

Accountability



The UKEF Board supports the Chief Executive in the management of UKEF through operational oversight and by providing advice, challenge and assurance. The Chief Executive, as Accounting Officer, is personally responsible to Parliament for stewardship of resources.

UKEF Board members

1 Louis Taylor

Chief Executive

Louis joined UKEF in October 2015. His previous roles include Chief Operating Officer, Group Treasury at Standard Chartered Bank; CEO of Standard Chartered in Vietnam, Cambodia and Laos; and Vice Chair of the European Chamber of Commerce in Vietnam.

2 Guy Beringer CBE

Non-executive Chairman

Guy joined UKEF as Chairman in January 2010. He is Chairman of The Legal Education Foundation and City Music Services. He is a director of BCKR, an adjunct professor at the Imperial College Business School and Co-Chair of the Bingham Centre appeal board. Guy qualified as a solicitor with Allen & Overy, where he was senior partner from 2000 to 2008. In October 2006, he was appointed Queen's Counsel for his contributions to pro bono and legal services.

3 Cameron Fox

Chief Financial Officer

Cameron joined UKEF in January 2006 and has held a number of finance positions within the organisation over this period. Prior to joining, Cameron worked at HM Treasury on various finance projects. Cameron has also worked as an accountant in audit and tax services for public and private sector organisations.

4 David Havelock

Credit Risk Group Director

David joined UKEF in October 2005. He is Director of the Credit Risk Group, a member of the Executive Committee. David was Director of Credit Management, Corporate Banking Services at NatWest Bank. More recently, he was a director at Close Brothers corporate finance, and worked for Arthur Andersen and Ernst & Young.

5 Justin Manson

Ex-officio member of UKEF Board as director at UK Government Investments

Justin joined UK Government Investments as a director at its creation on 1 April 2016. Before that, he was a director in the Shareholder Executive, which he joined in June 2015. Previously he was an investment banker at Morgan Stanley for 20 years and before that at CSFB and First Boston for 8 years. He is a trustee of the Chelsea Academy Foundation and has been a trustee of the Royal National Theatre Foundation.

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6 Jane Owen
Ex-officio member of UKEF Board as
Chief Operating Officer at UKTI

Jane has been Chief Operating Officer at UKTI since 2014. Prior to this she was the UK ambassador to Norway. Previous roles include Director of Trade Promotion for the British Embassy in Tokyo; Deputy Head of Mission at the British Embassy in Hanoi, Vietnam; and the Head of Mediterranean and Asia Section in the EU department of the Foreign and Commonwealth Office.



7 Amin Mawji OBE
Non-executive director and Chair of
Audit and Risk Committee

Amin was appointed as a non-executive director of the UKEF Board in 2013. He is Chair of the UKEF Audit and Risk Committee. Amin was a partner at Ernst & Young. He has served as a member of the CBI Manufacturing Council and was previously a member of the Audit and Finance Committee at the Department for International Development and the Audit and Risk Committee at the Department for Environment, Food and Rural Affairs.



8 Gordon Welsh
Business Group Director
(from 31 March 2016)

Gordon was previously UKEF's Head of Aerospace, having undertaken a number of product and business development roles within UKEF. Before joining UKEF he had an extensive career in banking in the UK and the US and spent 3 years with Airbus in its customer sales financing team before taking a year's secondment to work with the UK's Secretary of State for Trade and Investment to set up an export promotion scheme.



9 Lucy Wylde
General Counsel

10 Lucy Wylde
General Counsel

Lucy joined UKEF in January 2014. She is a member of the Executive Committee. Prior to joining UKEF, Lucy was General Counsel for Commercial Law in the Cabinet Office and before that General Counsel of the Asset Protection Agency, an executive agency of HM Treasury. She joined the Asset Protection Agency after a long career in company/commercial law at Slaughter and May, where she became a partner in 1993.



10 Sir Eric Peacock
Non-executive director

Sir Eric was appointed as a non-executive director of the UKEF Board in 2011. Knighted in 2003 for his services to international trade, he previously sat on the boards of UKTI, the Foreign and Commonwealth Office and the Department for Business, Innovation and Skills. He is currently Chairman of a number of SMEs and also leads The Peacock Foundation, Uniqueness and the AB Trust, all of which help disadvantaged children and young adults.



“It is fundamental to each accounting officer’s responsibilities to manage and control the resources used in his or her organisation. The governance statement, a key feature of the organisation’s annual report and accounts, manifests how these duties have been carried out in the course of the year.” *Managing Public Money 2012.*

Governance statement

Introduction

As Accounting Officer for UK Export Finance, I am responsible to ministers and Parliament for the management of the department's operations, including the stewardship of financial resources and assets. This governance statement sets out how this responsibility has been discharged for the period 1 April 2015 to 31 March 2016. I became Accounting Officer on 19 October 2015. This governance statement therefore provides my report since that date and takes account of an interim governance statement by my predecessor.

The areas covered below are:

- the organisational arrangements for managing operations, constituting the department's corporate governance framework
- my statement on the nature of UKEF's business and its vulnerabilities and resilience to challenges, requiring risk management and controls

Background

UKEF's principal role is to provide support for exports in the form of insurance and guarantees. In doing so, it complements the provision of support from the private market, taking account of wider government export strategy and policies.

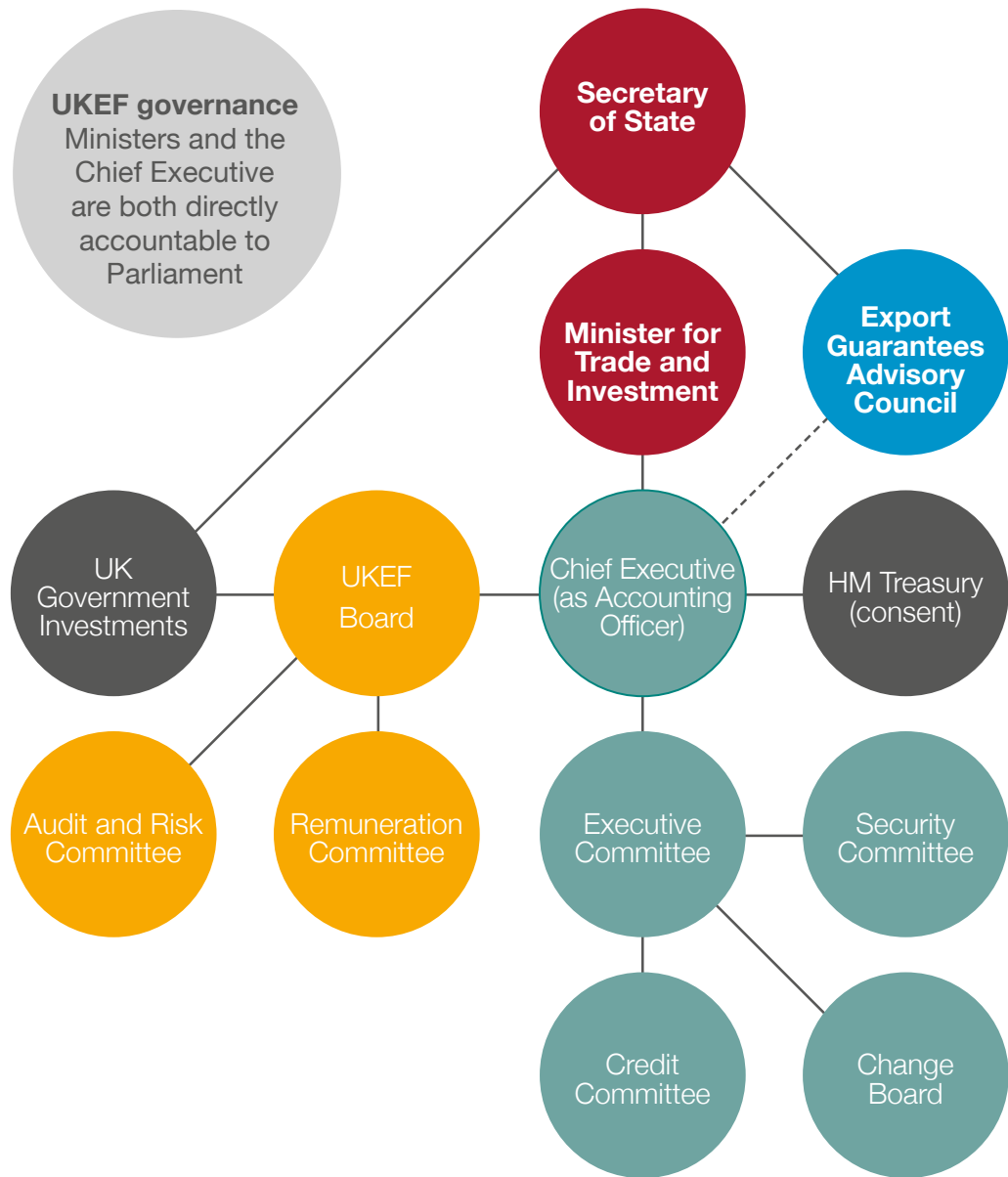
In providing support, UKEF seeks to:

