

# QuickGuide

## End year flexibility

### Introduction

UK Government departments, and devolved administrations, are set three-year expenditure plans for departmental expenditure limits (DEL)<sup>1</sup> as part of the Spending Review process. **End year flexibility (EYF) is a mechanism whereby departments and devolved administrations can carry forward unspent DEL provision for use in subsequent financial years.** Thus, avoiding the end of year spending rush (the 'use it or lose it' principle), which is not conducive to securing value for money.

The current EYF arrangements were introduced in 1997. Previous financial management systems allowed much more restrictive and less open EYF arrangements, which tended to encourage the utilisation of all resources during a financial year, regardless of whether there was a need for such expenditure and regardless of potential future budgetary pressures. The current arrangements, which place no limits on the amount of DEL which can be carried forward as EYF, are designed to facilitate effective management of DEL across a number of years.

### Calculation and drawdown of EYF

The rules covering the calculation and drawdown of EYF are set out in chapter 14 of HM Treasury's *Consolidated Budgeting Guidance*.<sup>2</sup> This states that:

- There are no limits on the amount of unspent DEL which can be carried forward as EYF.
- All expenditure and income within DEL is eligible for carry forward into the following financial year if it remains unspent.
- Any EYF entitlement generated in a particular year or accumulated from previous years and not drawn down will automatically be rolled forward.<sup>3</sup>
- Drawdown/take-up of EYF carry over must be agreed with HM Treasury and will be subject to normal Treasury scrutiny. Departments spending plans should not assume drawdown of EYF unless specifically agreed by HM Treasury.
- EYF drawdown will normally be effected by means of a Supplementary Estimate.<sup>4</sup>

<sup>1</sup> **Departmental Expenditure Limits (DEL)** – normally set over three years as part of the UK Government's Comprehensive Spending Review (CSR). Most of the DEL is unhypothecated and allows the Welsh Assembly Government full discretion over its spending priorities (known as 'assigned budget' items). Changes in provision for these items are determined through the Barnett formula. Some elements of DEL, however, are ring-fenced and can only be used for specified purposes.

<sup>2</sup> HM Treasury, *Consolidated Budgeting Guidance from 2009-10 (February 2009)* [on 24 February 2009].

<sup>3</sup> However, HM Treasury reserves the right to take account of any excessive build-up of entitlement in subsequent spending reviews, as detailed in HM Treasury, Public Expenditure System (2000) 25. Cascading End-Year Flexibility (18 October 2000).

- Should a department receive additional DEL as a result of claim on the UK Reserve, the additional provision will normally be recouped from any underspend emerging in that year or future years. This will take the form of a reduction in EYF entitlement.

Detailed guidance on the calculation of EYF is contained in the annual PES paper produced by HM Treasury for the compilation of EYF entitlements.<sup>5</sup>

## Cascading EYF

Chapter 14 of HM Treasury's *Consolidated Budgeting Guidance*,<sup>6</sup> states that:

Departments are encouraged to cascade EYF entitlements to their NDPBs<sup>7</sup> and Agencies wherever practicable. Cascading ensures that the incentives EYF brings to manage resources to best effect are applied to lower level budget holders also.

...EYF policy at a departmental level should give delegated budget holders more certainty and better incentives, while recognising the need for departments to manage their DEL as a whole.

Further guidance on cascading EYF can be found in HM Treasury's PES (2000) 25, *Cascading End Year Flexibility*.<sup>8</sup>

## Categories of EYF and restrictions

EYF originates from unspent DEL, thus the amounts carried forward are split into revenue and capital. As revenue DEL contains near cash<sup>9</sup> and non-cash<sup>10</sup> elements, the revenue portion of EYF can be similarly split. The *Consolidated Budgeting Guidance*<sup>11</sup> places the following restrictions on EYF drawdown:

- Capital DEL EYF can only be drawn down on capital programmes.
- Revenue DEL EYF generated on non-cash expenditure may not be drawn down on near cash revenue DEL or capital DEL, except as provided for under the rules.<sup>12</sup>
- Near cash revenue DEL EYF may be drawn down in capital budgets, or non-cash budgets, as well as in near cash budgets.
- EYF may not be drawn down from one category to generate EYF in a different category.

Details of the levels of EYF for each devolved administration and UK Government department are published each July in HM Treasury's *Public Expenditure Outturn White Paper* (PEOWP).<sup>13</sup> In order

<sup>4</sup> **Supplementary Estimates** seek authority from Parliament for further expenditure than that sought in the Main Estimates for the same financial year. There are generally two supplementary estimates, one in Winter (usually November) and one in Spring (usually February).

<sup>5</sup> The latest of these PES papers is: HM Treasury, PES(2008) 07, *Public Expenditure 2007-08: Publication of provisional outturn and 2008-09 DEL end year flexibility (EYF) entitlements* (22 May 2008).

<sup>6</sup> HM Treasury, *Consolidated Budgeting Guidance from 2009-10 (February 2009)* [on 24 February 2009].

