



Business and Trade Committee  
7 Millbank  
London  
SW1P 3JA

27<sup>th</sup> June 2024

Dear Business and Trade Committee members,

## **MAIN ESTIMATE MEMORANDUM 2024-25**

### **A. Introduction**

UK Export Finance (UKEF – the trading name of the Export Credits Guarantee Department) Main Estimate for 2024-25 seeks the necessary resources and cash to support the operations of the Department. This ensures the continuing function of UKEF to complement the private market by assisting exporters and investors, principally in the form of insurance and guarantees to banks, but also direct lending to support exports.

The purpose of this memorandum is to explain to the Business and Trade Committee the drivers of this Main Estimate and any impact on the delivery of the new [UKEF Business Plan 2024-2029](#).

This year will mark the first in UK Export Finance's new [Business Plan for 2024-2029](#). This plan focuses on how UKEF can deliver real-life impact for our customers and their communities, through growing export support with a particular focus on SMEs, as well as financing projects in developing markets and driving the clean growth and transition agenda.

The UK faces a number of global challenges, from geopolitical tensions and conflict to climate change and an uncertain economic environment. In this context, UKEF is not only positioned to fill a market gap, but also to support the governments' wider domestic and international policy objectives.

[UKEF's new Business Plan](#) sets out five key delivery objectives:

1. Catalyse growth in UK trade through UKEF's world-leading export finance offer
2. Significantly increase the number of SMEs that benefit from UKEF's support
3. Help a broad range of business to export, driving local growth across all regions of the United Kingdom
4. Position UK exporters and suppliers at the heart of the global low carbon transition by providing over £10bn of clean growth finance.
5. Use our finance in developing markets to create positive impact on communities in the UK and overseas

This approach is about recognising the strength of the UKEF offer and the role we can play as a catalyst for the UK economy – whether supporting the low-carbon transition, increasing our financing for social infrastructure in developing countries, or using our deep sectoral understanding and global relationships to get more UK businesses involved in large international projects.

## B. Spending controls

- **Departmental Expenditure Limit (DEL)** – covers spending as set out and agreed in the current Spending Review (SR).
  - **Resource DEL (RDEL)** - for UKEF this represents the administrative cost associated with running the department (known as Administration RDEL). This covers costs such as staff, estates and other costs involved with running and delivering UKEF's services. Also included in RDEL is the budget for the administration of the Shipbuilding Credit Guarantee Scheme<sup>1</sup> (SCGS) launched in July 2023, with costs fully rechargeable to the Department for Business and Trade.
  - **Capital DEL (CDEL)** - for UKEF this typically represents IT hardware, software related costs and the cost of delivering Financial Reporting Changes (FRC) - to implement new accounting standards (IFRS9 and IFRS17), as well as the Fintech Programme (replacing UKEF's Loans and Guarantees administration system) costs.
- **Annually Managed Expenditure (AME)** - covers net spending which is more difficult to control and forecast (set annually rather than for the Spending Review period).
  - **Resource AME (RAME)** - for UKEF this represents underwriting and export finance activities, including income received while supporting exporters.
  - **Capital AME (CAME)** - for UKEF this represents lending activity (Direct Lending Facility related).
- **Net Cash Requirement (NCR)** - This is a requirement as, although the cash generated in the course of UKEF's business activity is significant, the department requires cash to fund any lending activity.

All **DEL** and **AME** amounts are Voted net.

### Resource DEL – background information

As previously agreed with HM Treasury, UKEF continues to operate on a zero net annual cost to the taxpayer basis, where it offsets its operational costs (RDEL) with income generated from the premium it charges for its products.

### Direct Lending – background information

Under the Direct Lending facility UKEF provides loans up to £8.0bn in aggregate to overseas buyers, allowing them to finance the purchase of capital goods and services from UK exporters. Loans can be made in Sterling, US dollars, Euros, Japanese Yen, Australian, Canadian or New Zealand Dollars, and Swiss Francs.

## C. Description of budgets sought

The provisions sought are shown below.

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<sup>1</sup> [Shipbuilding Credit Guarantee Scheme - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

**Resource DEL (Voted)** – funding requirement of **£101.8m<sup>2</sup>**, including **£9.2m** of budget adjustment where 2023-24 RDEL underspend was transferred to 2024-25 to assist with delivery of the FRC and Fintech Programmes. Budget adjustment has resulted in the commensurate increase of the departmental RDEL income in 2024-25 maintaining its net zero RDEL budget limit as agreed with HM Treasury.

As part of the Estimate, UKEF has bid for additional RDEL (ring fenced) depreciation budget of **£1.1m**; this is because SR21 depreciation allocation was kept flat at **£0.5m** and did not take account of the additional capital requirement in 2024-25. See historic RDEL table below for more detail.

