



## Members' Research Service – QuickGuide 19 Gwasanaeth Ymchwil yr Aelodau – HysbysHwylus 19



### End Year Flexibility

End year flexibility (EYF) is a financial system that allows the carry forward of any unspent resources from one year to the next. Government departments set three-year expenditure plans for Departmental Expenditure Limits (DEL)<sup>1</sup> as part of the Spending Review process. Any unspent DEL provision may be carried over from one year to the next and may be drawn down in future years, enabling departments to plan over the medium term. The availability of EYF should mean that there is less incentive for departments to use up any of their unspent provision towards the end of the financial year, perhaps with less regard to value for money.

Three year budgets provide departments with a certainty regarding their budgetary allocation over the medium term. Access to EYF should give those managing public services the stability to manage their operations on a sensible time scale. The multi-year DEL plans, as set in the Spending Review are strictly enforced. Departments are required to prioritise competing pressures for resources and manage these within their overall spending limits. This places a strong incentive on departments to control costs and maximise value for money.

### Treasury Guidance

The Treasury Public Spending Guidance has the following to say on EYF for the UK Government departments.

End Year Flexibility (EYF) is a mechanism whereby departments may carry forward unspent Departmental Expenditure Limit (DEL) provision into later financial years. There is no limit on the amount of unspent DEL that may be carried forward as EYF. Along with other flexibilities, EYF allows departments to manage their DEL effectively across a number of years.

The total EYF figure is split between the various control elements within DEL, e.g. resource and capital DEL, Administration Budget. The EYF figures for each year are first announced in the Public Expenditure Outturn White Paper, published in the July after the end of the financial year to which it relates. The first opportunity to take up voted EYF is therefore the Winter Supplementary Estimates round in November/December. Any EYF not taken up by the year-end is simply carried forward to the following year.

The rules governing the calculation and drawdown of EYF, and the interaction of EYF and Reserve claims, are set out in the [Consolidated Budgeting Guidance](#).<sup>2</sup>

### Cascading End Year Flexibility

Departments are encouraged to cascade EYF entitlements to their NDPBs<sup>3</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. The Consolidated Budgeting Guidance sets out a variety of approaches that departments can use in seeking to reconcile their own budget management requirements with greater entitlement for budget holders to EYF.

<sup>1</sup> Departmental Expenditure Limit (DEL) is spending which is planned and controlled on a three-year basis in biennial Spending Reviews. It includes the assigned DEL over which the Assembly has spending discretion and non-assigned DEL provided by HMT for specified purposes.

<sup>2</sup> See HMT website: [http://www.hm-treasury.gov.uk/media/0C7/B0/consolidatedbudgetingguidance\\_2007-08.pdf](http://www.hm-treasury.gov.uk/media/0C7/B0/consolidatedbudgetingguidance_2007-08.pdf)

<sup>3</sup> Non-Departmental Public Bodies, these are Assembly Government Sponsored Public Bodies (AGSPBs) in Wales



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### EYF in Wales

The operation of EYF for Wales is broadly in line with that of the UK Government departments, as the following extract from the HMT *Statement of Funding Policy*<sup>4</sup> illustrates.

10.1 An important feature of three yearly allocations is that all departments have much greater flexibility to carry forward unspent provision into future years. End year flexibility (EYF) enables unspent provision to be carried forward from one year to the next and encourages good financial management. There is eligibility on EYF for DEL expenditure but AME expenditure is not eligible. The whole DEL budget of each devolved administration will therefore be eligible for year-end flexibility. Subject to Parliamentary approval, devolved administrations normally receive EYF on their DEL (calculated on the same basis as Government departments, including taking appropriate account of in-year Reserve claims which are netted off), and have full discretion over the use of these resources. EYF for capital and resource DEL is identified separately and controlled.

