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Financial forecasting performance data: scrutiny by committees

Introduction

The Department of Finance and Personnel (DFP) is required to make a monthly return to the Treasury including public expenditure and forecast outturn data. In turn, DFP provides a summary of this regular financial monitoring information to the Committee for Finance and Personnel (CFP). Recently, DFP has begun to also provide analysis of the financial forecasting performance of NICS departments.

In the previous mandate, CFP conducted an inquiry into the Role of the Northern Ireland Assembly in Scrutinising the Executive's Budget and Expenditure. In its Third Report, CFP recommended:

> *…that the successor CFP works with DFP to refine and improve the format of the available forecast outturn data to facilitate straightforward comparisons between planned spending and actual spending by departments. The provision of appropriate information in this regard could assist in identifying trends in in-year reduced requirements by departments early enough to avoid significant year-end underspend, which is critical in view of the removal of End Year Flexibility, and will also facilitate scrutiny of the standards of financial forecasting and monitoring by departments.*[1]

The provision of financial forecasting analysis is undoubtedly a step in the direction of improving the budgetary information available to committees. The transparency of data has also been improved by the subdivision of resource funds into ringfenced and non-ringfenced categories (see section 1 of Part 1 below).

Viewed in isolation, however, these data remain rather difficult to interpret: without context it is not easy to understand what the figures mean. The purpose of this Research Paper is to provide an explanation of what the data show, and to provide the Assembly's statutory committees with guidance in the scrutiny of these data.

This paper is divided into three parts.

- Part 1 looks at the monthly forecast outturn data that departments provide to DFP. It explains what the data show and suggests some potential areas for committee scrutiny;
- Part 2 looks at the analysis of financial forecasting performance provided by DFP. Again, an explanation of what the data show is provided, and some suggested areas for scrutiny are highlighted;
- Part 3 of the paper addresses the issue of why statutory committees might be interested in these data, and draws together some wider considerations around the purposes for which they might be used to support scrutiny.

[1] http://archive.niassembly.gov.uk/finance/2007mandate/reports/report_61_10_11R.htm#3 (accessed 4 December 2012) (see paragraphs 106 and 107)

Please note: The latest data submission to CFP from DFP is for October 2012 (received 29 November 2012). Departmental returns to DFP were submitted prior to the announcement of the October Monitoring Round outcome. This means that the October forecasts are not compared with October Monitoring position, but instead against June. Consequently, the Tables in this paper have not been updated to reflect that forecast return.

The principles for examining the data, however, remain the same.

Part 1: Forecast Outturn Data

Total Forecast Outturn is an estimate by departments of the money they will have spent by the end of the financial year. It is also divided into a monthly profile – to show how much of the Total will be spent in each month of the year. These forecasts are monitored by DFP as part of the management of the Northern Ireland Block. The forecasts inform the Executive's consideration during monitoring rounds of any reallocations of funding that are possible.

1. What are the data, and what do they show?

The monthly submission from DFP comes in two parts:

- **A summary table showing departments' monthly profile of spend and total forecast outturn; and,**
- **Monthly tables comparing forecast outturn to monitoring position.**

In each case, the expenditure data are sub-divided into two categories:

- Resource expenditure is a term used interchangeably with 'current' costs (or expenditure), meaning spending on the day-to-day running of departments and the delivery of public services i.e. non-capital. Resource money is further divided into 'non-ringfenced' and 'ringfenced':
  - Non-ringfenced resource is all resource expenditure that is *not* ringfenced. It includes programme costs, pay costs and other administrative expenditure;
  - Ringfenced resource expenditure includes depreciation and impairments. These are accounting concepts that reflect the cost of capital and assets. Ring-fenced resource allocations cannot be applied to other purposes; and,
- Capital expenditure creates an asset (and so is used interchangeably with 'investment expenditure'). Fixed assets (or non-current, or long-term assets) are those with an expected life of more than one year, held for use by the organisation. According to International Accounting Standard (IAS) 16,[2] fixed assets are assets whose future economic benefit is probable to flow into the entity, whose cost can be measured reliably. Fixed assets can be distinguished between tangible and intangible assets:
  - Tangible assets are assets which have physical substance and can include property, plant and equipment (PPE).
  - Intangible assets have no physical substance and include development expenditure and goodwill.

[2] http://eifrs.ifrs.org/eifrs/bnstandards/en/2012/ias16.pdf

1.1. Total Forecast Outturn

In DFP's monthly submission to CFP, the first table for each category of expenditure shows the Total Forecast Outturn for each Northern Ireland Civil Service department and non-Executive department for the financial year.

The figures from DFP's submissions to CFP have been extracted and reproduced below as Tables 1, 2, and 3 below. **In addition, the two columns on the right-hand side ('June Monitoring' and 'Difference') have been inserted by RalSe for ease of reference.**

As noted above, Total Forecast Outturn is the total amount of resources that each department forecasts it will have spent by the end of the financial year. Comparing this information with the most up-to-date monitoring round position allows committees to see whether a department appears to be heading for an under- or overspend at the year-end.

Table 1, 2 and 3 also show the monthly profile of Outturn (shaded orange) and Forecast Outturn (shaded blue) – this is the expected phasing of the expenditure across the whole of the financial year. These illustrate the proportion of the Total Forecast Outturn (shaded lilac) which each department has spent, or forecasts it will spend, during each month. In aggregate, these form Total Forecast Outturn. As the financial year-end approaches, more of the columns will appear on the orange Outturn side and fewer on the blue Forecast Outturn side.

The far right-hand column shows the difference between a department's Total Forecast Outturn and the latest Monitoring Round position. A red indicator shows that – on the basis of the latest forecast - the department will overspend. A green indicator shows that – again on the latest forecast – the department will underspend. No colour shows that there is no difference between forecast and monitoring position – in other words, the department is on track to spend its allocation.

Note: it is arguable that it might of more value to compare each forecast against the <u>opening</u> monitoring position rather than the <u>latest</u> monitoring position. To do so would be to ignore the purpose of the monitoring rounds – this is to adjust expenditure allocations in response to events or shifting priorities. It might, therefore, be confusing.

For example, in June Monitoring, DCAL's capital allocation was reduced by £13.9m. If DFP continued to monitor DCAL's expenditure against the opening, rather than June, position it would using a more than 30% higher baseline than the adjusted baseline. The effect would be to mask potential spends over that adjusted baseline.

Table 1: 2012-13 September Forecast Outturn (Received October) - Capital Expenditure