**Capital DEL (Voted)** – funding requirement of **£2.5m**, including **£1.2m** of budget adjustment where 2023-24 CDEL underspend was transferred to 2024-25 to assist with delivery of the FRC and Fintech Programmes.

**Capital AME (Voted)** – represents funding requirement of **c£1.0bn** for direct lending drawings to March 2025 based on the latest business information available.

**Resource AME (Voted)** – funding requirement of **c£1.7bn**, including provision for the losses that are estimated to be incurred by UKEF to support known and anticipated Ukraine deals likely to become effective in 2024-25.

In March 2022, UKEF was instructed via ministerial direction<sup>3</sup> to remain open to support UK exports to Ukraine in the national interest, despite the risks involved in the provision of UKEF support in Ukraine no longer meeting UKEF's normal underwriting criteria.

**Net Cash Requirement (NCR)** – funding requirement of **c£1.8bn** represents the cash impact of the above, principally in relation to direct lending.

The following table shows the percentage change from Supplementary and Main Estimates 2023-24:

	Net Spending total		Compared to the revised budget		Compared to the original budget	
	Main Estimate 2024-25		Supplementary Estimate 2023-24		Main Estimate 2023-24	
	£m		£m	%	£m	%
Resource DEL <sup>4</sup>	0.0		0.0	0%	0.0	0%
Capital DEL	2.5		2.3	9%	3.5	(29%)
Resource AME	1,703.6		1,433.3	19%	1,633.3	4%
Capital AME	1,005.4		1,036.0	(3%)	2,036.0	(51%)
Net Cash Requirement	1,801.9		1,672.9	8%	2,672.9	(33%)

<sup>2</sup> Includes Shipbuilding Credit Guarantee Scheme, £0.2m.

<sup>3</sup>[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1039833/DIT\\_SoS\\_letter\\_to\\_UKEF\\_AO\\_Louis\\_Taylor\\_-\\_Ukraine\\_Market\\_Appetite\\_Uplift.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1039833/DIT_SoS_letter_to_UKEF_AO_Louis_Taylor_-_Ukraine_Market_Appetite_Uplift.pdf); <https://www.gov.uk/government/publications/maintenance-of-uk-export-finance-cover-limit-for-ukraine/letter-from-secretary-of-state-for-international-trade-confirming-retention-of-ukefs-cover-for-ukraine>

<sup>4</sup> For UKEF its operating costs are fully offset by the premium income generated, also known as premium offset mechanism (POM). To allow the Parliament to Vote the Estimate a token £2k is submitted on HMT's OSCAR system (this is a token amount).

Historic estimate changes are shown below:

Budget type	2020/21		2021/22		2022/23		2023/24		2024/25
	Main Est, £m	Supp Est, £m	Main Est, £m	Supp Est, £m	Main Est, £m	Supp Est, £m	Main Est, £m	Supp Est, £m	Main Est, £m
Resource DEL (gross)	57.3	56.8	75.1	75.1	91.1	84.9	98.4	89.3	101.8
Capital CDEL	0.3	0.8	1.6	1.6	3.7	2.2	3.5	2.3	2.5
Resource AME	376.5	753.4	748.4	648.4	717.4	1,109.4	1,633.3	1,433.3	1,703.6
Capital AME	2,787.0	1,487.0	1,881.1	1,601.1	2,099.0	799.0	2,036.0	1,036.0	1,005.4

## D. Key drivers of spending changes since last year

**Resource DEL (gross)** change is attributed to the budget increase in line with the Spending Review 2021 (SR21) settlement; also included is an adjustment of **£9.2m (gross)** where 2023-24 RDEL underspend was transferred to 2024-25 to align with the delivery timescales of FRC Programme<sup>5</sup> and Fintech project, as agreed with HMT. Also included is additional depreciation ask of **£1.1m** largely related to FRC and Fintech delivery in 2024-25. Budget for SCGS launched in 2023 is included at **£0.2m**, with costs fully recharged to the Department for Business and Trade.

**Capital DEL** change is largely attributed to the budget adjustment of **£1.2m** where 2023-24 CDEL underspend was transferred to 2024-25 to help with the delivery of FRC programme and Fintech project, as agreed with HMT.

**Resource AME** has largely remained on a similar level compared to previous year and is mostly driven by:

- (i) Forecast expected claims
- (ii) foreign exchange movements in relation to the direct lending portfolio (largely denominated in US Dollars and Euros)
- (iii) provision to support known and anticipated Ukraine deals, following the ministerial direction, where UKEF is expected to support UK exports to Ukraine in the national interest

Over the past few years UKEF has seen a notable increase in the claims activity, largely relating to the downturn in the Aero sector associated with the impact of COVID. Any resultant claims have been included in the Estimate within RAME budget ask<sup>6</sup>.

