Northern Ireland Assembly

Committee for Employment and Learning

OFFICIAL REPORT (Hansard)

Financial Forecasting: Research and Information Service Briefing

19 June 2013

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:
Mr Robin Swann (Chairperson)
Mr Sammy Douglas
Mr Chris Lyttle
Mr Fra McCann
Ms Bronwyn McGahan

Witnesses:
Mr Michael Heery Research and Information Service

The Chairperson: Michael, you are very welcome once again. Please take us through your paper.

Mr Michael Heery (Research and Information Service): No problem. Today's paper covers two main areas. The first is the Department for Employment and Learning's (DEL) total forecast out-turn predictions during the 2012-13 financial year, which shows how much the Department predicted that it would spend in total as the year progressed. The second area that we will look at is the monthly forecasting accuracy during 2012-13. That analyses how accurately the Department was able to measure what it would spend in a given month.

Looking at the total forecast out-turn, the three areas that we are going to look at are capital, non-ring-fenced and ring-fenced resource. To recap, there was a presentation on this issue previously, but it may be useful to go over again what the terms mean. I am sorry if this is overly repetitive, but capital is expenditure and assets that are going to be used for more than one year. Non-ring-fenced resource is the Department's normal day-to-day expenditure, and ring-fenced resource is expenditure that is tied in to a particular function or purpose that the Department cannot use for any alternative programme.

Directing you to the capital total forecast out-turn graph, which is in my submission, I will quickly explain how the graphs work. The horizontal axis shows the months of the year, while the vertical axis shows the financial values. The points plotted on the graph show the prediction at that particular month. The solid line shows the actual prediction, while the broken line shows the monitoring total, which the Department of Finance and Personnel (DFP) sets. So, the first thing that we are looking for is that the prediction is within the monitoring total, which should ensure that the Department does not overspend in that area. In capital, that appears to be the case. The only issue in capital that we have noted is a decrease of around £17 million in the total prediction, which occurred in June. That might have been covered in a previous briefing. I believe that the Department has already been asked to provide an explanation of that, which I think that the Committee is aware of. So, there does not seem to be too much else to raise about that graph.

The next graph in my submission illustrates non-ring-fenced resource. There is a bit more activity in this one. We can see that the Department's opening prediction was £732 million, which rose to £746 million at year end. So, that is an increase of around £14 million. I will draw the Committee's attention to the section on the graph illustrating the period from October to March. As we can see, in November, the total forecast out-turn increased by around £3 million, but that was then followed by a £3 million decrease in March. It is not clear whether that increase was correct and whether it was all needed or whether the decrease relates to something different. It may be worth following up, however, as the £3 million decrease could have been surrendered earlier, or, if it had been predicted that it was not needed, it might have been made available to another Department to use for a project where it was needed.

The monitoring total is the only other point to note in this graph. It had been Research and Library Service’s (RaISe) understanding that the monitoring total charts would change only at the times of monitoring rounds. However, in this graph, we can see that, in March, the monitoring total decreases broadly in line with the decrease in total forecast out-turn. We requested from DFP an explanation of why that had fallen. Unfortunately, it was not able to provide that. It has confirmed that the Minister will cover it in a statement in early July, so you may be interested in following it up then.

The next graph of the briefing shows ring-fenced resource expenditure. There was a huge increase in ring-fenced resource expenditure from £85 million to £266 million. That was covered in the previous RaISe briefing to the Committee, so I do not propose to go over it again, except to say that if the Committee has not received a satisfactory explanation of what went on, it may be worth following it up, as it is such a significant amount of money.

I will move on to the forecasting accuracy section, which is essentially a measure of how wrong the Department gets its monthly spending predictions. So, the larger the score, the more out the Department is. The first bar chart shows the capital figures. We also included in the briefing the total figures for the previous year so that the performance can be charted against the previous year. As we can see, in the current year, DEL's average forecasting accuracy rating is 124%, which is significantly worse than the previous year and the current year departmental average. So, if the Committee has not previously brought that up with the Department, it might be worth visiting why the Department has found it so difficult to predict capital expenditure within a month.

Moving on to non-ring-fenced resource, the Department's performance is much stronger. In the previous two years, it has been below the average. The only point that the Committee may want to consider is whether the Department has any good practice or lessons that it has learned that it could share with other Departments to improve performance elsewhere.

Ring-fenced resource ties in with the issue covered in the total forecast out-turn. DEL's score in the current year is an extreme outlier, which is most likely something to do with the timing of the impairment in student loans. So, it does not seem sensible to conduct any sort of comparative analysis with the previous year when such an extreme event has skewed the figures. However, we note that, in the previous year, DEL was slightly worse than average in this area. For next year's briefing, which compares annual performance, it may be worth comparing the 2013-14 figures with the 2011-12 figures to see whether the Department has improved.

In conclusion, it is a fairly mixed bag. In ring-fenced resource, what we can do is very limited because of the extreme nature of the figures. In non-ring-fenced resource, the Department has been able to predict its expenditure well. In capital, the Department's performance is poor, so that might be worth following up on.

The Chairperson: Should non-ring-fenced resource not be the more difficult to manage compared with capital and ring-fenced resource?

Mr Heery: It could be. If a large proportion of it is wages and salaries, that section would be relatively easy to predict, because you would know how much your staff will earn each month. It depends on the programmes that you are running and whether the payment dates for those are built into regular schedules or there is a bit more flexibility. It is difficult. For most Departments, performance on non-ring-fenced resource is stronger, because, in capital projects, you tend to get more external circumstances that cause delays, which makes it hard to predict expenditure.

The Chairperson: No problem. Members, there are a few recommendations in Michael's paper. Are you happy for us to forward those to the Department if we have not seen verification on some of the figures?

Members indicated assent.

The Chairperson: OK, Michael, thanks very much. Thanks for your attendance.