£000's

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	Outturn						Forecast Outturn								
DEPARTMENT	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	Total Forecast Outturn	June Monitoring	Difference
AOCC	0	0	0	0	0	0	0	0	0	0	0	0	**0**	**0**	**0**
DARD	496	973	511	929	1,748	1,389	2,524	964	1,556	2,098	1,980	4,276	**19,444**	19444	**0**
DCAL	2,517	621	1,547	865	1,805	1,159	1,433	2,111	2,971	2,427	1,226	2,688	**21,370**	21369	**1**
DE	4,597	5,248	4,174	5,732	7,324	7,099	9,420	9,567	9,254	10,984	12,281	16,241	**101,921**	101921	**0**
DEL	19	120	1,759	767	719	294	1,868	656	1,511	1,241	4,968	2,473	**16,395**	16395	**0**
DETI	523	548	4,090	1,962	4,500	2,869	1,684	-7097	5,448	4,837	3,213	8,910	**31,487**	31960	**-473**
DFP	175	778	431	361	1,064	524	888	1724	1,388	2,173	1,808	2,907	**14,221**	14911	**-690**
DHSSPS	0	117,758	11,097	11,733	12,336	11,720	10,868	10,410	13,440	36,646	37,817	53,395	**327,220**	327220	**0**
DOE	50	357	195	520	267	419	514	712	596	613	763	957	**5,963**	5963	**0**
DOJ *	2,402	2,035	5,279	4,009	3,059	2,487	4,929	5,442	4,666	5,537	6,971	20,421	**67,237**	64537	**2,700**
DRD	12,565	26,822	20,351	20,316	32,258	29,686	34,321	43,831	38,524	34,026	37,988	61,897	**392,585**	392585	**0**
DSD	-596	3,165	1,561	4,790	6,379	4,937	8,030	8,575	11,630	12,898	21,195	33,287	**115,851**	123851	**-8,000**
FSA	0	0	0	0	10	0	0	0	5	0	0	0	**15**	25	**-10**
NIA	36	47	198	0	57	107	299	299	299	298	298	297	**2,235**	2300	**-65**
NIAO	0	0	0	0	0	0	0	0	0	55	55	60	**170**	240	**-70**
NIAUR	0	0	0	0	0	0	0	0	0	0	0	5	**5**	5	**0**
OFMDFM	-2,100	2,446	410	200	395	276	315	552	844	705	929	1,094	**6,066**	10050	**-3,984**
PPS	0	0	0	0	0	19	15	30	20	30	31	31	**176**	176	**0**
TOTAL	**20,684**	**160,918**	**51,603**	**52,184**	**71,921**	**62,985**	**77,108**	**77,776**		**114,568**	**131,523**	**208,939**	**112,2361**	**1132952**	**-10,591**

*** Note: DOJ has separate End-Year Flexibility arrangements from the rest of the NICS departments as part of the devolution agreement**

Table 2: 2012-13 September Forecast Outturn (Received October) – Non Ringfenced Resource Expenditure

£000's

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	Outturn						Forecast Outturn								
DEPARTMENT	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	Total Forecast Outturn	June Monitoring	Difference
AOCC	197	128	119	154	114	110	151	186	123	164	132	237	**1,815**	1,874	**-59**
DARD	15,310	15,690	16,248	13,729	14,547	16,650	15,836	16,731	16,294	22,369	15,426	30,535	**209,365**	209,365	**0**
DCAL	7,111	7,962	8,203	7,491	8,071	8,121	9,736	10,191	10,574	10,665	10,711	11,898	**110,734**	110,734	**0**
DE	155,723	160,548	159,249	159,380	156,830	150,171	161,461	158,230	157,836	161,350	158,109	175,568	**1,914,455**	1,914,455	**0**
DEL	51,362	89,725	49,483	52,796	66,677	73,946	62,805	60,561	68,974	70,513	43,445	54,138	**744,425**	746,187	**-1,762**
DETI	9,495	8,622	14,309	16,086	12,459	11,190	15,549	15,482	15,252	17,141	17,527	31,348	**184,460**	196,464	**-12,004**
DFP	9,266	396	15,935	11,692	9,698	14,136	15,609	14,871	14,768	18,141	13,905	16,599	**155,016**	156,323	**-1,307**
DHSSPS	354,529	350,976	355,466	367,865	363,603	340,227	361,747	370,788	354,116	369,985	376,300	382,478	**4,348,080**	4,348,080	**0**
DOE	10,441	7,305	7,244	9,825	9,928	9,579	10,619	10,484	11,346	11,253	9,744	17,249	**125,017**	125,017	**0**
DOJ*	91,279	96,091	91,821	93,873	97,370	96,382	94,669	93,694	103,432	108,977	103,363	110,057	**1,181,008**	1,104,354	**76,654**
DRD	22,197	33,393	40,288	21,473	30,108	31,449	30,697	33,393	33,100	37,900	37,580	42,470	**394,048**	394,069	**-21**
DSD	39,875	45,819	32,418	36,216	33,989	42,562	48,661	40,501	40,755	47,172	44,151	51,452	**503,571**	510,643	**-7,072**
FSA	544	783	495	669	778	526	589	841	595	718	821	611	**7,970**	8,659	**-689**
NIA	3,930	3,043	3,004	3,058	3,086	3,111	3,563	3,563	3,563	3,561	3,560	3,569	**40,611**	41,007	**-396**
NIAO	716	688	807	656	827	603	328	677	978	477	478	862	**8,097**	8,251	**-154**
NIAUR	584	-864	557	539	-2,901	41	-2,007	744	744	745	746	1,509	**437**	437	**0**
OFMDFM	-1,379	10,240	4,699	8,024	4,830	4,976	8,352	6,676	5,501	8,188	5,958	9,969	**76,034**	79,543	**-3,509**
PPS	2,895	3,039	2,979	2,651	2,443	2,557	3,002	3,067	2,922	2,925	3,229	3,387	**35,096**	35,122	**-26**
TOTAL	**774,075**	**833,584**	**803,324**	**806,177**	**812,457**	**806,337**	**841,367**	**840,680**	**840,873**	**892,244**	**845,185**	**943,936**	**10,040,239**	**9,990,584**	**49,655**

***Note: DOJ has separate arrangements from the rest of the NICS departments as part of the devolution agreement. In particular it has a different arrangement for accessing funding from the UK Treasury Reserve**

Table 3: 2012-13 September Forecast Outturn (Received October) – Ringfenced Resource Expenditure

£000's

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
	Outturn						Forecast Outturn								
DEPARTMENT	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	Total Forecast Outturn	June Monitoring	Difference
AOCC	4	4	4	4	4	8	4	4	4	4	4	4	**52**	62	**-10**
DARD	958	1,020	979	970	1,011	1,001	1,002	1,002	1,002	1,002	880	1,198	**12,025**	12,025	**0**
DCAL	440	441	441	446	440	449	453	453	455	386	387	518	**5,309**	5,309	**0**
DE	5	48	62	38	37	42	51	51	50	49	48	230	**711**	711	**0**
DEL	11,272	11,348	11,034	11,263	4,096	4,326	4,597	4,590	4,588	4,600	4,598	4,073	**80,385**	85,345	**-4,960**
DETI	90	252	202	174	157	165	157	157	158	158	157	269	**2,096**	2,320	**-224**
DFP	53	5,538	2,597	1,961	3,580	2,419	2,409	2,424	2,292	1,549	2,380	2,552	**29,754**	29,932	**-178**
DHSSPS	9,540	9,541	9,540	9,543	9,547	8,823	8,823	8,824	8,826	8,830	8,832	8,895	**109,564**	114,564	**-5,000**
DOE	-	679	335	331	291	257	86	104	108	132	238	279	**2,840**	2,840	**0**
DOJ	4,600	6,062	3,292	4,708	6,021	4,859	5,380	5,380	5,481	5,480	5,481	12,553	**69,297**	83,297	**-14,000**
DRD	-	16,179	8,015	10,882	8,732	4,858	7,701	8,052	8,151	8,269	8,970	9,735	**99,544**	109,544	**-10,000**
DSD	197	91	142	- 71	87	89	88	88	88	933	88	110	**1,930**	4,240	**-2,310**
FSA	1	1	1	1	1	1	1	1	1	1	1	1	**12**	25	**-13**
NIA	275	275	275	275	275	275	275	275	275	275	275	390	**3,415**	3,415	**0**
NIAO	31	31	31	31	31	31	29	29	29	29	29	29	**360**	370	**-10**
NIAUR	-	-	-	-	-	-	-	-	-	-	-	20	**20**	20	**0**
OFMDFM	13	81	45	41	40	41	41	52	42	42	42	42	**522**	522	**0**
PPS	116	128	128	128	85	117	132	130	129	129	129	170	**1,521**	1,571	**-50**
TOTAL	**27,595**	**51,719**	**37,123**	**40,725**	**34,435**	**27,761**	**31,229**	**31,616**	**31,679**	**31,868**	**32,539**	**41,068**	**419,357**	**456,112**	**-36,755**

1.2. Monthly forecast tables

The second set of tables provided by DFP show for each month the difference between the expected year-end position against the opening position (as adjusted by monitoring rounds). In essence, these tables (consolidated by RaISe into Tables 4-6 below) show how each department's forecast year-end position has changed month-by-month in response to events.