**Capital AME** sought in 2024-25 reflects the latest Direct Lending forecast. Direct lending forecasts are based on the judgements of UKEF underwriters who draw on available transaction pipeline information, market intelligence and the estimated likelihood of transactions materialising within the financial year. Customer demand can vary due to external market conditions making the forecasting challenging and therefore subject to variability.

Under the Direct Lending Facility UK Export Finance provides loans to overseas buyers to finance the purchase of capital goods and services, from exporters carrying on business in the UK. Loans can be made in sterling, US dollars, euros, Japanese yen, Australian, Canadian or New Zealand dollars, and Swiss Francs.

As UKEF nears capacity in terms of the overall Direct Lending facility, it has revised its forecasting methodology; this along with the reduced remaining capacity has been the main driver behind the overall reduction in **Capital AME** budget sought in the Main Estimate 2024-25 when compared to the Main Estimate 2023-24.

<sup>5</sup> The implementation date for the new accounting standards (IFRS 9,17) was not set when SR(21) was agreed.

<sup>6</sup> UKEF seeks to recover any claims paid, so the payment of a claim does not indicate the ultimate loss to taxpayers.

## E. Funding: Spending Review and Budgets

At Spending Review 2021 UKEF received an uplift to its RDEL settlement (c20%) to continue with its successful support of UK exporters. The uplift in funding is to maintain the UKEF workforce levels, increase in change projects activity (notably, FRC and Fintech), ongoing IT costs (laptops, phones) to support the planned headcount increase. It allows UKEF to be well resourced and continue supporting the exporters. The increase in inflation levels continues to put pressure on the departmental resource allocation and must be managed carefully to ensure that UKEF remains within its spending envelope.

UKEF RDEL continues to be offset from trading income to be zero on a net basis, as was previously agreed with HM Treasury. For this reason, the voted net RDEL position is a token **£2k** reflecting the fact that UKEF covers its administration costs (and risks) from the premium it charges for its products.

Included in the overall RDEL control total is budgetary allocation of **£0.2m** for the Shipbuilding Credit Guarantee Scheme to allow UKEF to set up and administer the scheme; costs incurred by the UKEF are fully rechargeable to Department for Business and Trade having overall net zero impact on its RDEL budget.

## F. Spending (and income) detail - Ring fenced budgets

Within the totals, the following elements of Resource DEL are ring fenced, i.e. savings in these budgets may not be used to fund pressures on other budgets:

	Main Estimate 2024-25	Supplementary Estimate 2023-24		Main Estimate 2023-24	
		£m	% change	£m	% change
Depreciation, IT	£1.6m*	£1.5m*	7%	£1.5m*	7%
IFRS16 Leases	£0.8m*	£0.8m*	0%	£0.8m*	0%
<b>Total</b>	<b>£2.4m*</b>	<b>£2.3m*</b>	<b>4%</b>	<b>£2.3m*</b>	<b>4%</b>

\*Rounded

## G. Performance measures

UKEF's high level objectives (see below for measures of performance) for the current financial year 2024-25 are set out in its [Business Plan 2024-29](#) and are:

Delivery objectives	Performance measures
1. Catalyse growth in UK trade through UKEF's world-leading finance offer	Value of exports supported (contract specific UK content) Value of support provided to UK exporters (non-contract specific support)
2. Significantly increase the number of SMEs that benefit from UKEF's support	Number of SMEs supported

3. Help a broad range of business to export, driving local growth across all regions of the United Kingdom	Proportion of SMEs supported outside of London
4. Position UK exporters and suppliers at the heart of the global low carbon transition by providing over £10bn of clean growth finance by 2029.	Value of new clean growth business
5. Use our finance in developing markets to create positive impact on communities in the UK and overseas	Value of finance mobilised to low- and middle-income countries

Financial objectives	Performance measures
Retain the confidence of our ministers by rigorously managing risk, improving efficiency and operating within the consent of HM Treasury	<p>No breaches to Treasury Consent, Reserve Index (RI), Premium to Risk Ratio (PRR) and Pricing Adequacy Index (PAI) above agreed minima.</p> <p><i>Financial objectives -</i>  HM Treasury has set UKEF several key financial objectives as part of the standing consent for its operations. Two of them - PRR and PAI - are designed to ensure, as far as practicable, that the premium rates UKEF charges reflect the risk taken on and are sufficient for it to operate at no net cost to the taxpayer over time. UKEF is compliant with these key objectives and regularly reports on them to HM Treasury.</p>

## H. Accounting Officer Approval

This memorandum has been prepared according to the requirements and guidance set out by HM Treasury and the House of Commons Scrutiny Unit, available on the Scrutiny Unit website.

As Departmental Accounting Officer I have approved the information included in this Estimates Memorandum.

Yours sincerely,



Tim Reid

Chief Executive

