Note 8)	25,626	212	25,838	443	2,032	2,475	28,313
Balance as at 31 March 2000	6,013,463	112,209	6,125,672	258,966	36,765	295,731	6,421,403
Provisions							
Balance as at 1 April 1999	3,886,822	87,486	3,974,308	30,621	3,886	34,507	4,008,815
Reclassifications	(3,979)	3,979	0	(2,447)	2,447	0	0
Additional Provisions during the year	24,468	(2,187)	22,281	36,655	1,154	37,809	60,090
Provision on Recoveries abandoned	(20,257)	(10,238)	(30,495)	0	0	0	(30,495)
Foreign Exchange Adjustment (Note 8)	22,605	33	22,638	39	56	95	22,733
Balance as at 31 March 2000	3,909,659	79,073	3,988,732	64,868	7,543	72,411	4,061,143
Net Unrecovered Claims as at 31 March 2000	2,103,804	33,136	2,136,940	194,098	29,222	223,320	2,360,260
Net Unrecovered Claims as at 1 April 1999	2,218,327	25,266	2,243,593	50,411	9,770	60,181	2,303,774
Provision as a % of Unrecovered Claims 31 March 2000	65.0%	70.5%	65.1%	25.0%	20.5%	24.5%	63.2%
Provision as a % of Unrecovered Claims 31 March 1999	63.7%	77.6%	63.9%	37.8%	28.5%	36.4%	63.5%

There are no recoverable claims on Accounts 3 and 4.

As at 31 March 2000 the total of unrecovered political claims was £6,421,403,000 (1998–99—£6,312,589,000).

Note to the Accounts (*continued*)

15 Creditors: amounts falling due within one year

	31 March 2000	31 March 1999
	£'000	£'000
Policyholders	8,614	5,948
Balance payable to Consolidated Fund	187,786	386,614
Export finance	38,112	50,052
Accruals and deferred income	14,891	17,112
Other Creditors	10,092	14,099
Total	259,495	473,825

16 Provisions for losses on future claims

	31-3-2000		31-3-1999	
	Provisions for losses on future claims		Provisions for losses on future claims	
	£'000		£'000	
Balance at 1 April	1,129,930		1,208,113	
Release of Provision				
Account 1	(38,938)		(63,837)	
Account 2	(77,163)		(108,638)	
Account 3	(1,674)	(117,775)	0	(172,475)
Increase in Provision				
Account 1	0		0	
Account 2	110,462		87,063	
Account 3	5,208	115,670	7,229	94,292
		(2,105)		(78,183)
Balance at 31 March 2000	1,127,825		1,129,930	

17 Taxpayers' Equity

(i) Movement on Consolidated Fund Balance

	£'000
Brought Forward	(2,957,218)
Debt Forgiveness and abandonments	30,495
Notional Interest within breakeven objective	(148,498)
Cash Surplus from Operating and investment activities within the breakeven objective	128,466
Net Advances and Loans in Account 4	(980,181)
Carried Forward	(3,926,936)

(ii) Movement in Cumulative Trading Deficit

	£'000
Brought Forward	(1,494,782)
Debt Forgiveness	30,495
Surplus for year on Underwriting Funds	56,902
Carried Forward	(1,407,385)

(iii) Movement on General Fund

	£'000
Balance Brought Forward	17,021
Current year deficit—Export Finance	(37,872)
Vote Funding and adjustment for non cash items	18,308
Withholding tax	(3,796)
Carried Forward	(6,339)

18 Consolidated Fund Movement

All funds provided to ECGD in respect of underwriting activities are supplied annually by Parliament, (Class V, Votes 4, and 6). By the provisions of Section 14(2) of the Export and Investment Guarantees Act 1991, ECGD is able to pay claims direct from the Consolidated Fund in the event that sufficient funds have not been voted for the purpose by Parliament.

All funds provided to ECGD in respect of Export Finance underwriting activities are supplied annually by Parliament, (Class V, Vote 5).

