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Financial Forecasting by the Office of First Minister and deputy First Minister for 2012-13

This Briefing Paper provides the Committee for the Office of First Minister and deputy First Minister (OFMDFM) with the most up-to-date data available on the OFMDFM's forecast outturn for the current financial year.

This paper should be read in conjunction with RaISe paper 190/12 *Financial forecasting performance data: scrutiny by committees*,¹ which provides explanations of the source of the data and how it should be interpreted.

¹ http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance_personnel/19012.pdf

Introduction

This Briefing Paper updates the data provided in RaISe paper 190/12 to give the latest available position.² Attention is drawn specifically to the data in relation to OFMDFM.

The paper is structured in the following way:

- Information on the January 2012-13 Monitoring outcome is provided (section 1);
- OFMDFM's Total Forecast Outturn for capital, non-ringfenced and ringfenced resource expenditure is presented (section 2);
- The Department of Finance and Personnel's (DFP) most recent analysis of forecasting performance is briefly presented (section 3).

It was noted in RaISe paper 190/12 that scrutiny of departments' financial performance is a fundamental accountability function of the Assembly. The data presented should assist the Committee for OFMDFM in fulfilling that scrutiny function by improving the level of information available to Members about OFMDFM's spending figures.

Members are asked to note that the purpose of this paper is to provide information to support scrutiny of OFMDFM by the Committee. The paper does not seek to provide explanations for or the reasons underlying the data presented.

² The data is provided monthly to the Committee for Finance and Personnel and to RaISe by DFP.

1. January Monitoring Round outcome 2012-13

The Minister of Finance and Personnel announced the outcome of the January Monitoring Round to the Assembly on 22 January 2013. This adjusted the monitoring totals against which departments' expenditure is controlled.

January Monitoring was split in two sections. There was a technical exercise in December, when departments processed technical changes, internal movements etc. Subsequently, the main exercise in January involved all the transactions requiring Executive approval.

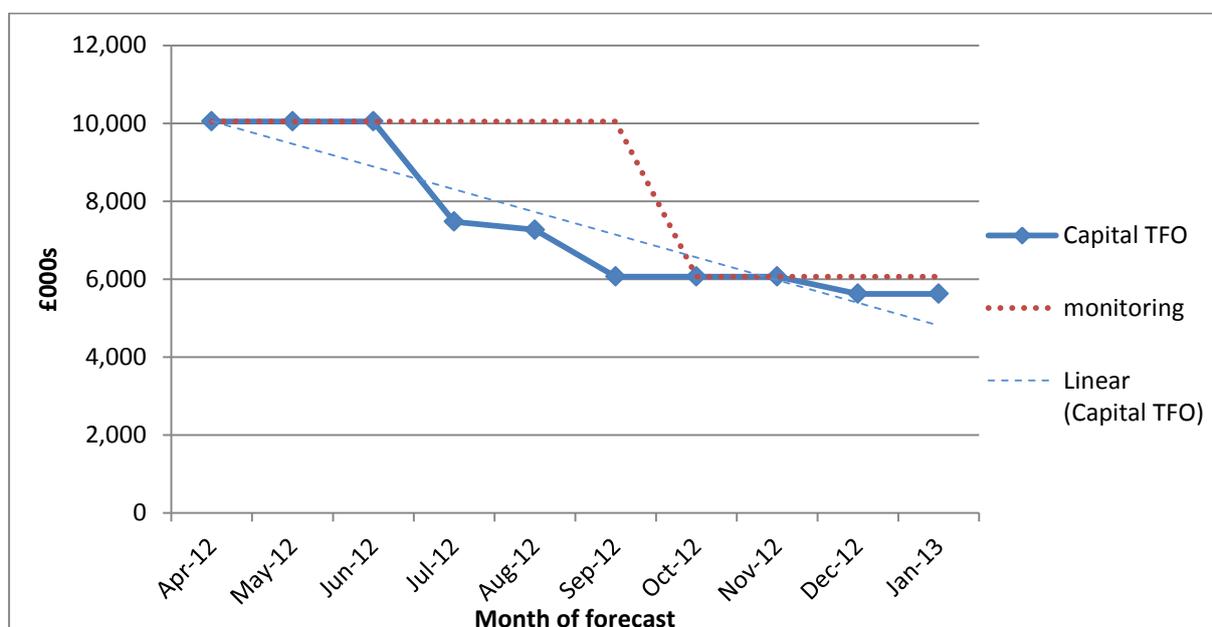
The position in the latest return from DFP reflects the outcome of the technical exercise **but not** the main exercise (this will be included in the next month's data return). This means that the monitoring position shown in Figures 1-3 below will be adjusted again to take account of the Executive's decisions on reallocations or reclassifications.

