

Patrick Crawford
Chief Executive



Export Credits Guarantee Department

18 April 2012

PO Box 2200
2 Exchange Tower
Harbour Exchange Square
London
E14 9GS

Business, Innovation and Skills Committee
7 Millbank
London
SW1P 3JA

Direct Line 020 7512 7004
Switchboard 020 7512 7000
Direct Fax 020 7512 7052
Email patrick.crawford@ecgd.gsi.gov.uk

www.ukexportfinance.gov.uk

Dear Sirs,

Main Estimate Memorandum 2012-13

Introduction

The Export Credits Guarantee Department (ECGD) Main Estimate for 2012-13 seeks the necessary resources and cash to support the functions of the Department. These are continuing functions which complement the private market by providing assistance to exporters and investors, principally in the form of insurance and guarantees to banks.

The purpose of this memorandum is to provide the Committee with an explanation of how the resources and cash sought in the Main Estimate will be applied to achieve departmental objectives.

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

Resource DEL – Net expenditure that covers the running cost of ECGD's operational activities. Within this, depreciation is ring-fenced.

Capital DEL – Net expenditure that funds the purchase of fixed assets necessary to the running of ECGD's operational activities.

Resource AME – Net income primarily driven by the receipt of premium and interest, offset against interest costs and hedging expense, plus movements in provisions for losses on assets acquired when paying claims and movements in provisions for future claims, both of which can be either income or expense.

Capital AME – Income that is the receipt of the principal of the loans made to the Guaranteed Export Finance Corporation (GEFCO).

Net Cash Requirement - A negative requirement as the cash generated in the course of ECGD's business activity is significantly higher than its cash outflow.

Note that all DEL and AME amounts are Voted and that all Resource DEL is administration.

Departmental Activity

ECGD's priorities for 2012-13 are to:

- respond to the high levels of demand for support for aerospace business;



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- respond to increasing levels of demand for civil and defence business, and to increasing enquiries from potential customers;
- make available insurance in respect of political risks;
- pursue a more level playing field for UK exporters by seeking improvements to international standards;
- raise awareness of ECGD's short-term products among UK companies; and
- reach out to sponsors of major projects overseas, where UK companies might be able to supply such projects and where ECGD can provide support under its guarantee products.

Summary of budgetary changes

	£m	2010-11 Outturn	2011-12 Provision	2012-13 SR10	2012-13 Main Estimate
Resource DEL		23.6	24.0	23.3	23.2
Capital DEL		0.5	0.3	0.3	0.4
Resource AME		-227.6	31.0	-84.5	-0.6
Capital AME		-99.8	-41.4	-40.5	-31.5
Net Resource Requirement		-204.1	55.0	-61.2	22.6
Net Cash Requirement		-364.5	-173.8	-233.8	-193.2

The change in Resource DEL from the 2011-12 provision is in line with the 24.1% reduction across the SR10 period. The simultaneous reduction in Resource DEL and increase in Capital DEL from the SR10 plans are caused by a transfer to cover greater IT hardware costs that will result from an expected accommodation move.

The Resource AME of the Main Estimate shows a significantly reduced net income compared to both the outturn of 2010-11 and the original SR10 plans due to the increased uncertainty of foreign exchange movements, future claims, and recoveries of insurance assets.

The decrease in Capital AME income from 2010-11 outturn reflects the run-off of the loans which were originally refinanced by GEFCO from long term borrowing from ECGD. The reduction from the SR10 position is down to a difference in timing.

ECGD has not changed its ambit.

Yours sincerely

J.P.S. Crawford

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Glossary

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

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

Guaranteed Export Finance Corporation (GEFCO) - A Special Purpose Vehicle Company that refinanced loans using government funding.

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

Spending Review 2010 (SR10) - A cross-government review carried out in 2010 of departmental aims and objectives and analysis of spending programmes, which resulted in the allocation of multi-year budgetary limits.