The Consolidated Fund balances also include notional amounts for interest in respect of the year of £148,498,000 (1998–99—£182,272,000). The average floating interest rate for the year as agreed with the Treasury was 5.55% as compared with 6.68 % in 1998–99. The average fixed rate on export finance was 6.224%.

A portion of the notional balance owing to the Consolidated Fund in respect of Account 1 is written off each year. This is calculated by reference to the amounts forgiven, including Moratorium Interest, or amounts abandoned.

The following table provides details of the cumulative reductions as at 31 March 2000:

	£'000
Total as at 31 March 1999	1,468,900
Amounts abandoned or forgiven during 1999–2000	(30,495)
Total as at 31 March 2000	1,438,405

Seven concessional agreements were signed during 1999–2000 with Cameroon, Cote d'Ivoire, Ethiopia, Mozambique, Niger, Tanzania, and Zambia which will lead to the write off of unrecovered claims to the value of £7.1 million. In addition there will be interest reductions for Cameroon, Cote d'Ivoire, Ethiopia, Mozambique, Tanzania, and Zambia totalling £7.1 million.

19 Financial Assets and Liabilities

Short term debtors and creditors are excluded from the disclosures except for recoverable claims due in less than one year, which are included in order to reflect fully the currency risk to the department, as they are the only material balances denominated in foreign currency. These disclosures do not cover provisions for losses on future claims.

Financial Assets

(i) Claims of £2,360,260,000 (1998–99 £2,303,774,000) are shown at fair value in the balance sheet and Note 14. The following table provides a broad guide to the timescale during which ECGD is due to receive the proceeds:

	31 March 2000	31 March 1999
	£'000	£'000
Over 5 years	1,111,663	1,082,044
2–5 years	452,936	444,528
1–2 years	150,979	148,176
Less than 1 year	108,286	100,264
In arrears	536,396	528,762
	2,360,260	2,303,774

The following table provides an analysis of the currency breakdown:

	31 March 2000	31 March 1999
	£'000	£'000
UK Sterling	1,759,761	1,762,512
US Dollars	544,727	463,587
Euro	55,284	76,916
Other	488	759
	2,360,260	2,303,774

Note to the Accounts (*continued*)

The majority of the agreements have floating rates which vary according to a margin based on LIBOR.

(ii) Loans of £1,243,181,000 (1998–99 £263,000,000) are shown at fair value in the balance sheet and Note 11. The maturity schedule for export finance loans is outlined below:

	31 March 2000	31 March 1999
	£'000	£'000
Over 5 years	183,384	263,000
2–5 years	405,620	0
1–2 years	646,879	0
In arrears	7,298	0
	1,243,181	263,000

(iii) All cash balances are in sterling and deposited at either the Bank of England or with the Paymaster General and earn variable rates of interest.

Financial Liabilities and Available Facilities

ECGD is funded by supply approved by Parliament—see Note 18.

Currency Risk

All operations are UK based and the principal operating currency is sterling. The only material foreign exchange balances are recoverable claims and these are analysed by currency above.

Guaranteed Export Finance Corporation plc (GEFCO)

ECGD uses the Guaranteed Export Finance Corporation plc (GEFCO) as a vehicle for its refinancing programme. GEFCO is a special purpose vehicle set up as a charitable trust which refinances existing FREF loans. In 1998–99, Ministers decided that ECGD's refinancing programme could be enhanced by the use of public funds and thereby make greater savings than GEFCO borrowing in the commercial market.

Interest Make-up Scheme

In support of its main trading activities, ECGD provides an interest rate support programme. This enables Banks to offer overseas buyers fixed rate loans at rates in accordance with OECD consensus arrangements, while the banks receive a floating rate based on their cost of funds plus an agreed margin. This is a form of interest rate swap in that, if the rate payable to the bank is higher than the fixed rate, ECGD pays the difference to the banks; if the rate is lower, ECGD receives the difference. Since this creates a risk arising from taking on the floating rate, a part of the FREF portfolio is hedged by entering into interest rate swaps which provide ECGD with fixed rate money in exchange for floating rate. In 1999, it was agreed to increase the hedging target from 75% to 85–90% of exposure. At 31 March 2000, the proportion hedged had been increased to Sterling 87.46% and US dollars 82.94% overall (31 March 1999—75% Sterling and 74% US Dollars). In total 50 interest rate swaps were transacted following a competitive bidding process and involving counterparties with a minimum AA-long term credit rating. 43 of these swaps were US dollar transactions, with a total nominal value \$2.322 billion. 7 were sterling swaps, with a total nominal value of £210 million. Further information on hedging is included in the Foreword to these statements.