For reference, OFMDFM received an allocation of £1.1m non-ringfenced resource funding for 'Exchange Rate Loss'.³

2. Total Forecast Outturn

Figures 1 to 3 show how OFMDFM's forecasts for Total Forecast Outturn (TFO) at year end have changed month-by-month. Linear trend lines and the monitoring position (at the time the latest forecast was submitted – in this case January 2013) are also shown.

Figure 1: OFMDFM Total Forecast Outturn 2012-13: Capital Expenditure⁴



³ See Minister's Statement <http://www.dfpni.gov.uk/statement-on-2012-13-january-monitoring-budget-technical-exercise.pdf> (Table E)

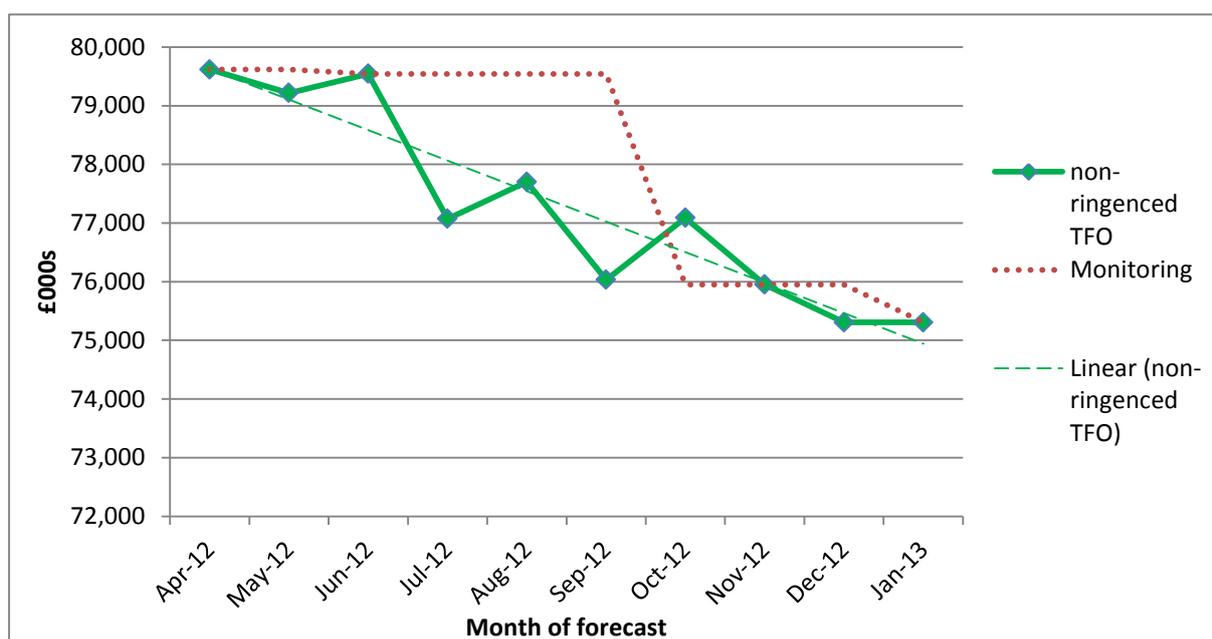
⁴ Charts compiled by RaISe from data supplied by DFP

The following observation may be made about Figure 1:

- The latest forecast is that capital expenditure for 2012-13 will be £5,626,000. This is approximately 55% (i.e. just over half) what was initially forecast at the start of the financial year.

If the Committee has not previously received an explanation for the lower-than-anticipated capital expenditure for 2012-13, it may wish to ask OFMDFM to provide one.

Figure 2: OFMDFM Total Forecast Outturn 2012-13: Non-Ringfenced Resource Expenditure⁵



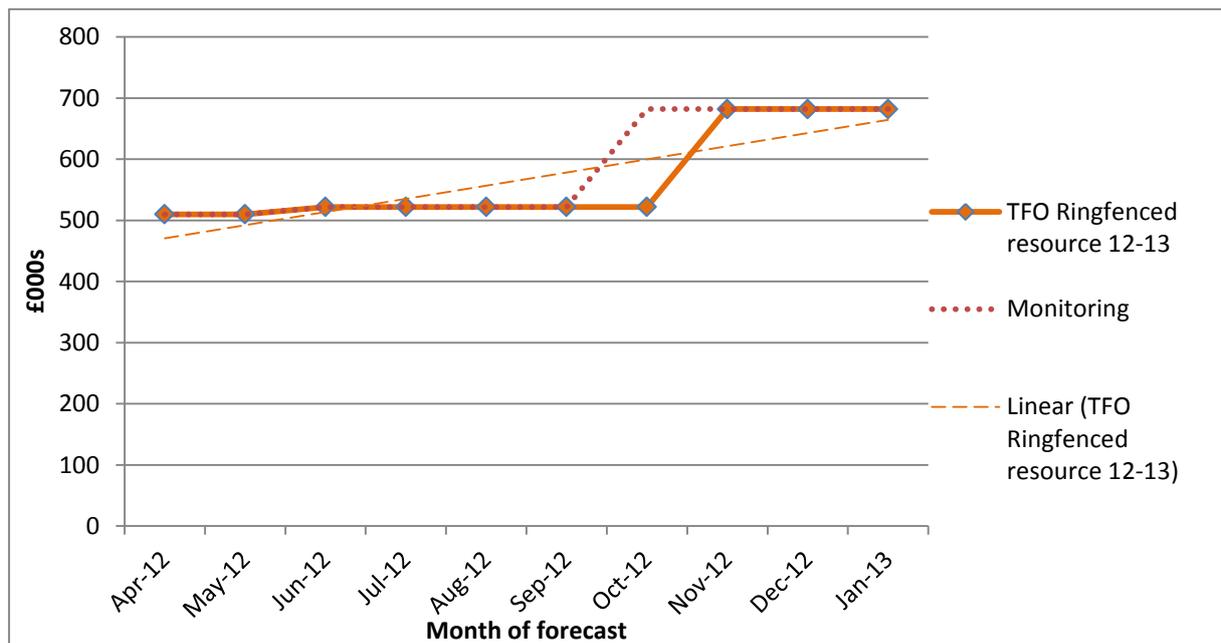
The following observation may be made about Figure 2:

- The latest forecast for non-ringfenced resource expenditure for 2012-13 is £75,305,000. This is £4,311,000 lower than initially forecast; and,
- The pattern of forecasts for this expenditure category shows some fluctuation. This may indicate some uncertainty over certain planned expenditures.

The Committee may wish to ask the OFMDFM if the reduced expenditure has led to a reduction in service provision. If not, what is the explanation?

Secondly, the Committee may wish to seek an explanation for the fluctuation in the forecasts.

⁵ Charts compiled by RaISe from data supplied by DFP

Figure 3: OFMDFM Total Forecast Outturn 2012-13: Ringfenced Resource Expenditure⁶

The following observation may be made about Figure 3:

- OFMDFM's ringfenced resource expenditure is small. In addition, Members may wish to note that ringfenced resource funding cannot be reallocated to other departments through the in-year monitoring process.

No particular issue presents itself for the Committee to follow up on.

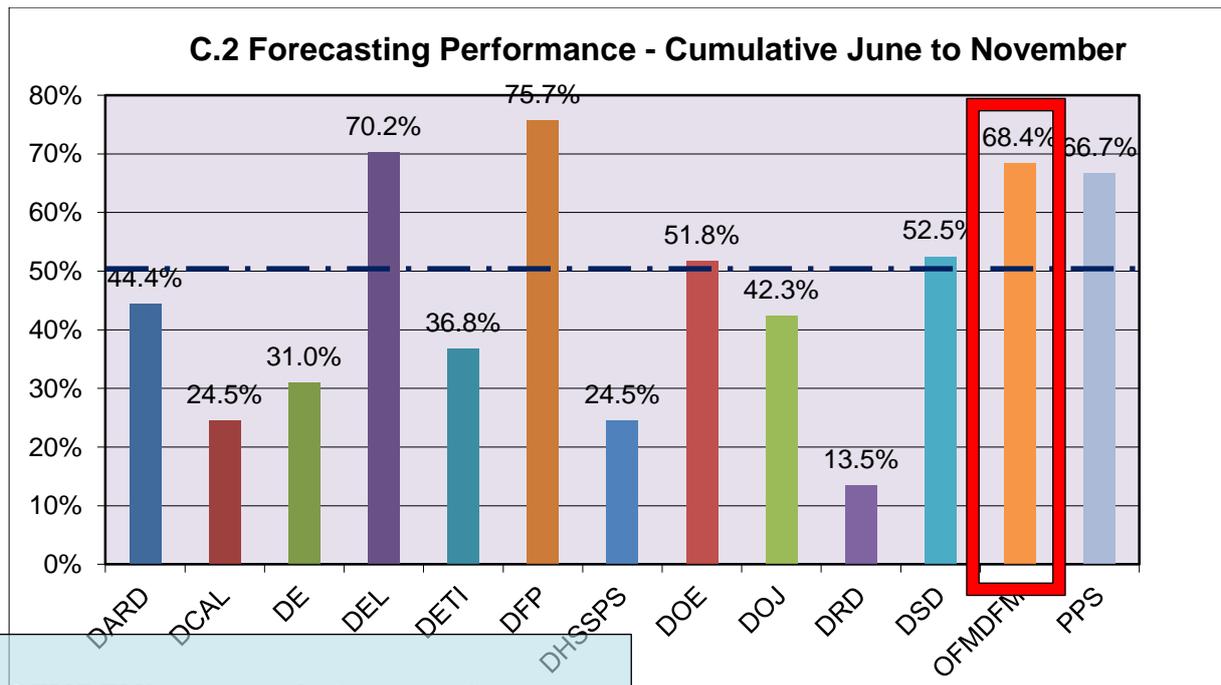
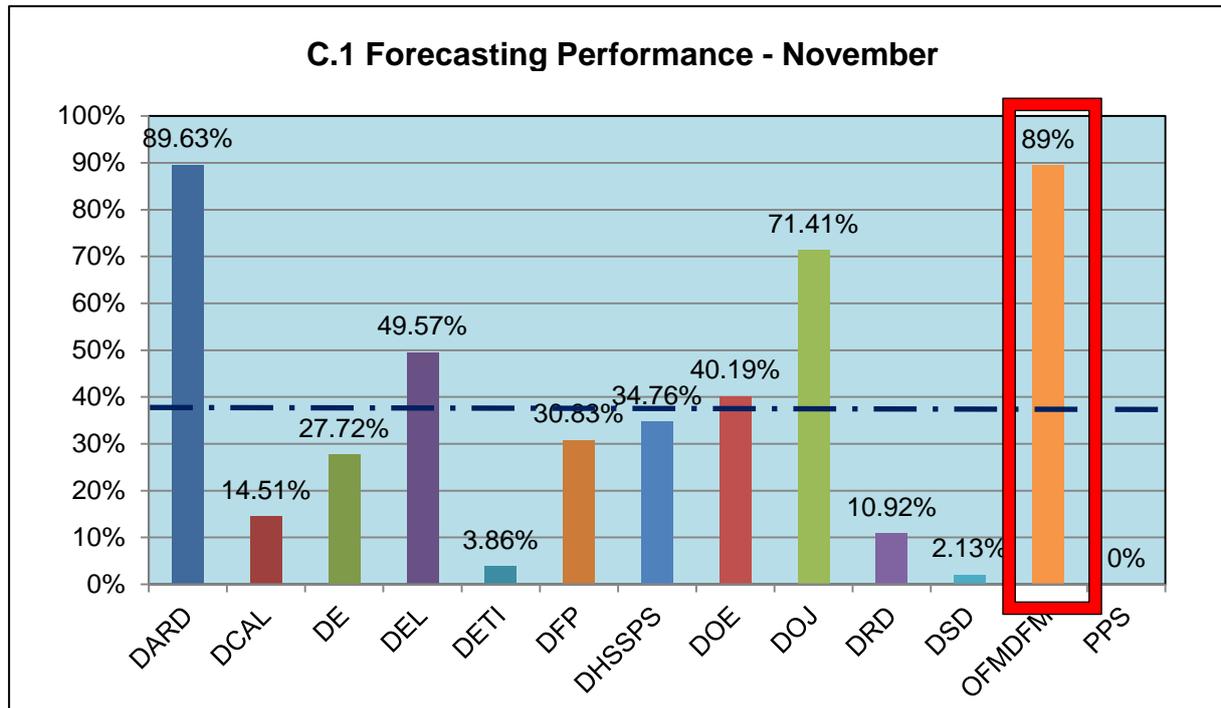
3. Forecasting performance analysis

This section presents the analysis provided by DFP of departments' forecasting performance over the 2012-13 financial year to date. As noted in RaISe paper 190/12, a smaller percentage figure represents a more accurate forecast. A larger percentage represents a less accurate forecast. Observations from RaISe are presented in the text boxes below each set of charts.

A worked example of how the variance is calculated (in this case for the month of November for capital expenditure) is provided at Appendix 1.