- engage with exporters, buyers and delivery partners such as banks, without displacing private providers
- provide a quality of service that is responsive to new business, with a focus on solutions within the bounds of acceptable risk and in accordance with its statute
- maintain the confidence of ministers, Parliament and customers
- communicate what it does to interested parties in an effective way

Corporate governance framework

Statutory powers

UKEF reports to the Secretary of State for Business, Innovation and Skills. Its statutory powers are derived from the Export and Investment Guarantees Act 1991 (EIGA), as amended. The EIGA provides that the powers may only be exercised with the consent of HM Treasury ('the consent'), which includes a financial framework including financial objectives and reporting requirements.



Ministers

I report to the Secretary of State for Business, Innovation and Skills and the Minister of State for Trade and Investment. Ministers have been provided with regular written and verbal advice and briefings on a range of issues concerning the operations of UKEF.

HM Treasury

HM Treasury issued a revised consent in 2015 that facilitated UKEF making available new products following the changes to its statutory powers included in the Small Business, Enterprise and Employment Act (effective from 26 May 2015). Where the consent does not give authority to the Secretary of State to make any particular arrangement to support an export, UKEF must obtain specific consent from HM Treasury.

Along with other UKEF officials, I meet officials from HM Treasury regularly to advise them on matters related to the consent and the operations and performance of the department. Throughout the year, we supply HM Treasury with reports so that it can monitor UKEF's financial performance. HM Treasury also attends UKEF Board meetings as an observer.

Shareholder Executive (UK Government Investments (UKGI) from 1 April 2016)

UKGI is responsible for providing independent advice to the Secretary of State in the exercise of his responsibilities for UKEF. A representative is an ex-officio member of UKEF's Board, and UKGI monitors UKEF's ongoing performance in relation to the HM Treasury consent.

Particular areas of advice are:

- corporate governance matters such as the appointment and remuneration of UKEF's Chairman, Non-Executive Directors and Chief Executive
- financial and operating performance and key performance indicators
- risk management functions and processes
- business planning and strategic direction
- alignment of policy objectives with other government departments

Department for Business, Innovation and Skills (BIS)

BIS is responsible for providing advice to ministers on policy objectives for export finance and UKEF in the context of the government's overall approach to trade, investment and growth strategy.

Trade and Investment Board (T&I board) (until January 2016)

The T&I board was chaired by the Minister for Trade and Investment with membership drawn from UKEF and UKTI, non-executive directors, and representatives from BIS, the Foreign and Commonwealth Office and a business organisation. Its remit was to provide strategic support to the Minister of

State for Trade and Investment by:

- providing advice on the effectiveness of the government's trade and investment strategy
- aligning and prioritising UKEF's and UKTI's strategic objectives and projects
- reviewing UKEF's and UKTI's business plans to ensure that they are co-ordinated and in line with strategy and priorities

Export Guarantees Advisory Council

The Export Guarantees Advisory Council is a non-departmental public body (NDPB) established under the EIGA. Its role is to advise the Secretary of State for Business, Innovation and Skills on the policies that UKEF applies when doing business, particularly those related to:

- environmental, social and human rights
- anti-bribery and corruption
- sustainable lending
- disclosure, in line with information legislation

The council independently publishes a report of its business in the year, which is available on page 103 and also from the council's webpages at www.gov.uk/government/organisations/export-guarantees-advisory-council.

UKEF Board

In discharging my responsibilities, I am advised by the UKEF Board, of which I am a member. The board is led by a non-executive Chairman. Its membership consists of executive directors (the Chief Executive, the Credit Risk Group Director, the Head of Business Group, the General Counsel and the Chief Financial Officer) and non-executive directors including ex-officio representatives from UKTI and UKGI. There is also an observer from HM Treasury. The terms of reference require there to be a majority of non-executive and ex-officio members.

The board's role is to support the Accounting Officer in the management of UKEF through operational oversight and by providing advice, challenge and assurance.

The non-executive directors are appointed through open competition on the basis of relevant expertise and merit. They provide me with an independent source of advice, scrutiny and challenge on strategic and operational issues, UKEF's financial performance, and the arrangements for enterprise risk management and control.

The board reviews its effectiveness every year and an internal audit review is undertaken every 3 years. Executive Committee members take responsibility for the quality of data provided to the board from their respective areas of responsibility.

Through the maintenance of a register of interests, potential conflicts of interest involving the non-executive directors are identified and, if necessary, addressed.

The minutes of UKEF Board meetings are published on UKEF's website.

The board has 2 sub-committees, membership of which comprises non-executive directors and other independent representatives agreed by the UKEF Board.

Audit and Risk Committee

This committee examines and reviews the adequacy of the arrangements for accounting, enterprise risk management and control. I attend the meetings, as does the Chief Financial Officer, the General Counsel, the Head of Internal Audit and Assurance and officials from the National Audit Office. The Chair formally reports the outcome of meetings to the board. In accordance with its terms of reference, in 2015-16 the committee reviewed the:

- planned activity and outputs of the Internal Audit and Assurance Division and the external auditors
- operational risk management framework
- accounting policies applied by UKEF
- annual report and accounts

Remuneration Committee

This committee considers and agrees proposals from the Chief Executive on individual pay decisions as per the criteria outlined in guidance from the Cabinet Office about the remuneration of its Senior Civil Service (SCS) members; and ensures that these recommendations take into account any requirements or guidance from the Cabinet Office, including that the average increase to the SCS pay bill is within any centrally determined budget.

Executive Committee

I am supported in the management of UKEF by the Executive Committee, which I chair. Its membership is composed of executive directors who are all members of the SCS:

- David Havelock, Credit Risk Group Director
- Steve Dodgson, Head of Business Group (Gordon Welsh from 31 March 2016)
- Lucy Wylde, General Counsel
- Cameron Fox, Chief Financial Officer
- Shane Lynch, HR Director (from 31 March 2016)

The minutes of Executive Committee meetings are published on UKEF's website.

There are 3 sub-committees of the Executive Committee, each of which is chaired by members of the Executive Committee and whose membership is drawn from senior staff in UKEF:

- Credit Committee, which advises on the effective management of UKEF's credit risk exposures at the transaction and portfolio level, and for compliance with credit risk policies
- Change Board, which advises on whether UKEF's investment in maintaining and improving its infrastructure, systems and processes is appropriate and effectively targeted and managed, and represents value for money
- Security Committee, which advises on the security of the assets required for UKEF's business operations, systems and processes, ensuring that they are appropriately secured in accordance with legal, regulatory and central government requirements

Governance in 2015-16

As Accounting Officer, I state that:

- All instructions given to me by ministers were in accordance with the EIGA, the consent and applicable international agreements.
- It was not necessary in the year to seek a written direction from the minister resulting from concerns about financial regularity, propriety or feasibility.
- UKEF met all its financial objectives in the financial year.
- I met ministers, UKGI, HM Treasury and BIS officials as necessary to brief them about issues related to UKEF, so that they could provide informed advice to ministers if and when required.
- Measures are being taken to recruit additional non-executive directors to allow for a majority of non-executive directors and ex-officio members on the board.
- An assessment of the effectiveness of the Board was under way as at 31 March 2016.

- The Executive Committee met most weeks throughout the year,
- The UKEF Board met 8 times in the year, the Audit and Risk Committee met 5 times and the Remuneration Committee met twice.