The fair values of the recoverable claims, GEFCO loans and interest rate swaps are shown in the table below. Fair values are based on quoted market prices where available or determined using appropriate models based on market price information.

The fair value of the Interest Make Up (IMU) swaps are based on the full potential liability of the Department and therefore are based on the loan profile per the underlying loan agreement and not necessarily the actual loan drawn to date, as the actual drawdown is not deemed to properly reflect uncertainties in the future cashflow and therefore the fair value of the swap.

The fair values shown do not include IMU swaps where a commitment to provide interest rate support exists but the drawdown has not been agreed due to the uncertainties in future commitments.

The positive and negative values of the IMU swap portfolio have been offset.

	Fair Value: 31-3-2000	Book Value: 31-3-2000
	£'000	£'000
Recoverable Claims	2,360,260	2,360,260
GEFCO Loans	1,243,181	1,243,181
Hedging SWAPS	130,913	0
Interest Make Up SWAPS	(206,525)	0

This is the first year that the Department has disclosed the fair values of the off-balance sheet financial assets and liabilities and it is therefore not able to disclose comparatives. The Department has also not included fair values of any other short-term debtors and creditors, as permitted in accordance with commercial practice.

20 Related Party Transactions

ECGD is a Department of the Secretary of State for Trade and Industry and as such it has a number of transactions with other Government Departments and other central government bodies.

None of the Management Board members has undertaken any material transactions with ECGD during the year.

Transactions between ECGD and GEFCO (see note 19) in 1999–2000 on a cash basis were Direct Lending £979,100,000 (1998–99—£263,000,000) and Other Transactions £84,900,000 (1998–99—nil).

21 Amounts at Risk

The following table shows the unexpired portion of the total risks guaranteed by ECGD.

	31-3-2000	31-3-1999
	£'000	£'000
Account 1		
Project Business	1,166,500	1,583,400
Insurance Services	15,900	28,900
Account 2		
Project Business	15,955,800	14,747,900
Reinsurance	24,500	17,500
Overseas Investment Insurance	475,300	340,900
Account 3		
Project Business	315,000	381,400
Total	17,953,000	17,100,000

Amounts at risk in respect of guaranteed bank loans (Account 1 only) are not shown separately, as they are included in the above figures for the underlying credit insurance guarantees. In the event of a default on a guaranteed bank loan, ECGD would normally offset against any basic credit insurance claim for which it is liable or seek direct recourse from the exporter or guarantor.

The amounts at risk in respect of Performance Bonds are reflected in the risks shown above under the basic guarantees. The amounts at risk in respect of Overseas Investment Insurance agreements comprise the current value of insured investments.

22 Statutory Limits

The Export and Investment Guarantees Act 1991 sets limits on the maximum liabilities that ECGD may incur in both sterling and foreign currency. The latter is expressed in Special Drawing Rights (SDR). The following table shows the Statutory Limits at 31 March 2000 and the cumulative outstanding commitments set against them. On 18th July 2000 the Statutory Limit on foreign currency was increased to SDR 30,000,000,000.

