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Colin Pidgeon

The accuracy of financial forecasting by Northern Ireland departments 2011-12 to 2013-14

This paper presents an analysis of Northern Ireland departments' financial forecasting performance for the years 2011-12 to 2013-14. It aims to assess whether performance improved in 2013-14, when compared to the two previous years and thereby further facilitate committees in their scrutiny role.

Departmental abbreviations used in this paper

DARD	Department of Agriculture and Regional Development
DCAL	Department of Culture, Arts and Leisure
DE	Department Education
DEL	Department of Employment and Learning
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
DHSSPS	Department of Health, Social Services and Public Safety
DOE	Department of the Environment
DOJ	Department of Justice
DRD	Department of Regional Development
DSD	Department of Social Development
OFMDFM	Office of First Minister and Deputy First Minister

Introduction

This paper aims to further facilitate committees in their scrutiny of departmental financial forecasting. Building on previous findings provided in RaISe's paper *Financial forecasting by Northern Ireland departments 2012-13: an analysis*.¹ This paper seeks to identify whether the accuracy of departmental forecasting performance has improved in 2013-14, when compared to the two previous years.

RaISe's analysis is based on data provided to the Committee for Finance and Personnel (CFP) by the Department of Finance and Personnel (DFP) on DFP's assessment of departmental financial forecasting from 2011-12 to 2013-14.

The paper is structured in the following way:

- Section 1 briefly revisits the purposes of analysing and scrutinising departmental financial forecasting, to provide context for the findings presented in this paper. It also discusses how the data are constructed;
- Section 2 presents analysis of forecasting accuracy for the non-ringfenced resource category of expenditure;
- Section 3 presents analysis of forecasting accuracy for the capital category of expenditure;
- Section 4 presents analysis of forecasting accuracy for the non-ringfenced resource category of expenditure; and,
- Section 5 briefly provides some concluding remarks.

¹ <http://assist.assemblyni.gov.uk/services/rsrchlib/products/researchpubs/dept/fp/2013/pidgeon9113.pdf>

1. Why is forecasting accuracy of interest to the Assembly?

RaISe paper 190/12 *Financial Forecasting performance data: scrutiny by committees*² explained the forecasting data that DFP provides to CFP on a monthly basis. That paper suggested a number of reasons why the Assembly's statutory committees should consider and scrutinise departmental financial forecasting data. These were:

- Scrutiny of departments' financial performance is a fundamental accountability function of the Assembly;
- Through scrutiny of these data, Assembly committees should be further enabled to fulfil their scrutiny function in relation to departmental budgets, as specified in paragraph 9 of Strand One to the *Belfast/Good Friday Agreement*.
- The Minister of Finance has previously highlighted the importance of departmental forecasting in statements to the Assembly in relation to the in-year monitoring rounds;
- The importance of financial forecasting in relation to the Budget Exchange Scheme, which allows the Northern Ireland Executive to carry forward limited unspent resources into the following financial year. A focus on departmental underspends is therefore important, because any unspent resources in excess of the Budget Exchange limits are lost to Northern Ireland; and,
- Poor financial control by departments (such as overspending) leads to additional expenditure pressure on the Northern Ireland Block as a whole, which could potentially impact other departments' budgets or their ability to access in-year allocations in monitoring rounds.

1.1. Improving Spending Control Indicators

In addition to the points above, DFP officials indicated in September 2012 that the United Kingdom (UK) Treasury intends to publish spending benchmarks for UK departments and the devolved administrations:

The Treasury plans to publish some new 'Improving Spending Control Indicators'. These will focus on 4 metrics:

1. *Timeliness test (spending forecast submitted on time)*
2. *Usability score (fairly subjective measure on the quality of information provided)*
3. *Arrears test (looks at whether outturn submitted was subsequently revised)*

² RaISe (2012) 'Financial Forecasting performance data: scrutiny by committees' available online at: http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance_personnel/19012.pdf (accessed 1 July 2014)

4. Forecast Accuracy (measures difference between outturn and forecast for most recent month)

As we understand it HMT will use these metrics to score all Whitehall departments and Devolved Administrations, which will then result in a league table being produced. They will publish this league table and we understand that the first will be in May. Treasury also indicated that they will produce a paper, which explains how each metric is derived and measured.³

CFP should note that Treasury's publication timetable for the indicators has slipped significantly. RaISe requested an update from DFP on the likely timetable for publication. DFP officials responded that Treasury does not have a specific revised date.⁴

RaISe believes CFP should consider the Treasury benchmark publication once made available, for the following reasons:

- It is expected to reveal how the performance of the Northern Ireland Executive compares with UK departments' and the other devolved administrations', based on the list of metrics. It is anticipated that this information will help CFP to assess DFP's effectiveness in managing the Northern Ireland Executive's returns to the UK Government;
- The Treasury uses the forecasting data for three main purposes:
 - Monitoring the overall fiscal position to inform fiscal policy;
 - Reporting the state of the public finances to the public and other wider users; and,
 - Monitoring individual departments budgeting positions as part of the Treasury's oversight of public spending.

