

**ANNEX A****THE CURRENT EYF ARRANGEMENTS**

1. The rules on EYF are set out in detail in PES(99)5. The basic principle is that any underspend within a Departmental Expenditure Limit can be carried over and is available to the department to spend the following year. The scheme applies, like the DEL, to the department as a whole, leaving it to them to decide what arrangements to operate internally (though the intention carried through from the inception of the first capital scheme in 1983 was that EYF should apply to the budgets of grant-in-aid bodies).
2. The amount of EYF is calculated at the end of the financial year and published in the Public Expenditure Outturn White Paper in July. The department can draw down EYF in the course of the year, by seeking Supplementary Estimates, usually in the Winter and Spring rounds of supplementaries. At this point the amount drawn down is added to the department's DEL for that year and counts as claim on the DEL Reserve.
3. Any EYF which has not been used at the end of the year can be carried over to the following year, together with any underspend against the revised DEL arising in the year. However Treasury reserve the right to take account of any excessive build-up of entitlement in subsequent spending reviews.
4. Some restrictions are applied to the use of EYF which broadly mirror the subdivisions of the DEL. In particular:
  - only running costs underspends can be added to running costs limits in the following year;
  - only current underspends can be added to current spending the following year (ie a capital underspend cannot be switched to current spending).
5. A further restriction is that where underspends arise on 'non discretionary' spending in DEL (formerly non cash limited spending), they cannot be switched into discretionary spending without the Treasury's agreement.
6. Where a department makes a successful claim on the Reserve during a year, and it later emerges that the department has an underspend for that year, the amount of the claim is normally deducted from the EYF allowed at the end of the year.
7. The scheme does not provide for spending to be brought forward from future years.

**Guidance on grant in aid**

8. *Government Accounting 13.3.9* recommends as a "general rule of thumb" a limit of 2% on carry over of unspent grant-in-aid held by sponsored bodies. This arrangement, designed to give NDPBs working cash balances at the start of the year is in line with the general principle that payments should not be made in advance of need. It should not currently restrict the EYF entitlement for those bodies which should be based upon underspends by the sponsoring departments on grant-in-aid.
9. This rule will in any event lose its significance in relation to the DEL control total with the move to resource accounting and budgeting next year. Departments' resource EYF carryover from 2000-01 to 2001-02 and subsequently will be based upon the resource cost of activities

undertaken in the earlier year, not the cash payments where these might be deferred.