Amounts outstanding against the Statutory Limits stated at Section 6(1) of the Act relating to exports and insurance:

	31-3-2000		31-3-1999	
	Sterling	Foreign Currency	Sterling	Foreign Currency
	£'000	SDR '000	£'000	SDR '000
Statutory Limit	35,000,000	25,000,000	35,000,000	25,000,000
Commitments	10,392,720	21,671,800	12,392,000	19,385,560
As at 31st March 2000 SDR = £0.844380				

Note to the Accounts (*continued*)

Amounts outstanding against the Statutory Limits stated at Section 6(3) of the Act relating to arrangements in the interests of the proper financial management of the ECGD portfolio:

	31-3-2000		31-3-1999	
	Sterling	Foreign Currency	Sterling	Foreign Currency
	<u>£'000</u>	<u>SDR '000</u>	<u>£'000</u>	<u>SDR '000</u>
Statutory Limit	15,000,000	10,000,000	15,000,000	10,000,000
Commitments	1,208,200	724,900	801,000	650,300

The commitment figures shown above are greater than the amounts at risk shown in Note 21 due to the inclusion of:

- (i) non-trading activities.
- (ii) commitments contingent upon the full utilisation of credit insurance facilities made available to exporters.
- (iii) guarantees issued but not yet effective.

23 Leasehold Obligations

Annual commitments of ECGD in 1999-2000 under non-cancellable operating leases are:

	2000 Land and Buildings <u>£'000</u>	1999 Land and Buildings <u>£'000</u>
Leases which expire: after five years	1,800	1,800

24 Operating Income

	1999-2000 Appropriated-in-aid <u>£'000</u>
Programme Income	423,304
Other	26,105
Total (Schedule 1)	449,409

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 10 to 30 under the Exchequer and Audit Departments Act 1921. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 15 to 17.

Respective Responsibilities of the Accounting Officer and Auditor

As described on page 8, the Export Credits Guarantee Department (“the Department”) and the Accounting Officer are responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Department and Accounting Officer are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by the National Audit Office (“NAO”) in accordance with their own statutory requirements and guided by the Auditing Practices Board and the auditing profession’s ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report and the Foreword is not consistent with the financial statements, if the Department has not kept proper accounting records or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and the Foreword, and consider whether it is consistent with the audited financial statements. I consider the implications for my opinion if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on page 9 reflects the Department’s compliance with Treasury’s guidance “Corporate governance: statement on the system of internal financial control”. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of Opinion

I conducted my audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department and the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity, and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In forming my opinion, I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Fundamental Uncertainty

In forming my opinion I have also considered the adequacy of the disclosures made in Note 1 to the financial statements on page 15 concerning the inherent uncertainty attaching to the final outcome of the risks underwritten and claims recoveries. As explained in Note 1, the ultimate liability for claims and losses may vary as a result of subsequent events and may result in material adjustments to amounts included in the accounts. My opinion is not qualified in this respect.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Export Credits Guarantee Department at 31 March 2000 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Exchequer and Audit Departments Act 1921 and directions made thereunder by the Treasury, and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

Sir John Bourn KCB
Comptroller and Auditor General

12 December 2000

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Annex A

ACCOUNTS DIRECTION**Export Credits Guarantee Department****Accounts Direction given by the Treasury in accordance with section 5 of the Exchequer and Audit Departments Act 1921**

The Export Credits Guarantee Department shall prepare resource accounts for the year ended 31 March 2000 which comply with the accounting principles and disclosure requirements of the HM Treasury Resource Accounting Manual ("the Resource Accounting Manual") which is in force for that financial year, subject to the following paragraph.

The department has agreed with the Treasury that it is necessary to make disclosures in the operating cost statement and balance sheet, which vary, from the standard disclosures in the Resource Accounting Manual. The disclosures reflect the specialised and long term nature of insurance activity, and a requirement that the department measure performance over more than one financial year, particularly where cash deficits are funded by the Exchequer. The capital-charging regime has also been varied to reflect the cost of Exchequer funding in past years.

The accounts shall be prepared so as to give a true and fair view of the state of affairs of the department at 31 March 2000 and the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year then ended.

Compliance with the requirements of the Resource Accounting Manual and the variations agreed with the Treasury will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. Any further material departure from the Resource Accounting Manual should be discussed in the first instance with the Treasury.

Treasury Officer of Accounts
June 2000

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