Column 2 of each Table shows the opening monitoring position. This is the expenditure ceiling for each category of spend that is set at the start of the financial year.

Column 3 of each Table shows the Total Forecast Outturn for the year that was submitted by departments for May. Column 4 shows the difference between the forecast and the opening monitoring position.

Column 4 shows the monitoring position as adjusted by any changes made in the June Monitoring Round. This is the adjusted expenditure ceiling for each category of spend.

Columns 6, 8, 10, and 12 show departments' Total Forecast Outturn as submitted for June, July, August and September respectively. Columns 7, 9, 11, and 13 show the difference between each monthly forecast and the June monitoring position.

A negative figure in a 'difference' column means that the department expects that – based on the current forecast for that month - at year-end it will have underspent. Underspend may be due to a number of reasons. This might include: departments securing operational efficiencies; departments taking other cost-saving measures; increased receipts; the cessation of a service, programme or project; or, the delay or slippage of a programme or project until after the current financial year. In other words, a negative figure shows where an easement is likely.

A positive figure in a 'difference' column means that the department expects – based on the latest forecast for that month – at year-end it will have overspent. In other words, these figures show where a reclassification, reprioritisation or monitoring round bid is likely to be required: a positive figure means that a spending pressure has arisen. Spending pressures may be due to a number of reasons: unexpected/unforeseen events requiring resources (for example, a health pandemic); lower-than-anticipated receipts; changes to price/pay assumptions; or, a service or function requiring more than its allocated provision.

1.2.1. Examples from Tables 4 to 6

This sub-section provides examples to illustrate how these data might support committee scrutiny.

Tables 4 to 6 in effect show where a department is projecting an over- or underspend, and whether the degree of over- or underspend is increasing or decreasing.

For example, Table 4 shows in columns 9, 11 and 13 for OFMDFM an increasing level of forecast underspend (highlighted with green arrows). The Committee for the Office of the First and Deputy First Minister might, therefore, take this as an indication that there may be an issue about which it may wish to ask the department for evidence: what is the explanation for the reducing expenditure?

Another issue that the data serves to highlight is where departmental forecasting shows variations up and down.

For example, in Table 5 columns 9, 11 and 13 for DFP (highlighted with red arrows) show first an increased level of underspend, then a decreased level of underspend. For OFMDFM the forecast level of underspend decreased, then increased again (highlighted with green arrows). It is to be expected that increasing underspend will be adjusted in the next monitoring round (see figures for October Monitoring in section 3 below.)

This might indicate another potential avenue of inquiry for the relevant statutory committees: are the changes in the level of forecast underspend due to some inherent uncertainties in relation to particular issues? Are departments taking any steps to mitigate against these uncertainties, to proactively manage their expenditure profile?

These tables also help to illustrate the impact of in-year adjustments to spending plans by the Executive through the monitoring rounds.

For example, Table 4 shows in column 3 that, prior to June Monitoring, DCAL was forecasting an underspend of £13,909,000 in the Capital category. Column 5 shows that DCAL's allocation was adjusted down by June Monitoring (highlighted with red arrows).

Note: The Department of Justice's (DoJ) figures in Tables 1 and 2 show significant forecast overspend. As a newly created department, however, DoJ currently operates under separate end-year flexibility scheme: the DoJ can carry forward an unlimited amount of resources from one year to the next.[3]

[3] http://www.niassembly.gov.uk/Assembly-Business/Official-Report/Reports-11-12/29-May-2012/#a8

Table 4: Monthly forecast outturn returns 2012-13 (to date) – Capital (£000s)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Department	**Opening Monitoring**	**May Forecast**	**Difference**	**June Monitoring**	**June Forecast**	**Difference**	**July Forecast**	**Difference**	**August Forecast**	**Difference**	**September Forecast**	**Difference**
AOCC	0	0	0	0	0	0	0	0	0	0	0	0
DARD	19,251	19,251	0	19,444	19,444	0	19,444	0	19,444	0	19,444	0
DCAL	34,133	20,224	-13,909	21,369	21,369	0	21,361	-8	21,369	0	21,370	1
DE	101,921	101,101	-820	101,921	101,921	0	101,921	0	101,921	0	101,921	0
DEL	33,842	33,842	0	16,395	16,395	0	16,395	0	16,395	0	16,395	0
DETI	45,560	32,560	-13,000	31,960	31,960	0	31,960	0	31,310	-650	31,487	-473
DFP	14,175	14,175	0	14,911	14,911	0	14,911	0	14,911	0	14,221	-690
DHSSPS	312,972	312,972	0	327,220	327,220	0	327,220	0	327,220	0	327,220	0
DOE	5,981	5,981	0	5,963	5,963	0	5,963	0	5,963	0	5,963	0
DOJ	64,537	64,537	0	64,537	54,537	-10,000	70,937	6,400	70,937	6,400	67,237	2,700
DRD	363,571	363,571	0	392,585	392,585	0	392,585	0	392,585	0	392,585	0
DSD	120,439	119,944	-495	123,851	123,851	0	123,851	0	123,851	0	115,851	-8,000
FSA	25	10	-15	25	12	-13	12	-13	15	-10	15	-10
NIA	3,670	2,300	-1,370	2,300	2,300	0	2,300	0	2,300	0	2,235	-65
NIAO	240	240	0	240	240	0	240	0	240	0	170	-70
NIAUR	43	5	-38	5	5	0	5	0	5	0	5	0
OFMDFM	10,050	10,050	0	10,050	10,050	0	7,475	-2,575	7,266	-2,784	6,066	-3,984
PPS	176	176	0	176	176	0	176	0	176	0	176	0
Total	**1,130,586**	**1,100,939**	**-29,647**	**1,132,952**	**1,122,939**	**-10,013**	**1,136,756**	**3,804**	**1,135,908**	**2,956**	**1,122,361**	**-10,591**

The effect of a forecast underspend on the subsequent monitoring round can be seen in these columns