<sup>7</sup> **Non departmental Public Bodies (NDPBs)** – these are Assembly Government Sponsored Bodies (AGSPBs) in Wales.

<sup>8</sup> HM Treasury, *Public Expenditure System (2000) 25. Cascading End-Year Flexibility (18 October 2000)* [on 24 February 2009].

<sup>9</sup> **Near cash** is a control total used by HM Treasury; it is defined as an accruals measure of transactions that normally turns to cash flow soon. The main components of near cash are pay, current procurement, etc. Near cash excludes non cash costs.

<sup>10</sup> **Non cash** refers to costs not reflected by cash transactions. These items are included in budgets to ensure the budget reflects the full economic cost of activities, even though there is not a direct link to cash flow in the relevant period. These will either never require a cash payment as such (eg depreciation and cost of capital charges), or will only give rise to cash payments in future years (eg provisions). Departments may switch from non cash to near cash within the resource DEL in accordance with HM Treasury procedures and detailed in Chapters 1 and 5 of *HM Treasury's Consolidated Budgeting Guidance*. Briefly, departments are free to switch provision from near cash to non cash within resource DEL. However, switching provision from non cash to near cash must be done in accordance with HM Treasury procedures (can switch up to £20m, all other transfers must have HM Treasury approval).

<sup>11</sup> HM Treasury, *Consolidated Budgeting Guidance from 2009-10 (February 2009)* Chapter 14 End Year Flexibility. [on 24 February 2009].

<sup>12</sup> As detailed in Chapter 1 of *HM Treasury, Consolidated Budgeting Guidance from 2009-10 (February 2009)* [on 24 February 2009]. Briefly, departments are free to switch provision from near cash to non cash within resource DEL. However, switching provision from non cash to near cash requires HM Treasury approval.

<sup>13</sup> HM Treasury, *Public Expenditure Outturn White Paper (July 2008)* [on 24 February 2009]. Table 6 in this document shows the carry forward of DEL EYF.

to reflect the limitations detailed above, the EYF entitlements published in the PEOWP identify separately revenue DEL (within which near cash is shown) and capital DEL.

## EYF in Wales

EYF monies held at HM Treasury on behalf of the Welsh Assembly Government according to the latest figures totalled **£900 million at the end of 2007-08**<sup>13</sup>. Of the £900m EYF: £ 676m is revenue (£512m non-cash and £164 near cash) and £224m is capital.

The timing and use of carried forward EYF is a matter for agreement with HM Treasury. Until HM Treasury has agreed that carried forward EYF can be added to DEL for the current financial year, onward allocations cannot be made.

In a Written Statement,<sup>14</sup> the Minister for Finance and Public Service Delivery (Andrew Davies) stated:

Resources carried forward as EYF remain available for use in Wales. Our accumulated EYF stock is money that has been allocated to Wales and the Assembly Government fully intend to use it to deliver on our *One Wales* priorities in the coming years. For example, capital EYF is being used to assist the Assembly Government's strategic capital investment programme over the next three years.

No EYF has yet been handed over by HM Treasury in 2008-09 (this is normally effected by the Winter and Spring estimates).

In the Welsh Assembly Government's Draft Budget Report 2009-10,<sup>15</sup> it is stated that:

The Assembly Government has an excellent record of consistently delivering expenditure of close to 99% for near cash DEL – a level which is better than most UK Government Departments and of other devolved administrations.

Details of the level of EYF for each devolved administration and Whitehall Department are published each July in the Treasury's Public Expenditure Outturn White Paper. The figures show that the stock of EYF for Wales is low because of the Assembly Government's success in consistently bringing in final expenditure close to the DEL total for near cash and capital.

Table 1 shows the carry forward of EYF for the three devolved administrations for 2007-08, as detailed in the PEOWP 2007-08.<sup>16</sup>

**Table 1: Carry forward of DEL EYF from 2007-08 to 2008-09**

	Revenue		Capital	Total
	Near Cash	Non cash		
Welsh Assembly Government	164,440	511,602	223,871	<b>899,913</b>
Scottish Executive	762,365	119,144	70,773	<b>952,282</b>
Northern Ireland Executive	348,356	43,453	322,398	<b>714,207</b>

Source: [HM Treasury, Public Expenditure Outturn White Paper \(July 2008\)](#)

Annex 2 of the Draft Budget Report 2009-10,<sup>15</sup> shows the Welsh Assembly Government's historic and current cumulative stock of EYF, the figures differ from those in Table 1 due to the treatment of non-cash. This is reproduced in table 2.

<sup>14</sup> [Welsh Assembly Government, Minister for Finance and Public Service Delivery \(Andrew Davies\), Assembly Government End Year Flexibility, Cabinet \(Written\) Statement, 10 March 2008](#), [on 24 February 2009].

<sup>15</sup> [Welsh Assembly Government, Draft Budget Report 2009-10 \(October 2008\)](#) [on 24 February 2009].