Executive directors and their roles

The roles of the executive directors are as follows:

- Head of Business Group: responsible for our support for exports and the marketing of this support
- Credit Risk Group Director: responsible for financial risk and related management systems and practices, and the operational risk second line of defence model
- General Counsel: responsible for all legal matters and for managing legal risk
- Chief Financial Officer: responsible for finance and accounting

Members of the UKEF Board and its sub-committees (with attendance figures)

Name of Board member	Role	UKEF Board	Audit and Risk Committee	Remuneration Committee
Guy Beringer	Non-executive Chairman	8/8		2/2
Amin Mawji	Non-executive Board Director and Chair of Audit and Risk Committee	7/8	5/5	2/2
David Harrison²⁹	Non-executive member of Audit and Risk Committee		2/2	
Sir Eric Peacock	Non-executive Board Director	7/8	5/5	1/2
Jane Owen	Ex-officio Board member	5/7		
Roger Lowe³⁰	Ex-officio Board member	1/2		
Justin Manson	Ex-officio Board member	6/6	3/3	1/1
Louis Taylor (from 19 October 2015)	Executive Director	3/3		
David Godfrey (to 18 October 2015)	Executive Director	5/5		
Steve Dodgson	Executive Director	7/8		
David Havelock	Executive Director	7/8		
Lucy Wylde	Executive Director	8/8		
Cameron Fox	Executive Director	8/8		

²⁹ David Harrison retired from the Audit and Risk Committee after June 2015.

³⁰ Roger Lowe took over as Shareholder Executive representative from May 2015 and was replaced by Justin Manson from July 2015.

Risk management and control

Our financial risk management is described in detail in the financial risk review on pages 69 to 91.

Strategic and operational risk

UKEF’s strategic risks are defined as situations or occurrences which could have a material impact on UKEF but over which it has little or no control, such as significant political events.

Operational risks relate to threats that might impair our ability to fulfil our statutory purpose, achieve our financial objectives, adhere to international agreements, implement policies set by ministers, manage public money or apply other regulation related to being a ministerial department.

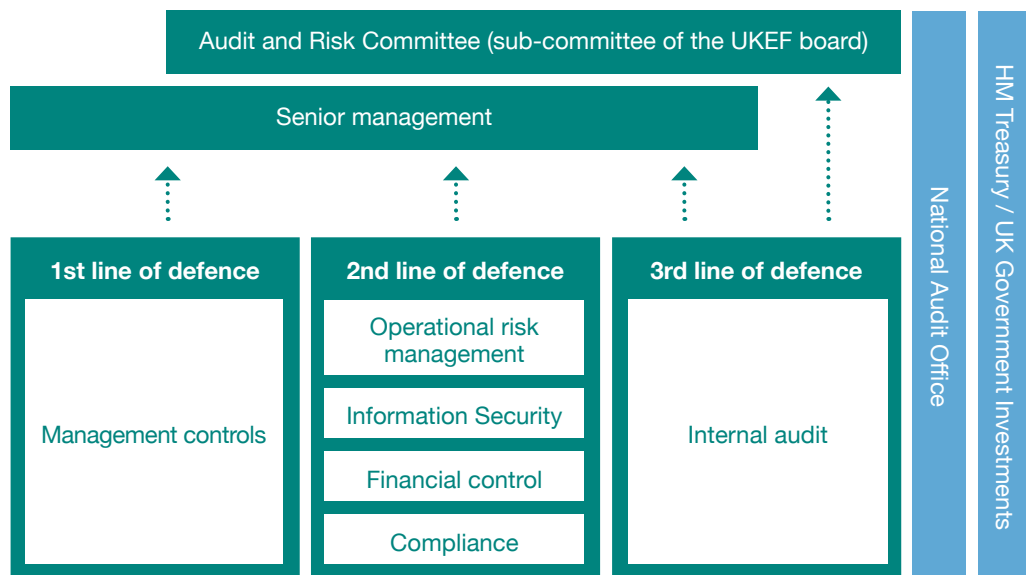
Risks may arise from a variety of internal and external sources and events. For example, changes in risk appetite by the private market may cause an increase in demand for UKEF support for exports, thus creating additional demands on staff. Internally, a failure to follow prescribed processes could lead to avoidable financial losses.

The system of internal control in UKEF is designed to identify, rank and prioritise strategic and operational risks, to evaluate the likelihood of those risks occurring, and to assess their impacts and to manage them accordingly. The system is designed to manage and mitigate risk to a reasonable level, rather than to eliminate all risk. It can therefore provide a reasonable, but not absolute, assurance of effectiveness.

The operational risk team promotes UKEF’s ‘3 lines of defence’ framework (see graphic below). It owns the operational risk framework, policy and templates and works closely with divisional heads to reinforce operational risk ownership and accountability. The team engages with individual divisions via nominated contact points, known as ‘risk champions’, to provide support and maintain awareness.

Strategic and operational risks and mitigating strategies were reviewed during the year by the Executive Committee, the Audit and Risk Committee and the UKEF Board.

The '3 lines of defence' framework



Information risk

Information security risk in the department is reviewed on a regular basis. The Senior Information Risk Officer is the Board-level representative responsible for information risk.

Our security policy and procedures are managed by a security officer. We measure ourselves against government information assurance standards every year.

The last review, in June 2015, found that information security risk was being appropriately managed. Independent sources of assurance are provided to the Security Committee as part of an annual programme of work, including assessment of UKEF suppliers, the results of disaster recovery testing, penetration testing and accreditation of core services.

The programmes of work also include regular communications and briefings to the Board, senior management team and all staff. A security risk register, which includes information security risks, is reviewed as a standing item at each meeting of the Security Committee.

Individual staff members are responsible for the identification of information assets and their location, use and protection, and an information asset register is in place to record these assets.

Access to sensitive information is restricted on a 'need-to-know' basis, and staff are trained in information security so that they understand the risks associated with handling information both within and outside UKEF.

Procedures are in place to administer responses to requests for information from the public under information legislation that gives the public rights of access. Policies, which are reviewed annually, are in place to ensure compliance with relevant legislation such as the Data Protection Act and with central government requirements such as the security policy framework.

We have not identified any significant data losses, corruption or breaches of information security during the period.

Whistleblowing policy

We have a whistleblowing and raising-a-concern policy in place. No disclosures were made under the policy in 2015-16.

The policy is based on guidance provided by the Civil Service employee policy, one of the expert services for the Civil Service. This was last updated and approved by UKEF's Executive Committee and Audit and Risk Committee in 2015 following a number of recommendations from the Public Accounts Committee.

Internal audit and assurance

Our internal audit charter is the policy document that defines the purpose, authority, and responsibility of the Internal Audit and Assurance Division (IAAD) within the organisation.

The charter establishes IAAD's position within the department; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the Audit and Risk Committee acting on behalf of the UKEF Board.

Public sector internal audit standards issued by HM Treasury in December 2012 offer the following definition of the role of internal audit: "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes." This is the model adopted by UKEF.

In 2015-16, IAAD completed 15 audits, of which 3 were given a red opinion and 3 an amber opinion. On the basis of the internal audit work completed, the Head of Internal Audit's opinion was that some improvements were required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Overall, 100 audit actions were implemented in the year. As at 31 March 2016, there were a further 22 open – but not overdue – actions receiving attention.

Audit information

Our financial statements are prepared in accordance with the Accounts Direction issued under Section 5(2) of the Government Resources and Accounts Act, 2000.

Our accounts are audited by the Comptroller and Auditor General. I confirm that, so far as I am aware, there is no relevant audit information of which the department's auditor is unaware and that I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the department's auditor is aware of that information.

Compliance

We are committed to following best practice and public sector standards in areas of governance, accountability, transparency and risk management to achieve its objectives. These form an integral part of public sector services in the UK. As part of its business operations, UKEF faces risks of financial loss and risk of damage to its integrity and reputation from any failure to comply with all applicable laws and regulations. To give increased assurance that these risks are being appropriately managed, work has been undertaken during 2015-16 to establish an independent compliance function reporting to the General Counsel.

The compliance function will have comprehensive oversight of the controls in place to ensure compliance with the

regulatory framework within which UKEF operates. It will work closely with the department's operational risk and internal audit functions.

Significant risks and mitigating measures

Resources

A significant proportion of roles performed in UKEF are particular to the department and are not found elsewhere in the Civil Service.

The largest staff groupings are credit risk analysts, underwriters, risk pricing, export finance advisers and members of the direct lending team. These teams are supported by back office functions processing deals, and support services such as communications, finance, IT and HR.