An increasing level of forecast underspend can be seen in these columns

Table 5: Monthly forecast outturn returns 2012-13 (to date) – Non-Ringfenced Resource (£000s)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Department	**Opening Monitoring**	**May Forecast**	**Difference**	**June Monitoring**	**June Forecast**	**Difference**	**July Forecast**	**Difference**	**August Forecast**	**Difference**	**September Forecast**	**Difference**
AOCC	1,874	1,738	-136	1,874	1,736	-138	1,736	-138	1,815	-59	1,815	-59
DARD	210,733	210,733	0	209,365	209,365	0	209,353	-12	209,365	0	209,365	0
DCAL	103,584	103,565	-19	110,734	110,740	6	110,734	0	110,734	0	110,734	0
DE	1,905,688	1,905,688	0	1,914,455	1,914,455	0	1,914,455	0	1,914,455	0	1,914,455	0
DEL	732,373	732,373	0	746,187	745,287	-900	745,287	-900	746,187	0	744,425	-1,762
DETI	207,483	198,872	-8,611	196,464	196,464	0	196,464	0	196,464	0	184,460	-12,004
DFP	164,941	154,554	-10,387	156,323	156,323	0	155,240	-1,083	154,187	-2,136	155,016	-1,307
DHSSPS	4,333,129	4,333,129	0	4,348,080	4,348,080	0	4,348,080	0	4,348,080	0	4,348,080	0
DOE	121,086	121,086	0	125,017	125,017	0	124,912	-105	124,773	-244	125,017	0
DOJ	1,103,816	1,103,816	0	1,104,354	1,104,354	0	1,141,254	36,900	1,141,254	36,900	1,181,008	76,654
DRD	384,138	383,768	-370	394,069	394,069	0	394,069	0	394,069	0	394,048	-21
DSD	514,366	513,755	-611	510,643	510,483	-160	510,448	-195	510,364	-279	503,571	-7,072
FSA	9,623	8,042	-1,581	8,659	8,028	-631	7,990	-669	7,847	-812	7,970	-689
NIA	41,595	41,007	-588	41,007	41,007	0	41,007	0	41,007	0	40,611	-396
NIAO	8,309	8,251	-58	8,251	8,251	0	8,251	0	8,251	0	8,097	-154
NIAUR	442	437	-5	437	437	0	437	0	437	0	437	0
OFMDFM	79,616	79,216	-400	79,543	79,543	0	77,072	-2,471	77,702	-1,841	76,034	-3,509
PPS	34,774	34,774	0	35,122	35,122	0	35,122	0	35,096	-26	35,096	-26
Total	**9,957,570**	**9,934,804**	**-22,766**	**9,990,584**	**9,988,761**	**-1,823**	**10,021,911**	**31,327**	**10,022,087**	**31,503**	**10,040,239**	**49,655**

Variable levels of forecast underspend can be seen in these columns.

Table 6: Monthly forecast outturn returns 2012-13 (to date) – Ringfenced Resource (£000s)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Department	**Opening Monitoring**	**May Forecast**	**Difference**	**June Monitoring**	**June Forecast**	**Difference**	**July Forecast**	**Difference**	**August Forecast**	**Difference**	**September Forecast**	**Difference**
AOCC	62	52	-10	62	52	-10	52	-10	52	-10	52	-10
DARD	12,021	12,021	0	12,025	12,025	0	12,025	0	12,025	0	12,025	0
DCAL	5,305	5,305	0	5,309	5,309	0	5,301	-8	5,309	0	5,309	0
DE	707	707	0	711	711	0	711	0	711	0	711	0
DEL	85,341	85,341	0	85,345	85,345	0	85,345	0	85,345	0	80,385	-4,960
DETI	4,616	2,381	-2,235	2,320	2,320	0	2,320	0	2,320	0	2,096	-224
DFP	22,087	22,087	0	29,932	29,932	0	29,932	0	29,932	0	29,754	-178
DHSSPS	114,560	114,560	0	114,564	114,564	0	114,564	0	114,564	0	109,564	-5,000
DOE	2,836	2,836	0	2,840	2,840	0	2,840	0	2,840	0	2,840	0
DOJ	83,297	83,297	0	83,297	83,297	0	83,297	0	83,297	0	69,297	-14,000
DRD	109,540	109,540	0	109,544	109,544	0	109,544	0	99,544	-10,000	99,544	-10,000
DSD	9,340	4,340	-5,000	4,240	4,240	0	4,240	0	3,040	-1,200	1,930	-2,310
FSA	47	12	-35	25	12	-13	12	-13	12	-13	12	-13
NIA	3,415	3,415	0	3,415	3,415	0	3,415	0	3,415	0	3,415	0
NIAO	370	370	0	370	370	0	370	0	370	0	360	-10
NIAUR	50	20	-30	20	20	0	20	0	20	0	20	0
OFMDFM	510	510	0	522	522	0	522	0	522	0	522	0
PPS	1,571	1,571	0	1,571	1,571	0	1,571	0	1,571	0	1,521	-50
Total	**455,675**	**448,365**	**7,310**	**456,112**	**456,089**	**-23**	**456,081**	**-31**	**444,889**	**-11,223**	**419,357**	**-36,755**

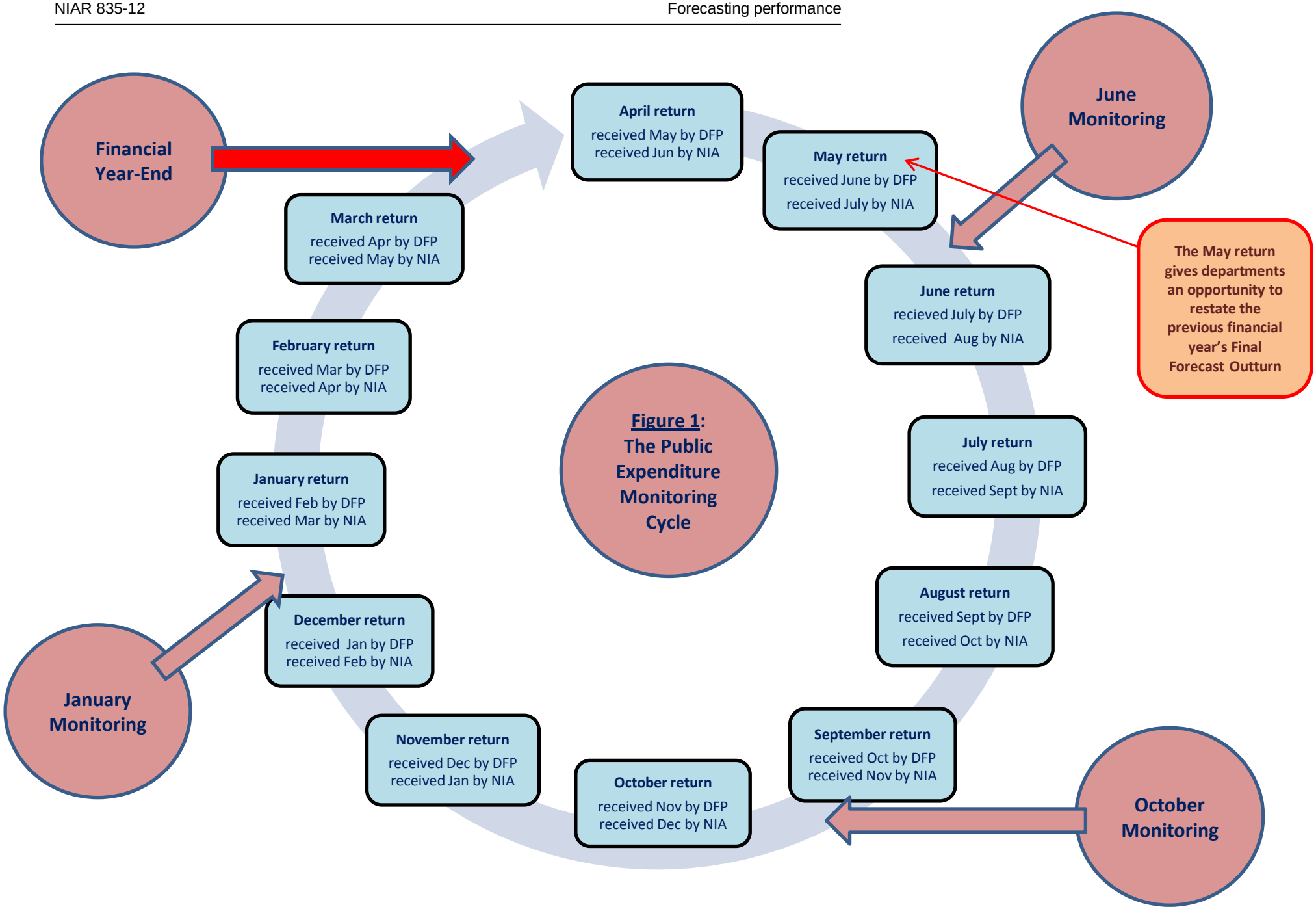
Part 2: Financial Forecasting Performance

This Part of the paper examines analysis recently provided by DFP of departmental forecasting accuracy. This is an important development from an Assembly perspective because it gives a level of insight into departmental financial management.