⁶ Charts compiled by RaISe from data supplied by DFP

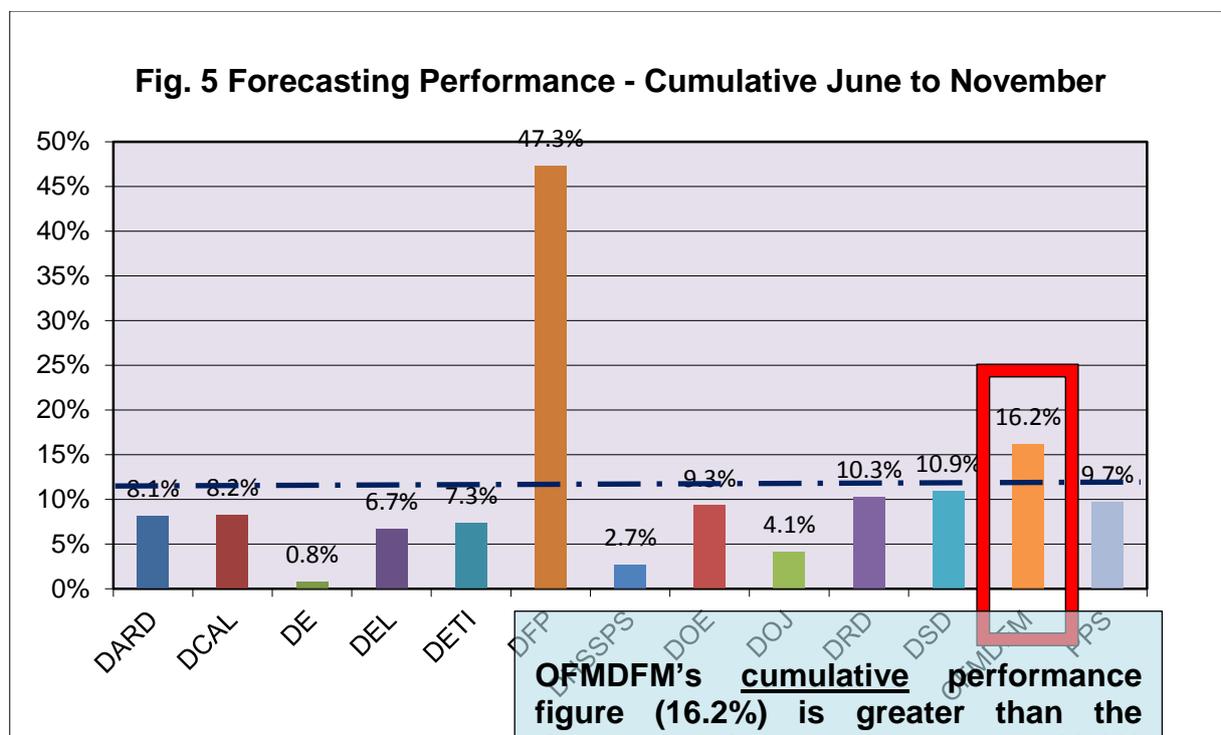
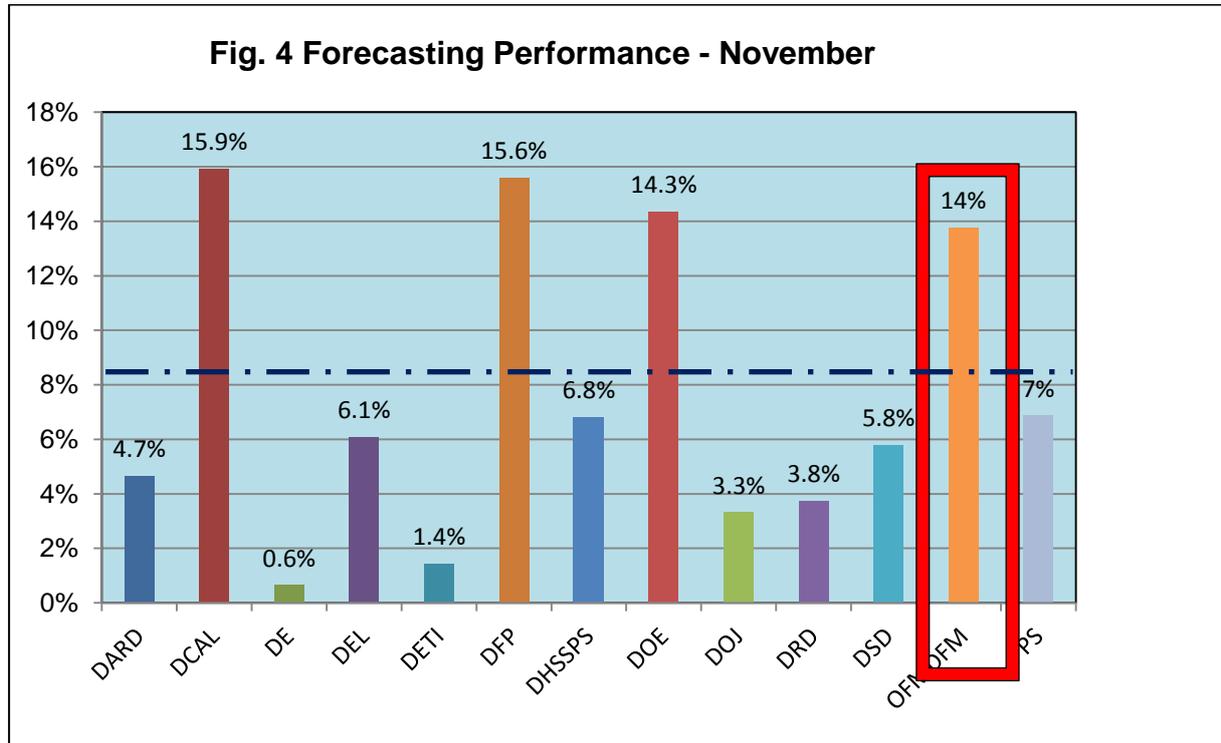
3.1. Capital⁷



OFMDFM's cumulative performance figure (68.4%) is greater than the departmental average of 50.2% variance. This indicates a worse-than-average performance in the first half of the financial year.