EYF can be used in a planned way, to carry forward money for specific purposes, to handle any slippage in capital projects and to avoid the last minute pressures to spend at year-end. EYF ensures that resources are applied to the priorities of the Welsh Assembly Government and that unspent resources are not returned to the Treasury at the end of the financial year.

### Sources of EYF: managing underspend and overspend

EYF arises because of underspend at the year end, and in order to avoid a rush to spend budget allocations before year end, EYF allows DEL to be carried forward into subsequent years. In general, departments will try to minimise underspend, and the Welsh Assembly Government states that:

The Assembly budget is managed constantly throughout the year in line with best practice. This process identifies areas of underspending and can re-prioritise those resources into areas which are performing ahead of profile or are able to deliver extra outputs.<sup>5</sup>

At present, and in line with practice in the UK Government departments, departments in Wales are expected to manage pressures and underspend within their Main Expenditure Group (MEG) resources. Within the annual budget motion, the ambits for expenditure incurred by the Welsh Assembly Government act as control totals, and these ambits correspond to the MEGs. Therefore, Welsh Ministers enjoy a degree of freedom to transfer resources within a MEG between and within financial allocations for areas for which they are responsible.

Where the proposed transfer would alter the allocations to MEGs (i.e. the ambits) in the annual budget motion, a Welsh Minister is required to table a supplementary budget motion under Section 126 (2 and 3) of the [Government of Wales Act 2006](#). Alterations in the allocations to ambits not covered by a supplementary budget motion could be classed as unauthorised spending and may result in a qualified audit opinion on the accounts. Standing Order 27.29 requires a Welsh Minister to table a supplementary budget motion seeking retrospective authorisation for excesses recorded in that person's audited accounts if requested to do so by the Commission, the Auditor General or the Ombudsman.

<sup>4</sup> The latest Statement of Funding Policy (2004) is available on the Treasury Website at: [http://www.hm-treasury.gov.uk/media/CB2/3C/Funding\\_the\\_Scottish\\_Parliament\\_National\\_Assembly\\_for\\_Wales\(296kb\).pdf](http://www.hm-treasury.gov.uk/media/CB2/3C/Funding_the_Scottish_Parliament_National_Assembly_for_Wales(296kb).pdf)

<sup>5</sup> Assembly Budget Planning and Management Unit, Welsh Assembly Government



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Section 126 (4) of the Act allows for supplementary budget motions to be expressed to have effect from a time before it is made, provided that this time is not earlier than the most recent supplementary budget motion for the year in question was passed or the date on which the annual budget motion was passed. Section 128 deals with contingencies and allows the Welsh Assembly Government the freedom to change the level of resources allocated to any MEG, or establish a new MEG, in cases of urgency. In any such case the Welsh Ministers would be expected to inform the Assembly as soon as reasonably practicable of the action taken.

Having managed its resources in the way described above, the Welsh Assembly Government may submit to the Treasury its requirement for EYF on any underspend remaining at the financial year end.