The DFP analysis draws on the data sets considered in Part 1 over a period of time. Essentially, the analysis looks at how accurately departments forecast their expenditure. It does this by comparing the Outturn figures provided for a particular month with the Forecast Outturn that was provided for that same month two months previously.

So, the analysis provided by DFP in November is based upon September's departmental returns. It takes Outturn figures for August from September's return, and compares them with Forecast Outturn figures for August from July's return. In this way it provides some insight into departments' financial management.

Figure 1 shows the public expenditure monitoring cycle. This helps to illustrate the timing of relevant data submissions (by departments to DFP and by DFP to the Assembly), relative to the timing of the monitoring rounds.


Financial Year-End
April return
received May by DFP
received Jun by NIA
May return
received June by DFP
received July by NIA
June Monitoring
The May return gives departments an opportunity to restate the previous financial year's Final Forecast Outturn
June return
recieved July by DFP
received Aug by NIA
July return
received Aug by DFP
received Sept by NIA
August return
received Sept by DFP
received Oct by NIA
September return
received Oct by DFP
received Nov by NIA
October Monitoring
October return
received Nov by DFP
received Dec by NIA
November return
received Dec by DFP
received Jan by NIA
December return
received Jan by DFP
received Feb by NIA
January Monitoring
January return
received Feb by DFP
received Mar by NIA
February return
received Mar by DFP
received Apr by NIA
March return
received Apr by DFP
received May by NIA
Figure 1: The Public Expenditure Monitoring Cycle

2. What are the data and what do they show?

2.1. Monthly forecasting performance

As noted above, DFP has recently started providing analysis of departmental performance in financial forecasting. Figures 2 to 4 show forecasting accuracy for August, for capital, non-ringfenced resource and ringfenced resource respectively.

Each figure shows the variance (in percentage terms) between the monthly Forecast Outturn and the Actual Outturn subsequently submitted by departments: the lower the percentage variance, the more accurate the forecast.

Figure 2: analysis of forecasting performance – capital 2012-13

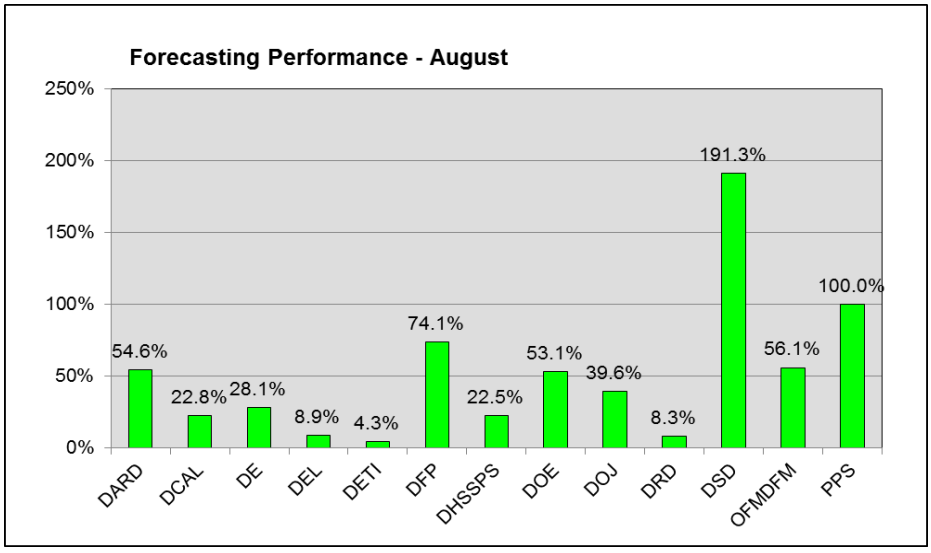


Figure 3: analysis of forecasting performance – non-ringfenced resource 2012-13

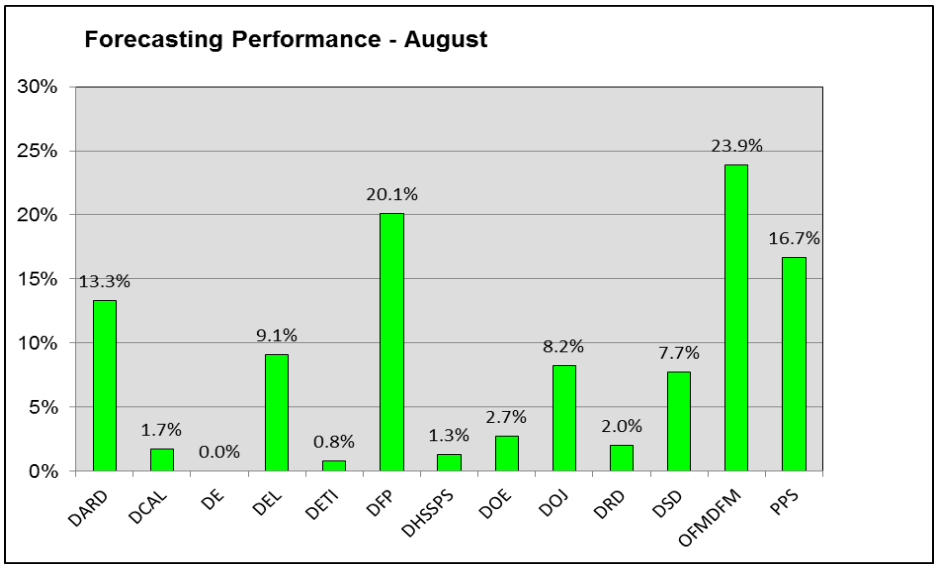
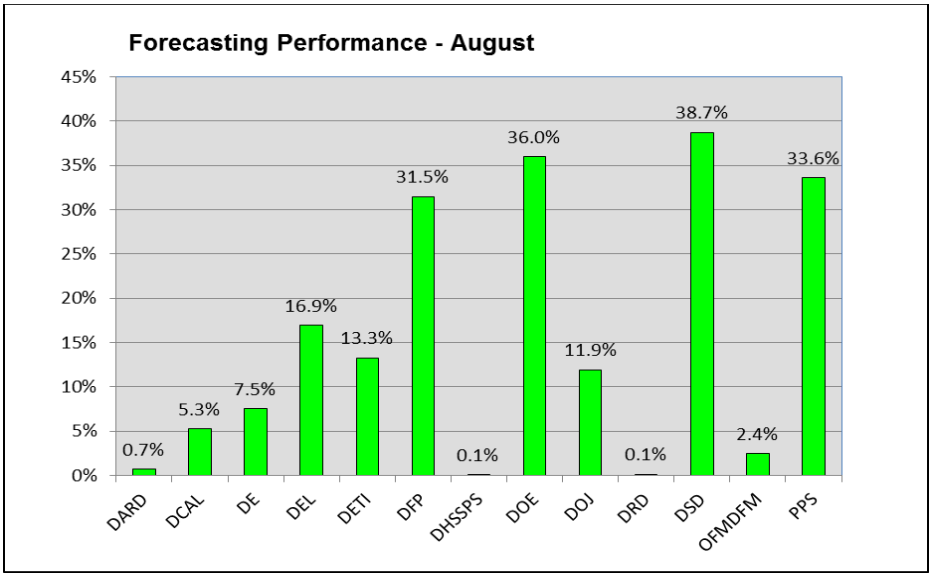


Figure 4: analysis of forecasting performance – ringfenced resource 2012-13



The figures presented in the charts are calculated by taking the Forecast Outturn for a month (in this case August 2012) submitted the previous month (in this case July) and comparing it to the Actual Outturn reported the following month (in this case the September return).