⁷ Charts adapted by RalSe from DFP 'Forecast Outturns (December position)' submission to the Committee for Finance and Personnel and RalSe, 4 February 2013

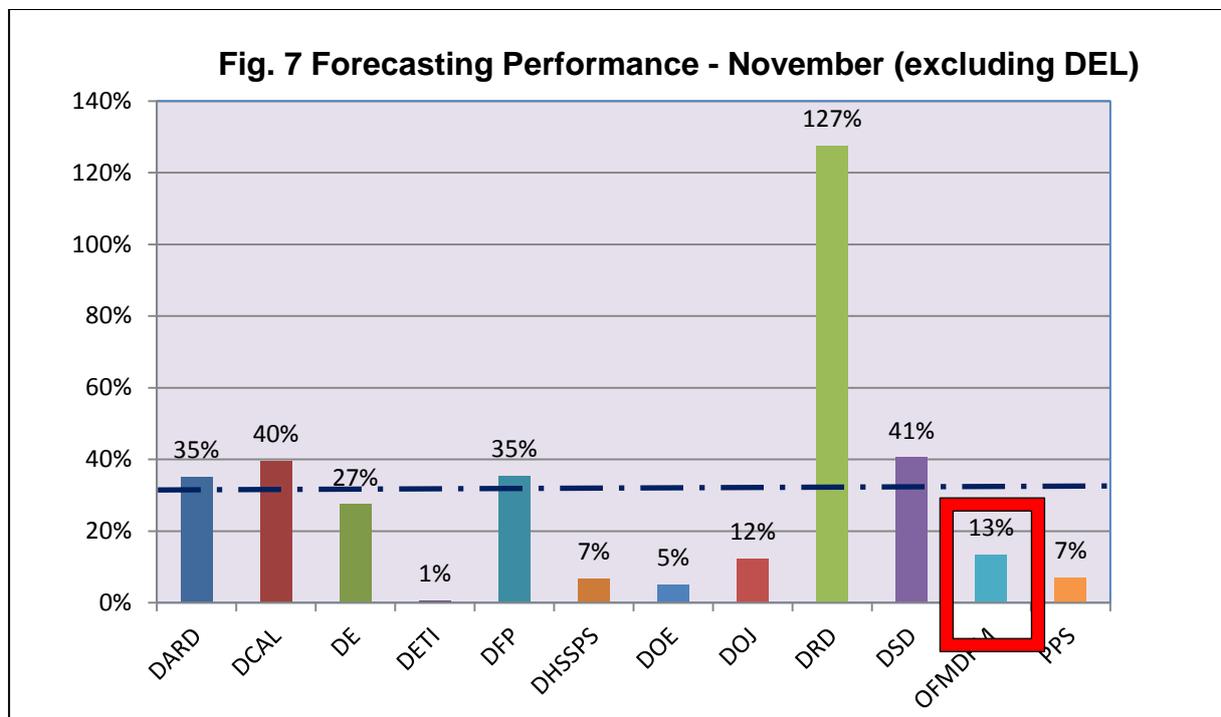
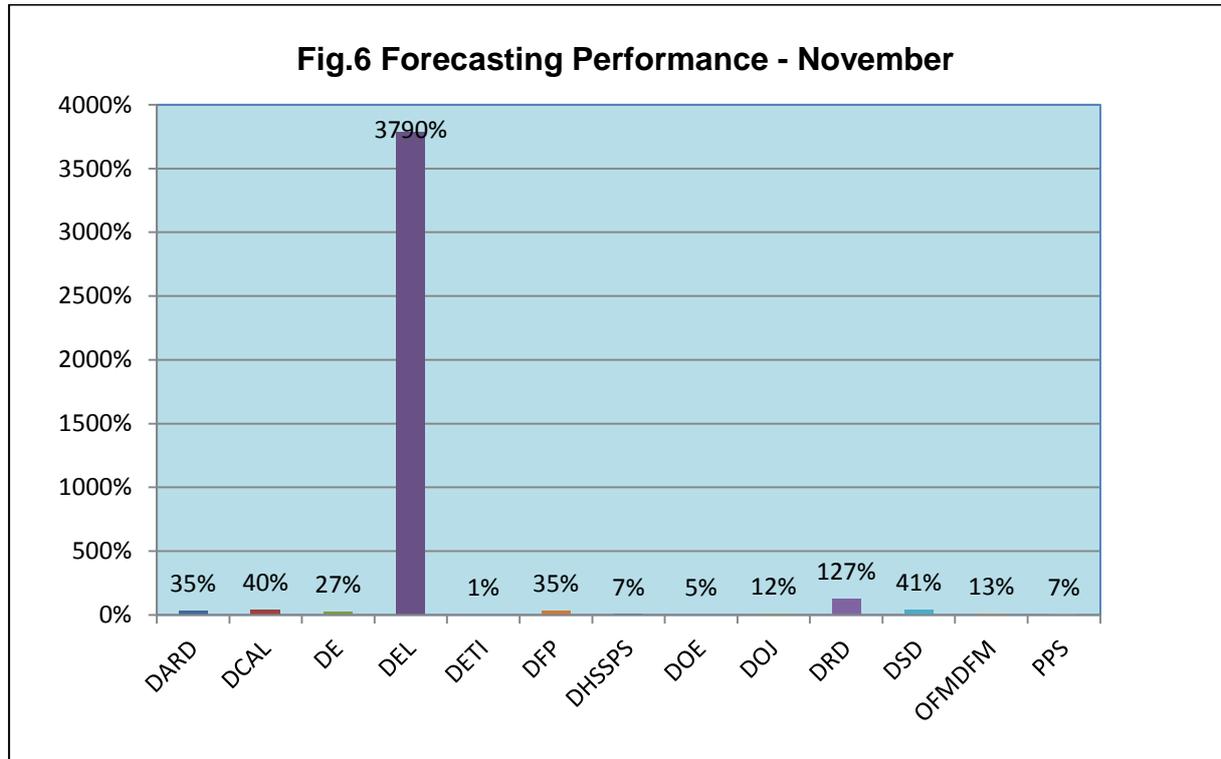
3.2. Non Ringfenced Resource⁸