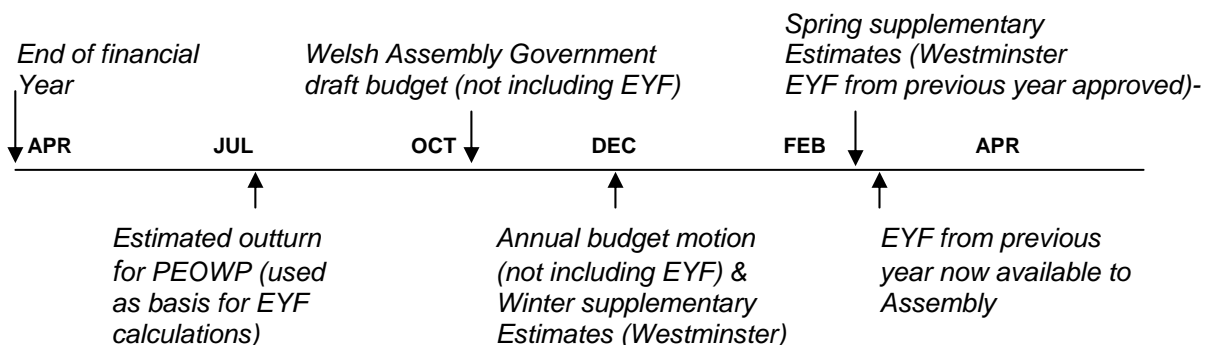
### EYF and the budget process in Wales

Following the end of the financial year, estimated outturn is produced for inclusion in [the Public Expenditure Outturn White Paper](#) (PEOWP), usually published by the Treasury in July. The outturn figures form the basis of the calculations to determine EYF entitlements for DEL.

In the 2006 PEOWP, EYF for Wales appears in Table 5, Carry Forward of DEL EYF from 2005-06 into 2006-07 (by departmental group). Table 1 provides a breakdown of provisional outturn in to a Request for Resource (RfR) basis at UK Government Department level. This allows the identification of underspend / overspend at the level of Wales within the Department for Constitutional Affairs<sup>6</sup>. Information on overspend and identified EYF on the different MEGs (or ambits) within the Assembly budget is not published in this document, because under devolution, decisions on spending allocations of the DEL lie with the Welsh Assembly Government. This information would have to be sought directly from the Assembly Government.

Information regarding levels of EYF is provided to Parliament, but before EYF can be used, it must receive proper parliamentary authority through the Estimates process. This may not occur until later in the year in the Winter or Spring Supplementary Estimates. Thus, Parliament would be notified by HMT of EYF arising from underspend identified at the end of year 2004-05, several months into the following financial year (circa. July 2005). But EYF may not be used by departments until it has been formally authorised by Parliament later in the next financial year<sup>7</sup>.

#### Example EYF Timeline



<sup>6</sup> The figure for RfR relating to Wales however, is made up of provision for the Wales Office as well as the grant to the National Assembly for Wales

<sup>7</sup> approval for identified EYF from 2004-05 was sought in the 2006 Spring Supplementary Estimates (February), although in other years this has happened in the Winter Supplementary Estimates, around December



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For this reason, the Assembly budget does not include resources accumulated through EYF; neither does it include expenditure that might be funded by EYF. To include unapproved EYF might result in commitments being entered into for which no funding is ultimately available. In recent years underspend in the region of 1% has been generated<sup>8</sup>, but prudent budget management demands that adequate reserves are built into budgets which may then be used to meet unforeseen pressures (See Treasury advice on this matter in the [Public Spending Guidance website](#))<sup>9</sup>.

Most recently, the MEG to MEG transfers for year 2006-07 were laid before the Assembly on Thursday 22 February 2007, and debated in Plenary on 28 February 2007<sup>10</sup>. [Table 1](#) of the supporting tables laid in the Table Office provides information on proposed revised budgets for 2006-07 resulting from transfers to and from other government departments and from the EYF and reserve provision.



### Further Information:

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

[HM Treasury – Consolidated Budgeting Guidance](#)

[HM Treasury – Financial Reporting Manual \(FReM\)](#)

[HM Treasury - Resource Accounting Manual](#)

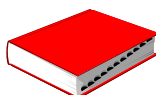
[Public Spending Guidance – Monitoring and Control, End Year Flexibility Mechanism](#)

[Members' Research Service Publications](#) (links to papers produced by Members' Research Service)



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[Glossary of terms](#)

<sup>8</sup> Assembly Budget Planning and Management Unit, Welsh Assembly Government

<sup>9</sup> The Reserves in Wales are equivalent to Departmental Unallocated Provision (DUP) held by Government departments.

<sup>10</sup> RoP, 28 February 2007, pp 49-54:

<http://www.wales.gov.uk/documents/cms/2/ChamberSession/380313AC00046B17000028C300000000/b648cd1de27f008001be8de14e0a9750.pdf>