DFP compares the Forecast and the Actual Outturn figures, and the charts show the difference between the two in percentage terms. This means, the higher the percentage in the chart, the larger the difference between the Forecast and the Actual. This is a way of measuring how accurately the departments are forecasting their expenditure patterns: a large variance is indicative of a poor forecast.

Note: the figures are shown in absolute terms (i.e. neither positive or negative) because the area of focus is the variance between Forecast and Actual, not whether there was greater or lesser actual expenditure than forecast. A variance of 0% is therefore a perfect forecasting performance and should be what all departments are aiming to achieve.

Because these first charts are based upon a single month's figures, there is a chance that a significant one-off event could have a major impact on the apparent performance of the department. Consequently, DFP provides a second set of charts to CFP that look at cumulative accuracy.

Another issue to consider is the relative size of departmental budgets. A variance of £10m will be significant relative to a small department's overall expenditure. But that same variance of £10m will be insignificant relative to a large department's overall expenditure.

2.2. Cumulative forecasting performance

Figures 5 to 7 show cumulative departmental forecasting accuracy from June to August 2012. The figures are calculated by taking each month's absolute percentage variance and averaging them over the number of months examined. In this case, three months.

DFP states (not unreasonably) in its Explanatory Note that this approach will 'smooth out' one-off variations. In this way, as the cumulative performance charts are updated each month, they will gradually begin to show a fuller reflection of how well each department is performing. Over time (as more sets of data are collated), it will be possible to compare performance across years to see whether or not performance is improving. As with Figures 2 to 4, the cumulative charts in Figures 5 to 7, indicate a larger percentage variance where there is less forecasting accuracy.

Figure 5: cumulative analysis of forecasting performance – capital 2012-13

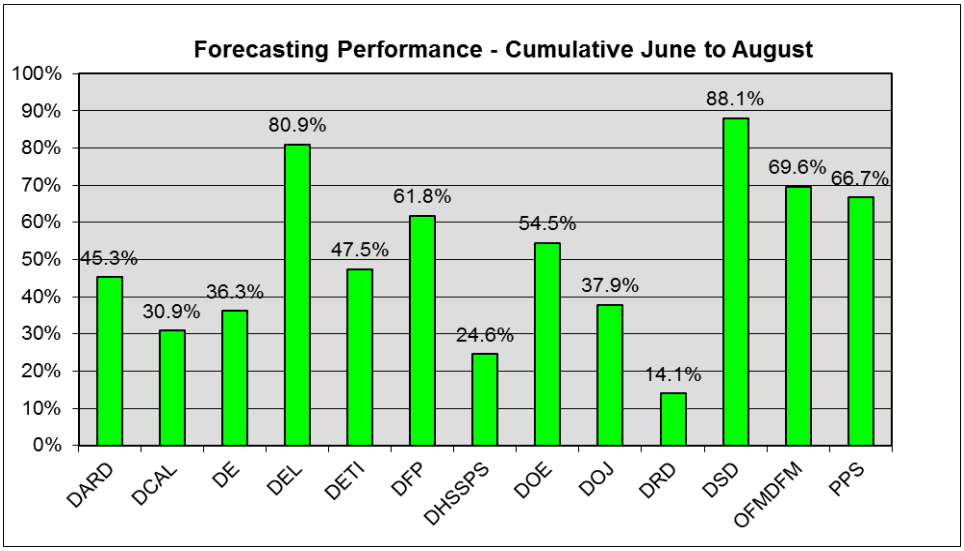


Figure 6: cumulative analysis of forecasting performance – non-ringfenced resource 2012-13

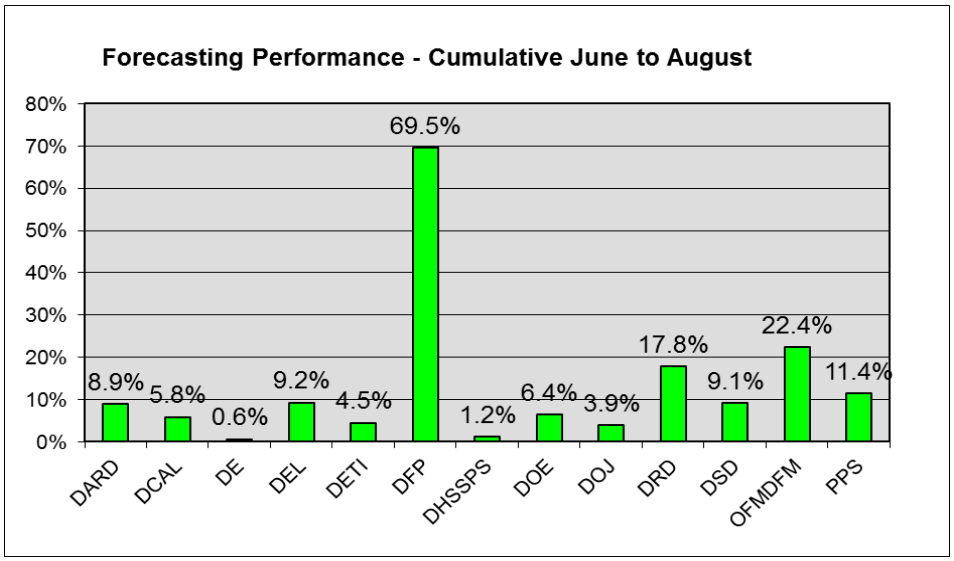
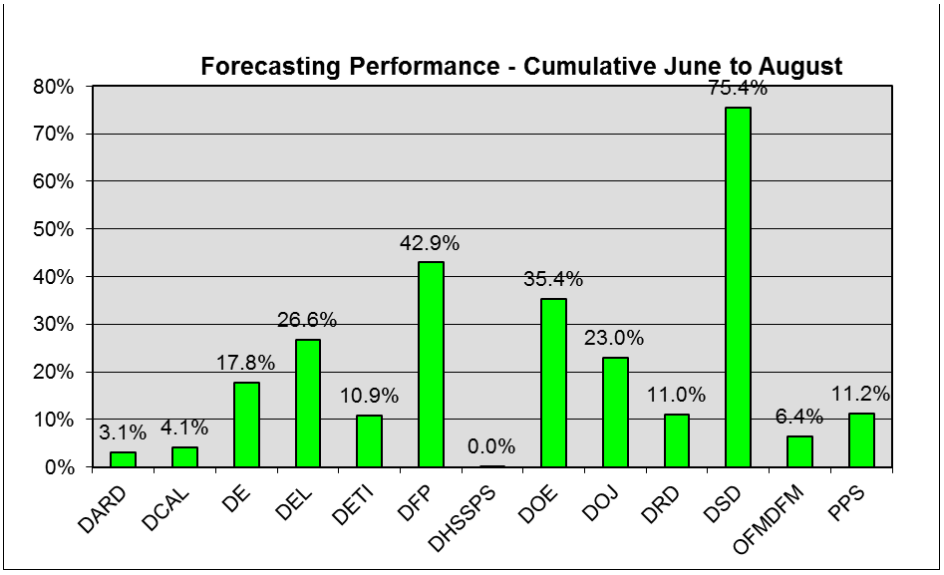


Figure 7: cumulative analysis of forecasting performance – ringfenced resource 2012-13



By way of illustration, the impact of 'smoothing' in the cumulative charts can be seen in Figures 2 and 5.