Even within the support functions, financial services experience is desirable, for example due to the IT systems used and financial reporting requirements.

UKEF salary levels lag behind financial services and related public sector comparators. This inability to offer competitive salary packages resulted in significant impacts on recruitment and retention in key business areas.

We engaged with HM Treasury to address the lack of competitiveness of the pay offering for key posts and reached an agreement whereby allowances were added to the salaries of specialist roles within the department. This will not result in additional expenditure overall for the department.

The organisation continues to develop existing staff to meet some of the specialist staffing requirements but it can take several years to equip a generalist with the necessary skills and experience to engage on a level playing field with their counterparts within the banks, brokers, law firms, exporters and overseas buyers with whom they interact on a day-to-day basis.

A number of experienced staff retired during the year, and their absence will mean a loss of skill and knowledge relating to export finance matters that will be difficult to replace in the short term. These posts will be filled in due course, but in the meantime opportunities will be created for our current staff to take greater responsibility, to grow their own skills and to give them an opportunity to form the next wave of senior managers.

Changeover of IT provision

The department's outsourced IT services contract with CGI terminates in summer 2016. The 'Efit' programme was established to plan and implement the replacement arrangements. Cabinet Office guidance is that departments should seek to avoid 'monolithic' contracts, and instead look to commoditise IT services using a number of specialist suppliers. UKEF's new arrangements will conform to this model.

The changes require that all the central IT equipment currently housed in the CGI data centre is removed and alternative arrangements put in place. To minimise the risks associated with these changes, wherever possible the existing business IT applications will not be changed.

The structure of the new arrangements has been approved by the Government Digital Service. The designs for the new virtual data centre have been quality assured by Microsoft, with implementation being undertaken by a leading Microsoft business partner.

The banking system we use to record and monitor most UKEF-issued business, will in future be operated by the application owners on a software-as-a-service (SaaS) basis. The use of the software authors to operate and support this vital business application in the future materially reduces the risks associated with the transfer of this complex system away from CGI.

To mitigate the risk of not having satisfactory arrangements available at the end of the CGI contract, the ability to extend the

contract for a short period has been agreed, should the need arise.

Administration of export transactions, including applications for new or novel types of support

In 2011, our business domain was expanded beyond supporting exporters of capital goods and services. New products were introduced to meet new demands, resulting in increased activity levels.

We have increased our investment in marketing and communications to raise awareness of our products and services, particularly targeting smaller exporters and financial intermediaries (banks, brokers, etc). The widening of our statutory powers will enable us to be more responsive to the needs of businesses.

We are developing appropriate operating processes and controls, documentation, business manuals and reporting infrastructure to administer these new products effectively and ensure compliance with relevant legal, regulatory and government policies on an ongoing basis.

Documentation is being finalised and staff are receiving training. Significant investment is being made to achieve this, involving a programme of work to implement the required changes to systems, processes and documentation, including an increased use of digital platforms.

This in itself carries operational risk but, furthermore, because UKEF complements the private sector, and does not compete with it, the availability of bank finance and private sector insurance also influences business levels and is a factor over which UKEF has no direct control.

The risk appetite of the private sector can change materially and within a relatively short timeframe. If it does so, and at the same time demand for new or novel cases exceeds expectations in the short term, then operational processes, infrastructure and staff resources could come under significant pressure, potentially resulting in performance or internal control issues.

Many of our products are delivered in partnership with the banks. Historically there have been challenges in reconciling product-related management information, especially with regard to premium collection between UKEF and the bank. This has led to operational delays, with a consequential delay in the collection of premium income.

We are putting in place a series of operational improvements agreed with the banks to reduce the effect of mismatching premium remittances. Work will continue to embed this change, together with potential modifications to the underlying documentation.

A recent review by a firm of external consultants identified this process weakness, together with a number of other minor, post-issue management issues. A cross-functional project team has been put in place to address these issues and to recommend procedural improvements. Many of these improvements have already been implemented, and the team continues to explore additional process modifications.

Electronic documents, email, information and case management

In April 2015, the department introduced a case management system for case-related documents, emails and information. It has been our records management policy since then that all new case-related electronic documents and emails are stored using this new system. It replaced a multiplicity of document and information repositories that occasionally resulted in the duplication of documents and information on cases across a number of systems. The new system was designed to act as the single location for storing, accessing and retrieving case material. An internal audit found, however, that although the majority of users interviewed operated this new system to some extent and considered it an improvement on previous systems, there was inconsistent use across the organisation as a whole. It also recommended a wider review of

how we manage our electronic records to minimise risks to the quality of our long-term document and record storage. A project has been set up to assess current practices, provide a gap analysis against best practice and put in place any remedies required to provide assurance that records created are accurate, unique and retrievable.

Streamlining of UKEF processes

We are introducing a more flexible and efficient process for providing export trade finance to UK SMEs. Subject to meeting specified criteria, UK financial institutions will be able to obtain UKEF's guarantee for contract bonds and working capital loans without the need to seek prior approval from UKEF.

The new process will eliminate duplicative credit and know your customer due diligence to a significant extent, thereby reducing turnaround times for SME clients significantly and increasing the number of exporters assisted.

The new process is designed to be simple, scalable and efficient, and an innovation that will aid the UK's SMEs.

We have just started a 3-month parallel testing phase with Santander to run the new process alongside the existing delivery mechanism. Provided this phase is successful, and subject to agreement with all participating banks on the underlying legal documentation, a live roll-out will begin in 2016-17.

The primary risk of failing to meet these deadlines is reduced process efficiency and slower response times for SMEs, and ultimately an operational model that lacks scalability. This risk is being managed by working in close collaboration with participating banks, all of whom have indicated their willingness to participate in the new approach.

IR35

Failure to comply with government rules on the tax arrangements of off-payroll workers could lead to fines being imposed on UKEF. New contingent labour employees are sourced through the government's Contingent LabourONE procurement framework wherever possible, to ensure that we comply with the necessary contract clause requirements.

Procedures for complying with the revised procurement policy note issued by the Crown Commercial Service on 27 March 2015 have been approved by UKEF's Executive Committee. These include a requirement for all in-scope workers engaged by UKEF who are working outside IR35 to undertake a contract review from HM Revenue and Customs' free contract review service or via the Ministry of Justice specialist tax team.

These new measures ensure that the department meets all its obligations in relation to the tax status of off-payroll assignments.

Compliance with the principles of the Corporate Governance in Central Government Departments Code of Good Practice, 2011

In preparing this statement, I have taken into account the Corporate Governance in Central Government Department Code of Practice, 2011. I am satisfied that UKEF is able to demonstrate compliance with the material aspects of this code for the relevant period.



Louis Taylor
Chief Executive and Accounting Officer
30 June 2016



We are only as good as the people we employ. In 2016-17 we will:

- implement changes to allow for greater flexibility to marshal resource
- further increase learning and development opportunities for staff that will add to their ability support exporters
- invest more heavily in developing current and future leadership talent for key roles.

Our people

One of our strategic objectives is to make sure that UKEF is a great place to work.

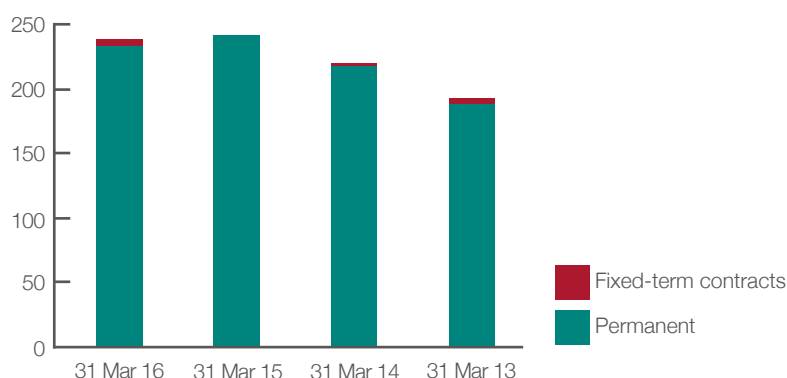
It helps that we are unique. Our people can gain experience of working on award-winning transactions, recognised within the financial services sector for their innovation. At the same time, they gain experience of working in a central government department, perhaps shaping international policy, or briefing ministers on export finance. This mix of a government and a commercial focus offers the opportunity to develop a wide range of skills, and we are committed to doing more to help our staff reach their potential.