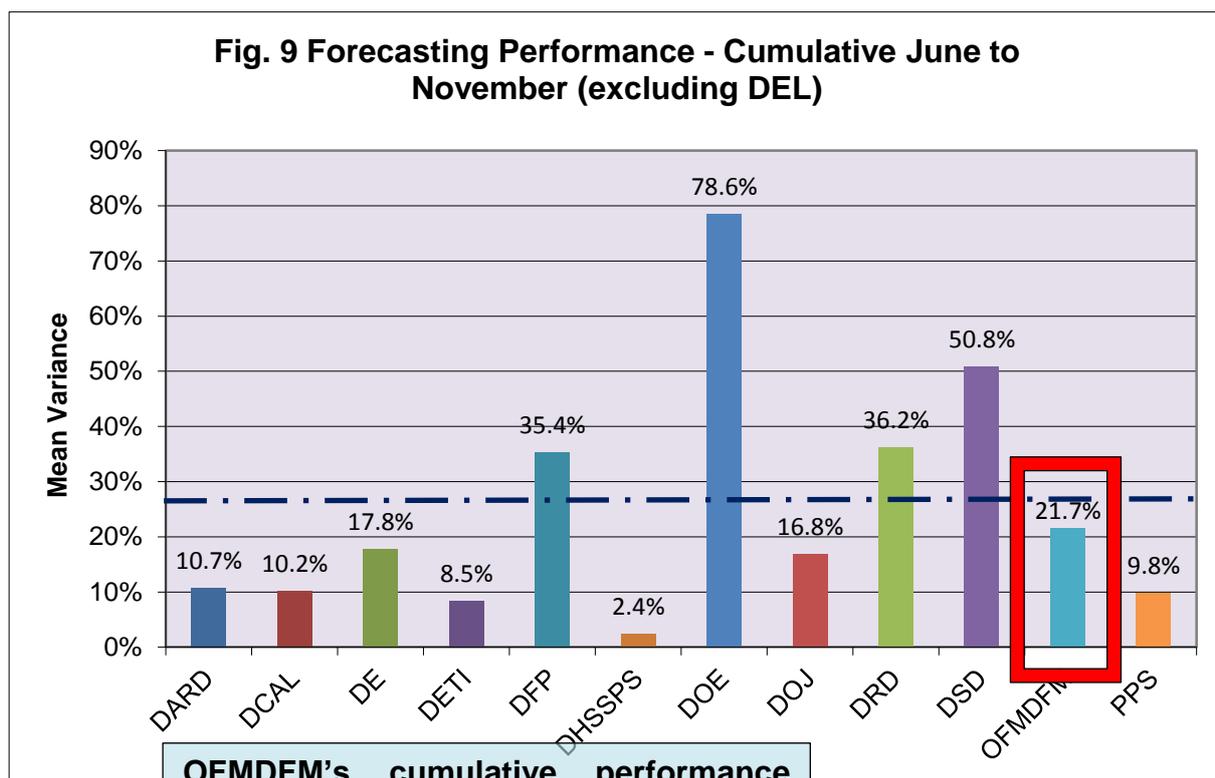
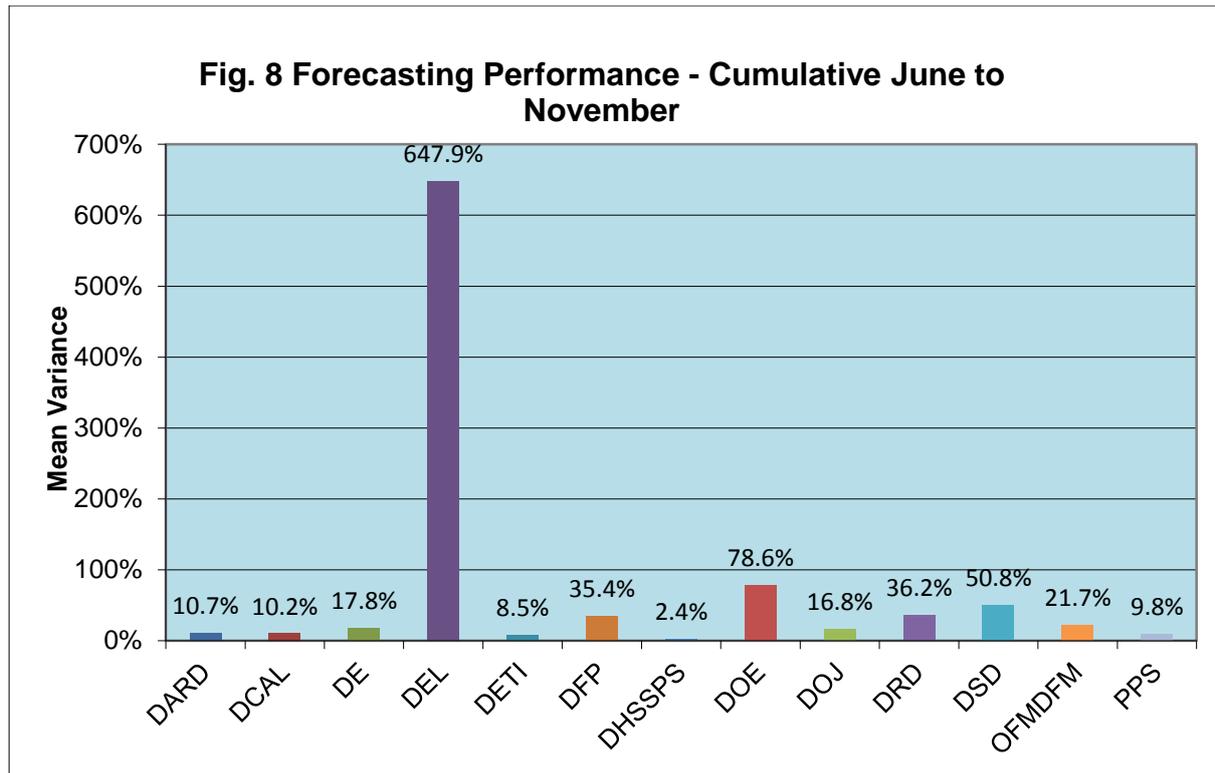
OFMDFM's cumulative performance figure (16.2%) is greater than the departmental average of 11.8% variance. This indicates a worse-than-average performance in the first half of the financial year.