<sup>16</sup> [HM Treasury, Public Expenditure Outturn White Paper \(July 2008\)](#), [on 24 February 2009] Table 6 in this document shows the carry forward of DEL EYF.

**Table 2: Cumulative EYF stocks as at the end of each financial year**

Financial Year	£m		
	Revenue	Capital	Total
1999/00			234
2000/01			421
2001/02	377	1	378
2002/03	111	89	200
2003/04	237	51	288
2004/05	209	61	270
2005/06	122	66	188
2006/07	95	145	240
2007/08	164	224	388

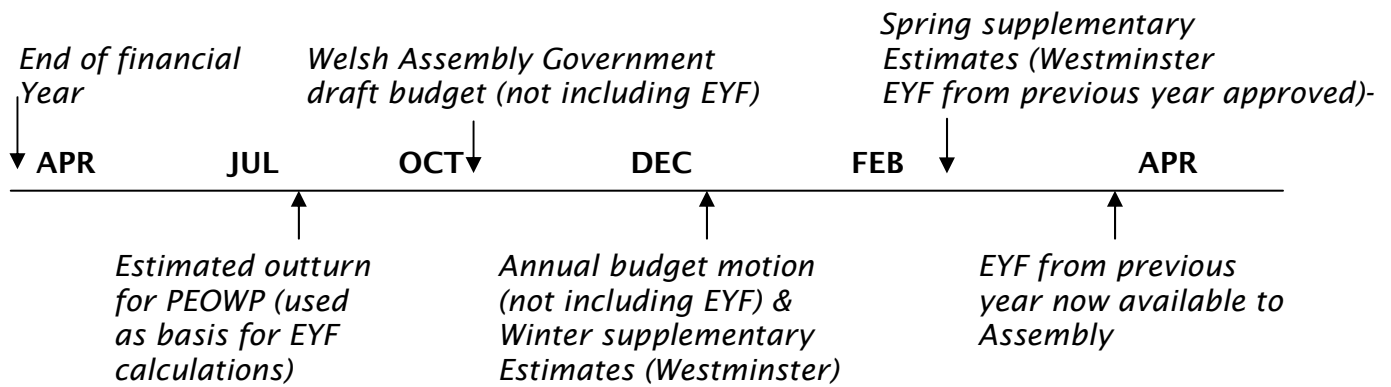
**Notes:**

- The figures above are cumulative EYF stocks as at the end of each financial year.
- The stock of EYF at the end of financial year x = stock of EYF at the end of the previous financial year – EYF drawn down in financial year x + difference between total DEL and final expenditure outturn in financial year x. So the total stock at the end of 2006-07 is £240m, a net addition of £52m on the stock of £188m at the end of 2005-06.
- The capital / revenue splits for 1999/00 and 2000/01 are not available as no formal split between these amounts was applied to Wales at this time.
- Resource budgeting and the concept of near-cash and non-cash resource were applied to Wales in 2003-04. However, for the financial years 2003-04 and 2004-05 no distinction was made between near-cash and non-cash for EYF purposes. The figures for the period 1999-00 to 2002-03 and 2005-06 onwards are cash figures only.
- Non-cash EYF stocks were £237m in 2005-06, £296m in 2006-07 and £512m in 2007-08.

## **EYF and the budget process in Wales**

Following the end of the financial year, estimated outturn is produced for inclusion in the PEOWP, usually published by HM Treasury in July. These outturn figures form the basis of the calculations to determine EYF entitlements for DEL. Information regarding the levels of EYF is provided to Parliament, however before EYF can be used, it must receive proper parliamentary authority through the Estimates process. This may not occur until later in the year, at the Winter or Spring Supplementary Estimates. Thus, Parliament would be notified by HM Treasury of EYF arising from underspend identified at the end of the financial year 2007-08, several months into the following year (circa. July 2008). EYF may not be used by departments until it has been formally authorised by Parliament later the next financial year.

## Example EYF timeline



In the Draft Budget Report 2009-10,<sup>17</sup> it is stated that:

Any draw down of EYF in 2008-09 will be effected via the Winter or Spring Parliamentary Supplementary Estimate and allocated to MEGs via a Supplementary Budget Motion. Nothing has been drawn down in this financial year from the accumulated stock of EYF, but there is an expectation that in 2008-09 and in future years EYF funding will be utilised for the location strategy (capital) and health waiting times (near cash).

<sup>17</sup> [Welsh Assembly Government, Draft Budget Report 2009-10 \(October 2008\)](#) [on 24 February 2009].

## Further information

For further information on End of year flexibility, please contact Eleanor Roy, Members' Research Service ([Eleanor.Roy@Wales.GSI.Gov.UK](mailto:Eleanor.Roy@Wales.GSI.Gov.UK))

For further information on the topics below, double click on the links.

[HM Treasury, Consolidated Budgeting Guidance from 2009-10 \(February 2009\)](#)

[HM Treasury, Public Expenditure Outturn White Paper \(July 2008\)](#)

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