Size and make-up of our workforce

The following tables describe the size and workforce of UKEF. Our staff numbers remained broadly steady since 2014-15, as we reduced our use of off-payroll staff and moved to an operating model that allows us to allocate staff resource more flexibly to meet changing business demands. Total staff costs for 2015-16 were £16.1 million. The cost of agency staff was £2.5 million.

Further detail on staff costs and other operating costs can be found in Notes 7 and 8 of the Accounts on page 168.

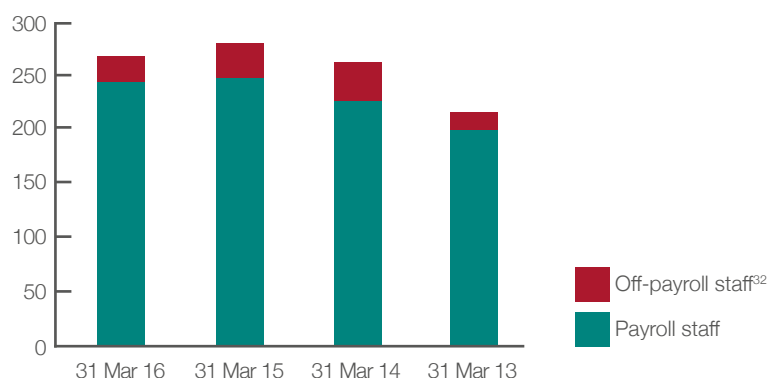
Full-time equivalents



	31 March 2016	31 March 2015	31 March 2014	31 March 2013
Permanent	233.0	241.5	217.9	188.5
Fixed-term contracts³¹	6	0	2	4

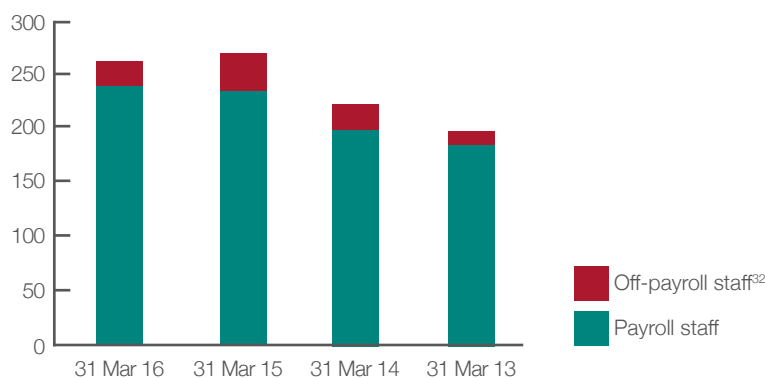
³¹ Fixed-term appointment of less than 12 months.

Payroll/off-payroll staff – headcount



	31 March 2016	31 March 2015	31 March 2014	31 March 2013
Payroll staff	243	246	225	198
Off-payroll staff³²	24	33	36	17

Payroll/off-payroll staff – average full time equivalent over the financial year



	2015-16	2014-15	2013-14
Payroll staff	242	238	202
Off-payroll staff³²	24.2	35	24

Workforce shape: headcount (%)

	31 March 2016		31 March 2015		31 March 2014	
	Number of posts	%	Number of posts	%	Number of posts	%
Administrative Assistants and Officers	19	(7.8)	19	(7.7)	19	(8.4)
Executive Officers	28	(11.5)	27	(11.0)	30	(13.3)
Higher and Senior Executive Officers	116	(47.7)	118	(48.0)	102	(45.3)
Grade 6/7	66	(27.2)	66	(26.8)	60	(26.7)
Senior Civil Servants	14	(5.8)	16	(6.5)	14	(6.2)

³² 'Off-payroll staff' encompasses consultants and contingent labour, ie interim managers, specialist contractors and agency staff.

Recruitment

All Civil Service recruitment is carried out in accordance with the relevant employment legislation and the recruitment principles issued by the Civil Service Commission. In 2015-16, UKEF appointed the following members of staff.

	Permanent appointments ³³	Fixed-term appointments	Loans from other government departments	Secondments	Total
Administrative Assistants and Officers	2	4	0	0	6
Executive Officers	5	1	0	0	6
Higher and Senior Executive Officers	14	3	0	2	19
Grade 6/7	6	1	1	0	8
Senior Civil Servants ³⁴	1	2	0	0	3

2015 staff survey results

The 2015 staff survey measured experience at work across 9 themes. UKEF's overall staff engagement score was 58%, in line with the civil service average, and we scored highly in 6 of the 9 areas. A working group, including 2 executive directors, continues to address outcomes from the survey and agree further actions.

Highlights	
My work	80%
Organisational objectives & purpose	89%
My manager	68%
My team	81%
Inclusion and fair treatment	74%
Resources and workload	74%
Areas for improvement	
Learning and development	49%
Leadership and managing change	41%
Pay and benefits	14%

Alongside the work of staff working groups, we are exploring possible improvements to our benefits package, mindful of public expenditure constraints. Further investment in learning and development, including leadership development, remains a priority.

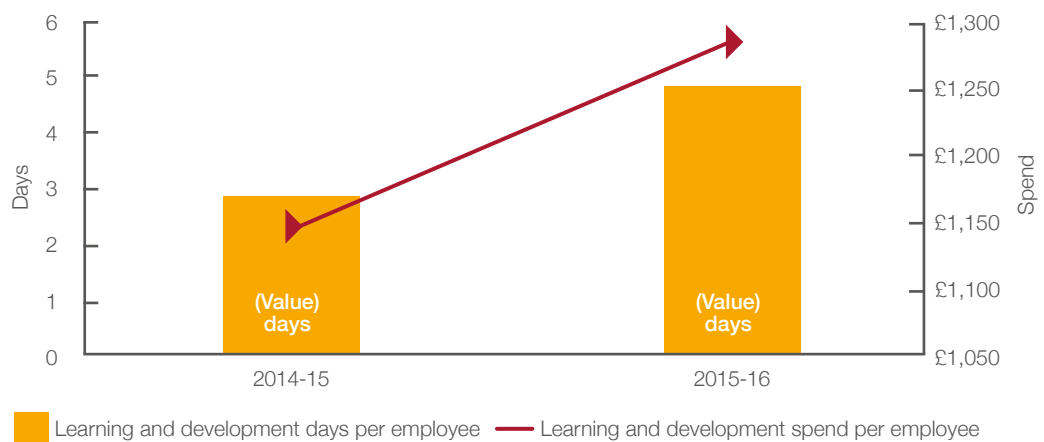
³³ This includes permanent transfers from other government departments.

³⁴ the 14 Senior Civil Servants as at 31 March 2016 consisted of 1 SCS3, 2 SCS2 (two vacancies) and 11 SCS1.

Learning and development

During 2015-16 the average number of days spent on learning and development per full-time equivalent was 4.82, with an average spend of £1,286 per full-time equivalent, which included formal training courses as well as other forms of development such as coaching and on-the-job training.

Leadership development is a key priority for us. In 2015-16 the Executive Committee undertook comprehensive assessments provided by Hay Group, and received individual and composite feedback on leadership strengths and areas for development. Two leadership development programme pilots were run, one for Higher Executive Officers and Senior Executive Officer line managers and one for Grade 7 and Grade 6 line managers; the outcomes of these pilots will be evaluated and will feed into ongoing development programmes for all UKEF leaders.



Diversity

We continue to work with the cross-Civil Service Diversity Network Group, sharing best practice. In 2015-16 we undertook a diversity data collection exercise to improve the information held, so that positive action can be taken where appropriate. The information gained from this exercise will be used to inform the Diversity Action Plan, scheduled for publication in summer 2016.

	Women (%)	Black and minority ethnic (%)	Disabled (%)
Administrative Assistants and Officers	12 (68.4)	11 (57.9)	2 (10.5)
Executive Officers	14 (50.0)	19 (67.9)	5(17.9)
Higher and Senior Executive Officers	39 (33.3)	29 (24.8)	4 (3.4)
Grade 6/7	21 (31.8)	10 (15.2)	2 (3.0)
Senior Civil Servants	2 (14.3)	1 (7.1)	0 (0.0)
Total	88 (36.2)	70 (28.7)	13 (5.3)

We put a number of measures in place to support potential and existing employees with disabilities. At the application and interview stage, we use the guaranteed interview scheme, whereby any disabled candidate whose application meets the minimum criteria will be guaranteed an interview. For the employment and retention of staff with disabilities, we adhere to an internal guide on “How to make reasonable adjustments for employees with disabilities”. A range of our HR policies provide additional support for disabled employees, for example under our flexible working policy we can consider increased flexible working if requested by staff with a disability. We also require all staff to complete an e-learning course on equality, diversity and unconscious bias. And we undertake regular monitoring of our workforce against the various protected characteristics.