⁸ Charts adapted by RalSe from DFP 'Forecast Outturns (November position)' submission to the Committee for Finance and Personnel and RalSe, 10 January 2012

3.3. Ringfenced Resource⁹



⁹ Charts adapted by RalSe from DFP 'Forecast Outturns (November position)' submission to the Committee for Finance and Personnel and RalSe, 10 January 2012



OFMDFM's cumulative performance figure (21.7%) is greater than the departmental average of 27.2% variance. This indicates a better-than-average performance in the first half of the financial year, even when the skewing effect of DEL's forecast has been removed.

4. Concluding remarks

The analysis of forecasting performance presented in section 3 suggests that OFMDFM's forecasts in relation to capital and non-ringfenced resource expenditure were worse than the average NICS department. In relation to ringfenced resource expenditure OFMDFM's forecasts were somewhat better than the average NICS department.

There are some important caveats that should be borne in mind in relation to this analysis:

- The time period analysed is relatively short. Comparisons over a longer period are likely to be a more reliable indicator of performance because the average will be less affected by large, one-off events (such as the student loans issue for DEL). As time passes, RalSe will be able to provide analysis over longer periods;
- There is an absence of comparable benchmarks. RalSe has been unable to obtain comparable data from the other devolved administrations or from the Treasury.¹⁰ This makes it hard to reliably separate good from average, or average from poor, performance;
- The size of NICS departments varies considerably, as do their budgets. A £10m inaccuracy in forecast for a small department is more significant than the same £10m inaccuracy for a large department. In other words, for the large department, it would be less material; and,
- The forecasts represent a 'snapshot in time' and therefore do not immediately respond to changes in events. In addition, there is a time lag between the preparation of the forecast, and provision of the data to RalSe.

On this basis, it may be difficult - with any certainty - to draw the firm conclusion that the final outturn for the 2012-13 will be what OFMDFM has predicted it will be. What can be said is that the analysis suggests that OFMDFM has some room for improvement in its expenditure forecasting. Having said this, it is - of course - entirely possible that there are good reasons underlying the forecasting errors.

¹⁰ RalSe will continue to seek comparative information from other jurisdictions.

Appendix 1: Worked example of forecasting accuracy analysis

OFMDFM forecast for capital expenditure in November 2012

(£)

Forecast Outturn for November (provided October)	445,000
Outturn for November (reported January)	47,000
Difference = 445,000 – 47,000	398,000
Difference as percentage = 398,000/445,000	89%