In Figure 2, it can be seen that DSD's variance for capital in August was 191.3%. But cumulatively over the three months, this reduces in Figure 5 to 88.1%.

This can, however, also work the other way around. For example, DFP's non-ringfenced resource variance in August in Figure 3 was 20.1%. But cumulatively over the three months, this rises in Figure 6 to 69.5%.

Part 3: Why might committees be interested?

Scrutiny of departments' financial performance is a fundamental accountability function of the Assembly.

Through the questioning of departmental finance officials in relation to these data, Assembly committees may be more able to fulfil their statutory functions under section 29(1) of the *Northern Ireland Act 1998*[4] to scrutinise the departmental budgets as set out in paragraph 9 of Strand One to the Belfast Agreement:

> *(Committees) will have a scrutiny, policy development and consultation role with respect to the Department with which each is associated, and will have a role in initiation of legislation.*[5]

Amongst the powers granted to Committees is the power to:

> *Consider and advise on Departmental budgets and Annual Plans in the context of the overall budget allocation.*

In addition, the Minister of Finance has previously highlighted the issue of departmental forecasting in statements to the Assembly. For example, in his statement on the January Monitoring Round on 17 January 2012 he stated:

> *…there were significant reduced requirements again declared in this monitoring round. Departments surrendered £33.0 million non-ringfenced resource expenditure and £23.9 million in respect of capital investment […]*
>
> *One significant item within the reduced requirements related to the schools End of Year Flexibility scheme. In June, the Department of Education was allocated £20.5 million to cover the estimated 2011-12 net schools drawdown for this year. However, the Department has now confirmed that the final estimated drawdown is now only £10 million and there was a surrender of £10.5 million in this monitoring round. I am obviously disappointed that DE has now surrendered such a large amount of resources in this respect and I have asked my officials to liaise with their Department of Education colleagues on improving their forecasting next year.*[6]

So, by paying attention to the forecasting performance of departments, statutory committees may be able to help drive up that performance. Ultimately, this should make the Executive's job of managing Northern Ireland's finances easier – to the benefit of the wider population.

[4] http://www.legislation.gov.uk/ukpga/1998/47/section/29
[5] Northern Ireland Office 'The Belfast Agreement' (1998) available online at http://cain.ulst.ac.uk/events/peace/docs/agreement.htm (accessed 27 November 2012)
[6] http://www.dfpni.gov.uk/2011-12-january-monitoring-round-statement (see page 4)

3.1. Underspends: Budget Exchange

The prime risk associated with financial forecasting is that inaccurately forecast expenditure can lead to underspends. Since the cancellation of the End-Year Flexibility scheme by the UK Government in Spending Review 2010, the Northern Ireland Executive and the other devolved administrations have less freedom to carry forward unspent resources into later financial years.

Under the new Budget Exchange Scheme the devolved administrations are able to carry forward Resource DEL and Capital DEL cash underspends and draw down these underspends in the following year up to maximum of 0.6% of Resource DEL and 1.5% of Capital DEL, through a Supplementary Estimate in the following year.[7] The Northern Ireland Executive's resource DEL for 2012-13 is £10,353.4m. 0.6% of this equates to a maximum carry forward of approximately £62.1m. Capital DEL (net of receipts) for this year is £1,172.5m.[8] 1.5% of this equates to a maximum carry forward of approximately £17.6m. **Any greater amount of underspend must be surrendered to the Treasury.**

Clearly, this gives rise to opportunity costs. Under tighter financial settlements and shrinking public expenditure, improved financial management means the Executive can better target resources where needed in support of Programme for Government objectives, rather than handing funds back to the UK.

In other places, the Minister of Finance has also made the argument there is a danger that the ability to carry forward resources could be a substitute for good financial management. He has argued that *"better forecasting is essential and would to a large extent obviate the need for EYF."*[9]

3.2. Overspends: Excess Votes

The converse risk to underspend is that a department will instead overspend. A department experiencing expenditure pressures can bid for addition resources in the monitoring rounds. If, however, a department still exceeds its allocation this can lead to its accounts being qualified by the Comptroller and Auditor General for Northern Ireland.[10]

In turn, an Excess Vote may be required to regularise the excess expenditure. Excess Votes are the means by which the Assembly retrospectively authorises departmental overspends in terms of resources or cash.

[7] Source: communication from HM Treasury
[8] DEL figures taken from Budget 2011-15.
[9] Letter to CETI, July 2012
[10] A qualification essentially means that the C and AG is unable to give the accounts a clean bill of health. Reports by the C and AG of excess expenditure by departments are considered by PAC. See for example: http://www.niassembly.gov.uk/Assembly-Business/Committees/Public-Accounts/Reports/Report-on-Excess-Votes-Northern-Ireland-2010--2011/

Whilst this is embarrassing for the respective minister and department, there are also wider consequences: poor financial control by departments will lead to additional expenditure pressure on the Northern Ireland Block as a whole. This could potentially impact other departments' budgets or their ability to access in-year allocations in monitoring rounds.

3.3. How can committees use the Total Forecast Outturn data to support scrutiny?

The main value of the Total Forecast Outturn data to committees may be simply the additional information it provides in terms of the potential for over or underspend at year end. It can help provide committees with notice that expenditure pressures are developing, and therefore may indicate that a monitoring round bid is likely to be required.

In addition, these data may be used to support committees in their scrutiny of departments' financial management. The data may provide avenues for holding departments' to account for their proactive management of expenditure pressures, or a need to surrender resources early to the centre – which appears to what the Minister of Finance was driving at in his comments in relation to Department of Education In January 2012 (cited above).

To assist committees with interpreting the data and formulating lines of questioning, scrutiny template is attached as Appendix 1.

3.4. How can committees use the forecasting performance analysis to support scrutiny?

The provision by DFP of forecasting performance analysis to the Assembly should also support committees in carrying out their scrutiny functions, and therefore enhance the accountability mechanisms in relation to public expenditure.

Although this analysis is new, over time a series will be built up that will allow committees to track departments' forecasting performance, and if necessary to raise any issues with officials at the appropriate time. The value of the analysis could be that it may either underline or undermine the level of confidence that committees can have in the forecasts that departments produce as shown in the data in Tables 1-6 above.

A scrutiny template is attached as Appendix 2.

3.5. Timing

It may be unlikely that committees' work programmes will allow for evidence sessions with officials every month. That does not prevent committees from looking at the data circulated every month and perhaps scheduling evidence sessions if concerns arise. It

is suggested that the most convenient time to look at these issues might be in connection with the monitoring round cycle, when departmental finance officials already regularly attend committees to report on monitoring round bids and easements.

Another consideration for statutory committees will be striking the appropriate balance between being adequately informed to discharge their statutory scrutiny and accountability functions, and the risk of being seen as attempting to micro-manage their respective departments' budgets.

RaISe now monitors the DFP submissions to CFP on Outturn and has begun to compile spread sheets which will in future allow alternative analyses of departmental forecasting to be prepared.

Appendix 1: Scrutiny Template: Total Forecast Outturn data

This Scrutiny Template provides suggestions for examining the Total Forecast Outturn data presented in Part 1 of the paper.