Health, safety and well-being

UKEF promotes the health, safety and well-being of its employees. UKEF's sickness absence levels, currently recorded as 7.15 days lost per person in the year, are in line with the Civil Service average, although they have risen from the previous year. The cost of sick absence in UKEF for 2015-16 was £212,000.

A new set of attendance management policies has now been implemented, encouraging a work-focused approach to supporting employees during periods of sickness absence. UKEF has an employee assistance programme and arrangements in place for occupational health referrals to ensure that the department carefully considers any reasonable adjustments that would facilitate a return to work or support employees at work.

UKEF provided employees with the opportunity for free flu jabs and health screenings during the year.

Sickness absence data

	31 March 2016	31 March 2015	31 March 2014
Average working days lost	7.15	6.3	6.1
Percentage of staff with no sickness absence	49.6%	50%	47%

Reward and recognition

In addition to annual performance recognition awards, UKEF operates a policy to recognise those employees who perform exceptionally, with a recognition scheme for employees going the extra mile throughout the year. During 2015-16 we made 97 one-off 'STAR' awards to employees through our recognition scheme.

The end to automatic pay progression was implemented during the year.

Remuneration policy

The remuneration arrangements for Senior Civil Servants are set by the Prime Minister following independent advice from the Senior Salaries Review Body.

In reaching its recommendations, the review body is to have regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities
- regional variations in labour markets and their effects on the recruitment and retention of staff
- government policies for improving public services, including the requirement on departments to meet the output targets for the delivery of departmental services
- the funds available to departments as set out in the government's departmental expenditure limits
- the government's inflation target

The review body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the review body can be found at www.ome.uk.com.

Remuneration Committee

The Remuneration Committee is responsible for overseeing the performance management and pay of executive directors of the UKEF Board. The role of the committee is to ensure that Cabinet Office rules and guidance are properly applied in the operation of the Senior Civil Service (SCS) performance management and pay system. The committee's terms of reference are to oversee the operation of the SCS pay system in UKEF. Specifically, the Committee:

- establishes and publishes an annual pay strategy
- assesses the achievement of the department's aims and objectives to inform the justification for non-consolidated awards
- endorses and authorises decisions on base pay increases
- communicates and monitors pay outcomes, including the publication of an annual report on the operation of the pay system
- ensures succession management for executive positions on the UKEF Board

The Chief Executive attends meetings, other than during discussion of his own performance. A representative from the Chief Executive's Office acts as secretary.

Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The recruitment principles published by the Civil Service Commission specify the limited circumstances when appointments can be made on any other basis.

Unless otherwise stated below, the officials covered by this report hold appointments which are open ended. Early termination, other than for misconduct, would result in the individual receiving compensation as

set out in the Civil Service Compensation Scheme. No such compensation payments were made to executive directors during the year.

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk.

Independent non-executive members of the UKEF Board are recruited through fair and open competition and are appointed for an initial period of 3 years with an option to extend for a further agreed period. These appointments can be terminated with one month's notice. There is no provision for compensation for early termination.

Salary and pension entitlements for senior management

The salary and pension entitlements of the most senior management (ie board members) of UKEF are set out in the following table. As well as the current members of the UKEF Board, this table also includes former members who left the department during the year or ceased to be a member. The disclosures following, through to page 139, have been subject to audit.

Single total figure of remuneration

	Salary		Bonus payments		Pension benefits ³⁵		Total	
	£000		£000		£000		£000	
	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16	2014-15
David Godfrey Chief Executive Apr-Oct	135-140 (245-250 full-year equivalent)	245-250	0	0	0	0	135-140	245-250
Louis Taylor Chief Executive Oct-March	110-115 (250-255 full-year equivalent)	0	0	0	44	0	155-160	0
Steve Dodgson Business Group Director	110-115	110-115	0	0	43	9	150-155	115-120
Cameron Fox Chief Financial Officer	85-90	85-90	10-15	5-10	34	23	130-135	115-120
David Havelock Credit Risk Group Director	130-135	130-135	10-15	10-15	37	36	170-175	180-185
Lucy Wylde General Counsel	160-165	155-160	10-15	0	0	0	175-180	155-160

Note

- 'Salary' includes gross salary; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances; and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the department and thus recorded in these accounts.
- Bonuses are based on performance levels attained and are made as part of the appraisal process. Due to the nature of the performance appraisal system, bonuses are paid in the year following the year for which the performance has been assessed. Therefore, the bonuses reported in 2015-16 relate to performance in 2014-15 and the comparative bonuses reported for 2014-15 relate to the performance in 2013-14.
- None of the most senior managers received any benefits-in-kind during the year.

³⁵ The value of pension benefits accrued during the year is calculated as the real increase in pension multiplied by 20 less the contributions made by the individual. The real increase excludes increases due to inflation or any increase or decrease due to a transfer of pension rights.

Pay multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

	2015-16	2014-15
Band of highest-paid director's remuneration³⁶ (£000)	250-255	245-250
Median total³⁷ (£)	38,923	40,000
Remuneration ratio³⁸	6.5	6.2

The banded remuneration of the highest-paid director in UKEF in the financial year 2015-16 was £250,000-£255,000 (2014-15: £245,000-£250,000). In 2015-16 this was 6.5 times (2014-15: 6.2) the median remuneration of the workforce, which was £38,923 (2014-15: £40,000).

The *Hutton Review of Fair Pay* recommended a maximum remuneration ratio of 20 for public bodies. The average ratio across the FTSE 100 has been calculated to be 150.³⁹

In both 2015-16 and the previous year, 0 employees received remuneration in excess of the highest-paid director. Remuneration ranged from £20,020 to £250,000 (2014-15: £19,225-£250,000).

Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value (CETV) of pensions.

The ratio is calculated by taking the midpoint of the total remuneration of the highest-paid executive director divided by the midpoint of the remuneration (median) of the organisation's workforce. This is based on the remuneration of the highest-paid executive director and remuneration of the full-time equivalent staff of other staff at the reporting period end date on

an annualised basis. The purpose of this calculation is to allow some comparability over time and across the public and private sector, where similar disclosures are made. However, the comparison should be treated with caution given the different services provided, workforce skills, geographical locations and organisational structures.

There is a small increase in the ratio from last year. This is explained by the increase in salary of the Chief Executive role, and a lower median total compared with last year due to a number of new staff this year taken on at, or near, the bottom of their grade's pay scale.

Pension benefits

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. Civil servants may be in 1 of 5 defined benefit schemes: either a final salary scheme (classic, premium or classic plus); or a whole-career scheme (nuvos, or alpha which was introduced on 1 April 2015). The normal pension age for staff in alpha is equal to the member's state pension age. Since 1 April 2015, newly appointed civil servants and the majority of those already in service joined alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has 4 sections: 3 providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole-career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with pensions increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and

³⁶ The banded, full-time equivalent, annualised remuneration of the highest-paid director as at 31 March 2016.

³⁷ The median, full-time equivalent total remuneration of the staff, excluding the highest-paid director, as at 31 March 2016.

³⁸ The pay multiple (ratio) between the highest-paid director and all other staff.

³⁹ David Oakley, 'Average FTSE 100 boss paid 150 times more than the average worker.' *Financial Times*, 12 June 2015.

