

## **Assembly Government End-year Flexibility**

**10 March 2008**

### **Andrew Davies, Minister for Finance and Public Service Delivery**

There has been some discussion recently about unspent resources from previous years – known as End-year Flexibility (EYF). The following statement sets out the Assembly Government's approach to financial management, the rationale for the current EYF arrangements, the process for accessing our stock of EYF and the historic and current stock of EYF.

In managing the Assembly Government's finances, my intention is to use the resources available to Wales in the most cost-effective way to deliver the outcomes that matter to the people of Wales. Overspending the Assembly Government's Departmental Expenditure Limit (DEL) would be extremely damaging. So would wasteful end of year spending designed solely to ensure that we spent as close to our DEL as possible. Good financial management means bringing expenditure just within budget while ensuring that the expenditure which we do incur delivers the greatest possible benefit. This approach will inevitably mean that a proportion of the available resources are unspent each year. However, the Assembly Government has an excellent record of consistently delivering expenditure at around 99% of our DEL – a level which is better than most Government Departments and devolved administrations. I intend to continue that record.

The Assembly Government – in common with other devolved administrations and Whitehall Departments – is able to carry forward unspent resources between financial years under EYF arrangements. 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 efforts to utilise all of the resources allocated during a financial year, whether or not there was a real need for such expenditure and regardless of potential future budgetary pressures. The current arrangements, which place no limits on the amount of unspent DEL that may be carried forward as EYF, are designed to facilitate effective management of DEL across a number of years. They are a commonsense and prudent approach to financial management, which allow us to carry forward any unspent resources from one year to future years, assist in planning spending programmes over the medium term and avoid wasteful end of year spending.

EYF take-up is normally effected by means of the Winter (usually November) and Spring (usually February) Supplementary Estimates.

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.

Details of the level of EYF for each devolved administration and Whitehall department are published each year in the Treasury's Public Expenditure White Paper. The figures show that Wales stock of EYF is by no means excessive and has not grown in recent years. Table 1 provide figures on the Assembly Government's EYF stock in each year since the Assembly was formed.

**Table 1 – Historic and current EYF stocks**

Financial Year	£m			% of DEL
	Revenue	Capital	Total	
1999/00			234	3.2
2000/01			421	5.4
2001/02	377	1	378	4.4
2002/03	111	89	200	2.1
2003/04	237	51	288	2.7
2004/05	209	61	270	2.4
2005/06	122	66	188	1.5
2006/07	95	145	240	1.8

**Notes:**

*The figures above are 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.*

*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 (accruals measures of transactions that normally turn into cash flows soon, e.g. pay, current procurement, grants and subsidies) and non-cash (items included in budgets to ensure they reflect the full economic cost of activities even though there is not a direct link to cash flows in the relevant period e.g. cost of capital charges and provisions) 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 and £296m in 2006-07.*

It is worth noting that the Assembly Government's EYF stock is significantly lower than that of the other devolved administrations and of most Whitehall departments (for example, Scotland's EYF stock at the end of 2006-07 was more than 5% of DEL and Northern Ireland's was more than 7%). This is because of the Assembly Government's success in consistently bringing in final expenditure at around 99% of the total DEL.

In determining the total level of EYF draw down required at Winter and Spring Supplementary Estimates, it is essential to take into account potential future pressures and commitments. In determining the level of EYF draw-down this year, for example, I have been mindful of the fact that our DEL next year will grow by only 0.7% in real terms – by far the lowest rate of growth since the Assembly was formed – and central reserves are slightly smaller than the standard 1% of DEL which it is established practice to hold for the following year. I have, therefore, sought to maximise the resources available next year whilst ensuring that pressures and priorities in the current year are met.