Scrutiny Issue	Relevant Data	Reason for Investigating	Possible Scrutiny Questions
Does the Department's Total Forecast Outturn match the most recent monitoring round position?	Columns 14 to 16 of Tables 1 to 3	**+ difference** means risk of overspend: this indicates likely need for department to make a monitoring round bid or to cut expenditure elsewhere.	~ which particular programme or business area gives rise to the expenditure pressure? ~ what action is the department taking to control expenditure in this area? What more could it do? Was the pressure foreseeable? ~ if the department has to reduce expenditure on other programmes, which ones? Why? What impact will this have on PfG commitments? ~ how much additional funding is required? What will the department do if it is not able to secure the funding?
		- difference means risk of underspend: this indicates a likely easement at next monitoring round. If forecast is inaccurate, the wrong level of funding may be returned to the centre.	~ which particular programme or business area gives rise to the reduced requirement/increased receipts etc? ~ why has this reduced requirement been observed at this time? Was it foreseeable? Should resources have been offered up at an earlier monitoring round?
What pattern does the difference between the Department's forecasts and the latest monitoring round position display?	Columns 4, 7, 9, 11 and 13 of Tables 4 to 6	Increasing level of forecast underspend: this may indicate slippage in a project, increased receipts or cessation of a programme.	~ what is the specific cause of the reduced requirement/potential underspend? ~ does any corrective action need to be taken? What, and when? ~ was the reduced requirement foreseeable? What steps will the

Scrutiny Issue	Relevant Data	Reason for Investigating	Possible Scrutiny Questions
			department take to improve future forecasting?
		Increasing level of forecast overspend: this may indicate a building expenditure pressure in one or more business areas.	~ what is the specific cause of the expenditure pressure/potential overspend? ~ does any corrective action need to be taken? What, and when? ~ was the expenditure pressure foreseeable? What steps will the department take to improve future forecasting?
		Variable over/underspend: this may suggest a level of uncertainty around a project or programme.	~ what is the cause of the variation in forecast outturn? ~ does any corrective action need to be taken? What, and when? ~ is there uncertainty and was this foreseeable? What steps will the department take to mitigate against any uncertainty or improve future forecasting?
Is there **no** difference between the Department's forecasts and the latest monitoring round position?	Columns 4, 7, 9, 11 and 13 of Tables 4 to 6	If the forecast total exactly matches the monitoring round position is there a risk of false confidence in the projections: might there be a 'surprise' pressure or easement late in the year?	~ how is the department achieving accurate forecasts? Is there learning that could be shared with other departments? ~ has the department previously briefed on expenditure pressures? Are these reflected in the forecasts? If not, why not?

Appendix 2: Scrutiny Template: Financial Forecasting Performance Analysis

Scrutiny Issue	Relevant Data	Reason for Investigating	Possible Scrutiny Questions
How good is the Department's forecasting performance compared to other departments?*	Figures 2 to 7	Poor forecasting performance could lead to financial difficulties both at departmental and Northern Ireland Block level: underspends over the Budget Exchange limits must be surrendered to Treasury; overspends may be deducted from the following year's allocation.	~ what factors have influenced the accuracy of the Department's forecasts? ~ were any of these factors foreseeable? What steps did the department take to mitigate against the risks? ~ what lessons for the future might be learnt and shared?
How is the performance of the Department developing over time?	Future data series and DFP analysis Figures A1 to A3 in Appendix 3	Departments should be committed to improving financial management. As public expenditure is squeezed, there is a corresponding need to ensure best possible use of resources.	~ what steps has the Department taken to improve forecasting performance? ~ what further steps can be taken? ~ are there any mitigating circumstances that should be borne in mind when reading the figures?

***note: the point raised in 2.1. in the paper is relevant here- overall size of departmental will affect apparent impact of a £10m variation, for example, when shown in percentage terms.**

Appendix 3: DFP's Analysis of Forecasting Performance 2011-12

Figure A2: Average Absolute Variance: Forecast V Actual - Capital

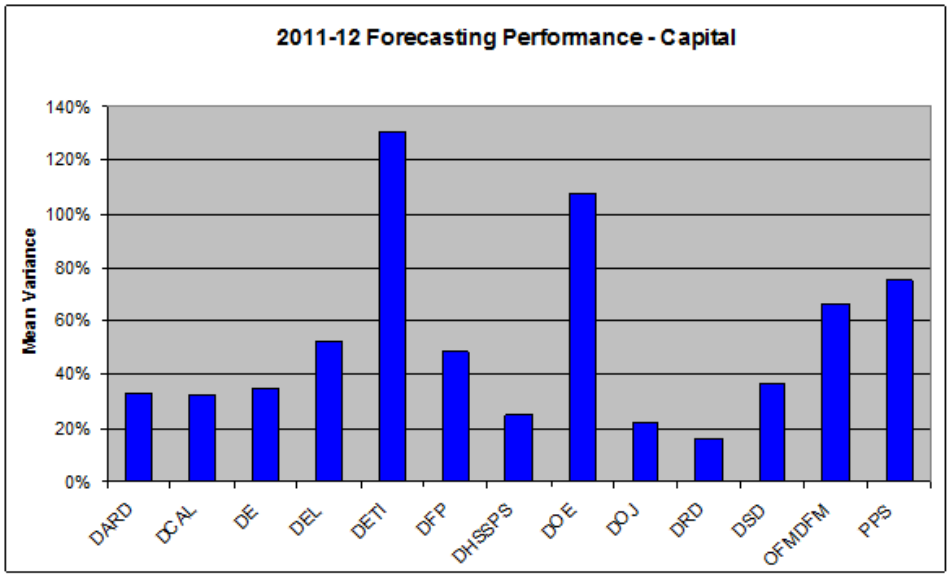


Figure A1: Average Absolute Variance: Forecast V Actual - Resource

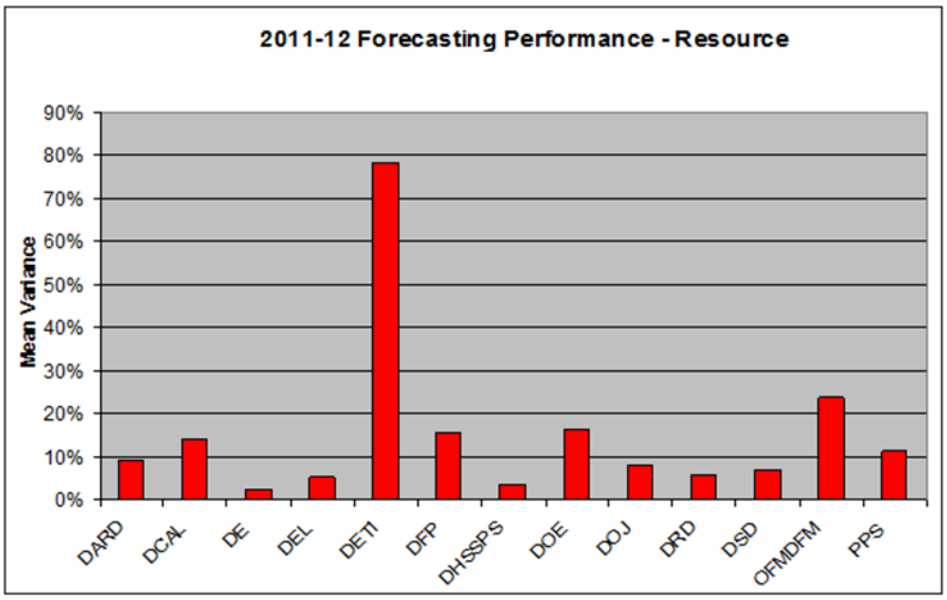


Figure A3: Average Absolute Variance: Forecast V Actual – Ringfenced Resource