13 years and 5 months from their normal pension age on 1 April 2012 will switch to alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. (The pension figures quoted for officials show pension earned in the PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha, the figure quoted is the combined value of their benefits in the 2 schemes). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary related and range between 3 per cent and 8.05 per cent of pensionable earnings for members of classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6 per cent and 8.05 per cent for members of premium,

classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to 3 years' initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos and alpha a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March), the member's earned pension account is credited with 2.3 per cent (nuvos) or 2.32 per cent(alpha) of their pensionable earnings in that scheme year, and the accrued pension is uprated in line with pensions increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

	Accrued pension at pension age as at 31/3/16 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/3/16	CETV at 31/3/15	Real increase in CETV	Employer contribution to partnership pension account
Officials	£000	£000	£000	£000	£000	£000
David Godfrey Chief Executive Apr-Oct	0	0	0	0	0	0
Louis Taylor Chief Executive Oct-March	0-5	2.5-5	29	0	20	0
Steve Dodgson Business Group Director	55-60 plus lump sum of 170-175	0-2.5 plus lump sum of 5-7.5	1,332	1,206	43	0
Cameron Fox Chief Financial Officer	0-5	0-2.5	19 (PCSPS); 18 (alpha)	17	11 (alpha)	0
David Havelock Credit Risk Group Director	20-25	0-2.5	367	343	31	0
Lucy Wylde General Counsel	0	0	0	0	0	0

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8 per cent and 14.75 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary up to 30 September 2015 and 0.5 per cent of pensionable salary from 1 October 2015, to cover the cost of centrally provided risk benefit cover (death in service and ill-health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos; for alpha, it is the higher of 65 or state pension age.

Further details about the Civil Service pension arrangements can be found at www.civilservicepensionscheme.org.uk.

Cash equivalent transfer values

A CETV is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in the senior capacity to which the disclosure requirement applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement), and uses common market valuation factors for the start and end of the period.

Staff pension costs

The PCSPS is an unfunded, multi-employer defined benefit scheme, and UKEF is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. The civil superannuation accounts are published by the Cabinet Office on www.gov.uk.

For 2015-16, employers' contributions of £2,238,114 were payable to the PCSPS (2014-15: £1,979,304) at 1 of 4 rates in the range 20.0 per cent to 24.5 per cent of pensionable pay, based on salary bands. The Scheme Actuary usually reviews employer contributions every 4 years, following a full-scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015-16 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £61,993 (2014-15: £47,407) were paid to one or more of the panel of 3 appointed stakeholder pension providers. Employer contributions are age related and range from 3 per cent to 12.5 per cent of pensionable pay (adjusted to between 8 per cent and 14.75 per cent from October 2015). The employer also matches employees' contributions of up to 3 per cent of pensionable pay. In addition, employer contributions of £2,318 (2014-15: £3,248), 0.8 per cent of pensionable pay (adjusted to 0.5 per cent from October 2015), were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill-health retirement of these employees.

At 31 March 2016 there were no contributions due to the partnership pension providers (31 March 2015: also nil).

Compensation for loss of office

Eight members of staff left under voluntary exit terms during 2015-16. They received a compensation payment of between £12,000 and £93,000. No member of staff left under voluntary redundancy or compulsory early retirement terms.

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme unless otherwise specified below. The Civil Service Compensation Scheme is a statutory scheme under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme.

Ill-health retirement costs are met by the pension scheme and are not included in the table below. During the year, no individual (2014-15: one individual) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £nil for 2015-16 (2014-15: £7,151).

Exit package cost band	2015-16			2014-15		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	-	-	-	-	1	1
£10,000-£25,000	-	2	2	-	1	1
£25,000-£50,000	-	4	4	-	-	-
£50,000-£100,000	-	2	2	-	-	-
£100,000-£150,000	-	-	-	-	-	-
£150,000-£200,000	-	-	-	-	-	-
Total number of exit packages	-	8	8	-	2	2
Total cost (£000)	-	348	348	-	19	19

Fees paid to non-executive directors

Non-executive directors are paid a fee for their attendance at UKEF Board, Audit and Risk Committee, Remuneration Committee and other ad-hoc meetings, and, from time to time, to perform other duties. They are also paid travel and subsistence expenses.

The total payments to non-executive directors for the year were in the following ranges.

Non-executive director	Fees for 2015-16 £000	Fees for 2014-15 £000
Guy Beringer CBE Chair of UKEF Board	45-50	45-50
David Harrison Member of Audit and Risk Committee; left June 2015	0-5	0-5
Amin Mawji OBE Member of UKEF Board Chair of Audit and Risk Committee	15-20	15-20
Sir Eric Peacock Member of UKEF Board Member of Audit and Risk Committee	10-15	10-15

As civil servants employed by other departments, Jane Owen and Justin Manson do not receive fees for their attendance at UKEF Board meetings.

Off-payroll engagements

Following the review of tax arrangements of public sector appointees published by the Chief Secretary to the Treasury in 2012, departments now publish annual information on their highly paid and/or senior off-payroll engagements. The tables below provide information on those off-payroll engagements paid more than £220 per day during 2015-16.

Off payroll engagements as at 31 March 2016, for more than £220 per day and that last for longer than 6 months

Number of existing engagements at 31 March 2016	13
of which	
less than 1 year	11
between 1 and 2 years	1
between 2 and 3 years	1
between 3 and 4 years	0
4 years or more at the time of reporting	0

Tax assurance for new off-payroll engagements

Number of new engagements, plus those that reached 6 months' duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than 6 months	16 ⁴⁰
Number of these engagements that include, or included, contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	16
Number for whom assurance has been requested	10 ⁴¹
of which	
assurance has been received	8
assurance has not been received	2
have been terminated as a result of assurance not being received	2 ⁴²

Off-payroll engagements of board members and/or senior officials with significant financial responsibility

Number of off-payroll engagements of board members, and/or senior officials, with significant financial responsibility during the year	0
Number of individuals that have been 'deemed' board members and or senior officials with significant financial responsibility during the year	10

Cost of off-payroll engagements

The total cost for 2015-16, including engagements of individuals whose daily cost was less than £220 per day, was £2.5 million (in 2014-15 the cost was £3.4 million).

Expenditure on consultancy

Total expenditure on Consultancy in 2015-16 amounted to £164,574 (2014-15: £165,791).



Louis Taylor
Chief Executive and Accounting Officer
30 June 2016

40 This includes 5 members of staff who stopped working for UKEF during 2015-16 plus the 11 (included in the previous table) who had been in the role for less than a year. The other 2 engagements featured in the previous table – those who had been in post for more than a year – had already provided the necessary assurance before 31 March 2015.

41 Six of the 16 new assignments are recent (less than 6 months as at 31 March 2016). For this reason, they have not been asked to complete an assurance assessment, but they have been made aware of their requirement to do so at the 6-month point. All off-payroll engagements are subject to the risk-based assessment as to whether assurance needs to be sought that the correct amount of tax is being paid.

42 The 2 contracts terminated were those 2 listed immediately above, where assurances were not received.



Parliamentary accountability

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed UKEF to prepare for each financial year accounts detailing the resources acquired, held or disposed of during the year and the use of resources by UKEF during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of UKEF and of its net resource outturn, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going concern basis

HM Treasury has appointed the Chief Executive as the Accounting Officer of UKEF.

The responsibilities of an accounting officer include the propriety and regularity of the public finances for which they are answerable, keeping proper records and safeguarding UKEF's assets. The responsibilities are set out in *Managing Public Money*, published by HM Treasury.

Statement of Parliamentary Supply

For the year ended 31 March 2016

In addition to the primary statements prepared under IFRS, the Government Financial Reporting Manual (FRM) requires UK Export Finance to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes to show resource outturn against the Supply Estimate presented to Parliament, in respect of each budgetary control limit. The SoPs and related notes are subject to audit.

Summary of Resource and Capital Outturn 2015-16

	Note	Estimate				Outturn		2015-16 Voted outturn compared with Estimate: savings/ (excess)	2014-15 Outturn
		Voted £'000	Non- Voted £'000	Total £'000	Voted £'000	Non- Voted £'000	Total £'000	£'000	Total £'000
Departmental Expenditure Limit									
- Resource	SOPS1(a)	1	-	1	-	-	1	19,885	
- Capital	SOPS1(b)	300	-	300	-	-	300	580	
Annually Managed Expenditure									
- Resource	SOPS1(a)	32,515	-	32,515	(106,341)	(106,341)	138,856	(149,337)	
- Capital	SOPS1(b)	403,290	-	403,290	33,874	33,874	369,416	(22,509)	
Total Budget		436,106	-	436,106	(72,467)	(72,467)	508,573	(151,381)	
Total Resource		32,516	-	32,516	(106,341)	(106,341)	138,857	(129,452)	
Total Capital		403,590	-	403,590	33,874	33,874	369,716	(21,929)	
Total		436,106	-	436,106	(72,467)	(72,467)	508,573	(151,381)	

Net cash requirement 2015-16

	Note	2015-16		2015-16		2014-15
		Estimate £'000	Voted £'000	Outturn £'000	Outturn compared with Estimate: savings/ (excess) £'000	Outturn £'000
Total	SOPS2	186,172		(164,840)	351,012	(258,784)

Administration Costs 2015-16

	2015-16 Estimate £'000	2015-16 Outturn £'000	2014-15 Outturn £'000
Total	1	-	19,885

Figures in the areas outlined in bold are voted totals subject to Parliamentary control. In addition, although not a separate voted limit, any breach of the administration budget will also result in an excess vote.

Explanations of variances between the Estimate and the Outturn are given in the Management Commentary in the Annual Report (Financial performance section) and within SoPS Note 1.

The notes on pages 143 to 144 form part of the Statement of Parliamentary Supply.

SOPS1 Analysis of net outturn by section

SOPS1(a) Resource											
Note							2015-16		2014-15		
	Administration			Programme			Outturn	Estimate	Outturn	Outturn	Outturn
	Gross	Income	Net	Gross	Income	Net	Total	Total	compared with Estimate: savings/(excess)	compared with Estimate, adjusted for virements	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Voted spending in Departmental Expenditure Limit (DEL)											
A Export Credit Guarantees and Investments	30,779	(30,779)	-	-	-	-	-	1	1	1	19,885
Total	30,779	(30,779)	-	-	-	-	-	1	1	1	19,885
Voted spending in Annually Managed Expenditure (AME)											
B Export Credits	-	-	-	(390)	(95,934)	(96,324)	(96,324)	32,990	129,314	129,314	(141,655)
C Fixed Rate Export Finance Assistance	-	-	-	4,833	(6,756)	(1,923)	(1,923)	4,645	6,568	6,054	(1,851)
D Refinanced Loans and interest equalisation	-	-	-	-	(4,318)	(4,318)	(4,318)	(4,832)	(514)	-	(5,694)
E Direct Lending	-	-	-	-	(3,776)	(3,776)	(3,776)	(288)	3,488	3,488	(137)
Total	-	-	-	4,443	(110,784)	(106,341)	(106,341)	32,515	138,856	138,856	(149,337)
Total Resource	30,779	(30,779)	-	4,443	(110,784)	(106,341)	(106,341)	32,516	138,857	138,857	(129,452)

Explanation of variances between estimate and outturn:

A Voted spending RDEL - For 2015-16 UKEF operated (with HM Treasury approval) a zero net RDEL regime for administration costs whereby a proportion of UKEF's trading income is treated as negative RDEL to fund administration costs. As part of the Spending Review 2015 SR(15) UKEF has a maximum amount of income (agreed per year over the 4 years) which can be used to fully offset expenditure. Also annually (as part of the Supply Estimates process) HM Treasury then approve the maximum amount of UKEF's trading income that can be treated as negative RDEL based on its expected level of activity and affordability. This arrangement is in place as it reflects the fact that UKEF prices premium written to cover (not only risk) but cover administration costs. A net RDEL outturn of zero shows UKEF is covering its administration costs from the premium that was written. Prior to 2015-16 UKEF operated a premium offset arrangement whereby only part of UKEF's administration costs were offset with trading income however this was changed as a full offset is more transparent and better reflects how UKEF operates. The prior year comparatives are on a partial offset basis.

B Export Credits £129 million – the variance largely relates to a change in economic outlook with regard to the recoverability of insurance assets as well as foreign exchange movements.

C Fixed Rate Export Finance Assistance £7 million – this relates to changes in fair value of financial instruments.

SOPS1(b) Capital						
	2015-16			2014-15		
	Outturn			Estimate		Outturn
	Gross £'000	Income £'000	Net £'000	Net £'000	Net total compared with Estimate £'000	Net £'000
Voted spending in Departmental Expenditure Limit (DEL)						
A Export Credit Guarantees and Investments	-	-	-	300	300	580
Total	-	-	-	300	300	580
Voted spending in Annually Managed Expenditure (AME)						
D Refinanced loans and interest equalisation	-	(24,322)	(24,322)	(16,710)	7,612	(29,173)
E Direct Lending	58,196	-	58,196	420,000	361,804	6,664
Total	58,196	(24,322)	33,874	403,290	369,416	(22,509)
Total Capital	58,196	(24,322)	33,874	403,590	369,716	(21,929)

Explanation of variances between estimate and outturn:

D Loans and interest equalisation - £8 million this reflects timing differences with regards to settlement.

E Direct Lending - £362 million due to the fact the Direct Lending facility had a lower take-up than provided for in the Estimate.

SOPS2 Reconciliation of Net Resource Outturn to Net Cash Requirement

SOPS2				
	SOPS Note	2015-16 Estimate £'000	2015-16 Outturn £'000	2015-16 Variance £'000
Resource Outturn	SOPS1(a)	32,516	(106,341)	138,857
Capital Outturn	SOPS1(b)	403,590	33,874	369,716
Accruals to cash adjustments:				
<i>Adjustments to remove non-cash items:</i>				
Depreciation & amortisation of Equipment and Intangible Assets		(733)	(466)	(267)
Net foreign exchange differences & other non cash items		(38,122)	15,934	(54,056)
New provisions and adjustments to previous provisions		(111,643)	6,142	(117,785)
<i>Adjustments to reflect movements in working balances:</i>				
Increase/(Decrease) in receivables		20,000	(127,223)	147,223
(Increase)/Decrease in payables		(119,905)	12,850	(132,755)
Use of provisions		469	390	79
Net cash requirement		186,172	(164,840)	351,012

Certificate and report of the Comptroller and Auditor General

I certify that I have audited the financial statements of the Export Credits Guarantee Department (trading as UK Export Finance) for the year ended 31 March 2016 under the Government Resources and Accounts Act 2000. The financial statements comprise: Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently

applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2016 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2016 and of the Department's net operating income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Emphasis of Matter – Significant Uncertainty

Without qualifying my opinion, I draw your attention to the disclosures made in Note 1 to the financial statements concerning the considerable uncertainty attached to the final outcome of the underwriting activities. As explained in the section of Note 1 headed "Significant uncertainty arising from the nature of UKEF's Underwriting Activity (Accounts 1 – 3)", the long-term nature of the risk underwritten means that the ultimate outcome will vary as a result of subsequent information and events and may result in significant adjustments to the amounts included in the accounts in future years.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
6 July 2016

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

Statutory limits

The Export and Investment Guarantees Act 1991 sets limits on our commitments and requires us to report our commitments against these limits annually. The table shows the statutory limits at 31 March 2016 and 31 March 2015 and the outstanding commitments against them.⁴³

	At 31 Mar 2016				At 31 Mar 2015			
	Sterling £m	Foreign currency SDRm	Sterling equivalent SDRm	Total SDRm	Sterling £m	Foreign currency SDRm	Sterling equivalent £m	Sterling total £m

Section 6(1) amounts

Statutory limit	See note 43			67,700	35,000	30,000	27,923	62,962
Assets (see note below)	-	-	-	-	-	-	-	-
Total commitments	738	19,756	755	20,511	2,334	19,476	18,153	20,487

Section 6(3) amounts

Statutory limit	-	26,200	-	26,200	15,000	10,000	9,320	24,321
Assets (see note below)	-	-	-	-	-	-	-	-
Total commitments	1	4	1	5	2	7	6	8

Note Interest equalisation arrangements, cross currency swaps and hedge swaps which are 'in the money' constitute assets and as such are not scored against the statutory limits. The value of these assets at the dates of the return is detailed in the following table.

	At 31 Mar 2016				At 31 Mar 2015			
	Sterling £m	Foreign currency SDRm	Sterling equivalent SDRm	Total SDRm	Sterling £m	Foreign currency SDRm	Sterling equivalent £m	Sterling total £m

Section 6(1) amounts

Assets	1	6	1	7	2	10	9	11
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Section 6(3) amounts

Assets	51	-	50	50	75	-	-	75
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⁴³ On 5 May 2015 our statutory limits were consolidated into a single limit, using special drawing rights (SDR), as part of the measures enacted by the Small Business, Enterprise and Employment Act 2015.