There is, therefore, a reputational risk to the Northern Ireland Executive if the Treasury publication indicates poor performance relative to other departments/devolved administrations.

- RaISe paper 196/12 *The quality of financial forecasting and Improving Spending Control*⁵ noted that the Treasury's *Improving Spending Control* policy placed some requirements on the Northern Ireland Executive. As such, the forthcoming Treasury publication should demonstrate how well Northern Ireland is complying with those requirements.

Point for scrutiny: CFP may wish to seek an update from the Treasury on the proposed timetable for publication.

³ Correspondence from DFP official, 24 April 2013

⁴ Correspondence from DFP official, 1 July 2014

⁵ Available online at: http://www.niassembly.gov.uk/Documents/RaISe/Publications/2012/finance_personnel/19612.pdf

1.2. DFP guidance

DFP produces guidance for Northern Ireland departments on outturn and forecast outturn. In September 2012, DFP informed CFP that:

The DFP guidance on outturn and forecast outturn emphasizes the need for accurate, timely information. This issue was also highlighted in a recent HM Treasury publication "Improving Spending Control" [...] improved forecasting performance should lead to better financial management and spending outcomes.⁶

DFP's guidance states that it uses the data

...to inform decision making during the in-year monitoring process. Therefore, the importance of timely and realistic actual and forecast outturn cannot be overstated. It is essential that departments provide up to date [sic] and accurate information in their monthly returns.

Forecast Outturn information is routinely provided to the Committee for Finance and Personnel on a monthly basis. It may also be included in Executive papers in respect of the latter In-Year Monitoring rounds of the financial year.⁷

From the Assembly's perspective, then, consideration of the financial forecasting data should provide insight into the effectiveness of DFP's guidance in supporting better financial management.

1.3. Forecasting accuracy data

To date DFP has provided CFP with three full years' analysis of departmental forecasting accuracy. The following sections look at the forecasting performance of Northern Ireland departments from 2011-12 to 2013-14.

In a letter to CFP in September 2012, DFP advised that the forecasting analysis of the 2011-12 year may be used as a baseline:

An analysis of departmental performance during the 2011-12 financial year in terms of forecasting accuracy has been carried out. This was done to establish how the Northern Ireland departments performed relative to each other over the last year. This analysis may also serve as a baseline comparator against which to measure future performance. The analysis showed that there was significant variation between departments.⁸

RaISe, however, qualifies its analysis of the DFP data, noting limitations in Box 1 below.

⁶ DFP letter to CFP, 6 September 2012 (ref: MISC72/11-15)

⁷ DFP (2012) '2012-13 Outturn and Forecast Outturn Guidance' (see paragraphs 2.1. and 2.2.)

⁸ DFP letter to CFP, 6 September 2012 (ref: MISC72/11-15)

Box 1: limitations of forecasting performance analysis.

- **It is not possible to draw firm conclusions from three years' data. A time series based on only three data points is insufficient to construct a reliable analysis on trends. For example, if a department has shown improved forecasting accuracy in 2013-14 over the previous year, but worse than in 2011-12, it is premature to assume that this is indicative of a trend that might continue into the future;**
- **There remains an absence of comparative benchmarks. Data on the forecasting accuracy of the other devolved administrations or UK Government departments is currently unavailable. It is therefore impossible to assess whether NICS departments' forecasting accuracy is relatively good or poor;⁹**
- **As noted in RalSe paper 190/12 *Financial forecasting performance data: scrutiny by committees*,¹⁰ the size and structure of expenditure by NICS departments varies widely; a variance of £10m can be significant relative to a small department's overall expenditure. But that same variance of £10m can be much less significant relative to a large department's overall expenditure.**

As RalSe continues with papers like this in future, the first bullet point will decrease in significance. As time passes, and there is a longer time series of data, it will be possible to examine trends and patterns over a number of years.

With these data limitations firmly in mind, the following sections present the forecasting accuracy analysis, while making some general observations that inform potential scrutiny points for committees to engage with departments.

Members are asked to note that the accuracy analysis is conducted on a monthly, not an annual basis. This means that the accuracy assessment shown in this section is not necessarily reflective of how close each department's spending outturn is to the final monitoring total for the year. In aggregate, the analysis measures how accurately departments' monthly expenditure profile has been forecast.

In other words, forecasting errors may relate more to timing and sequencing than to overall over- or underspend at year end. For example, it is possible for a department to perform relatively poorly in terms of its monthly forecasting, but still achieve final outturn for the year which is close to its monitoring total.

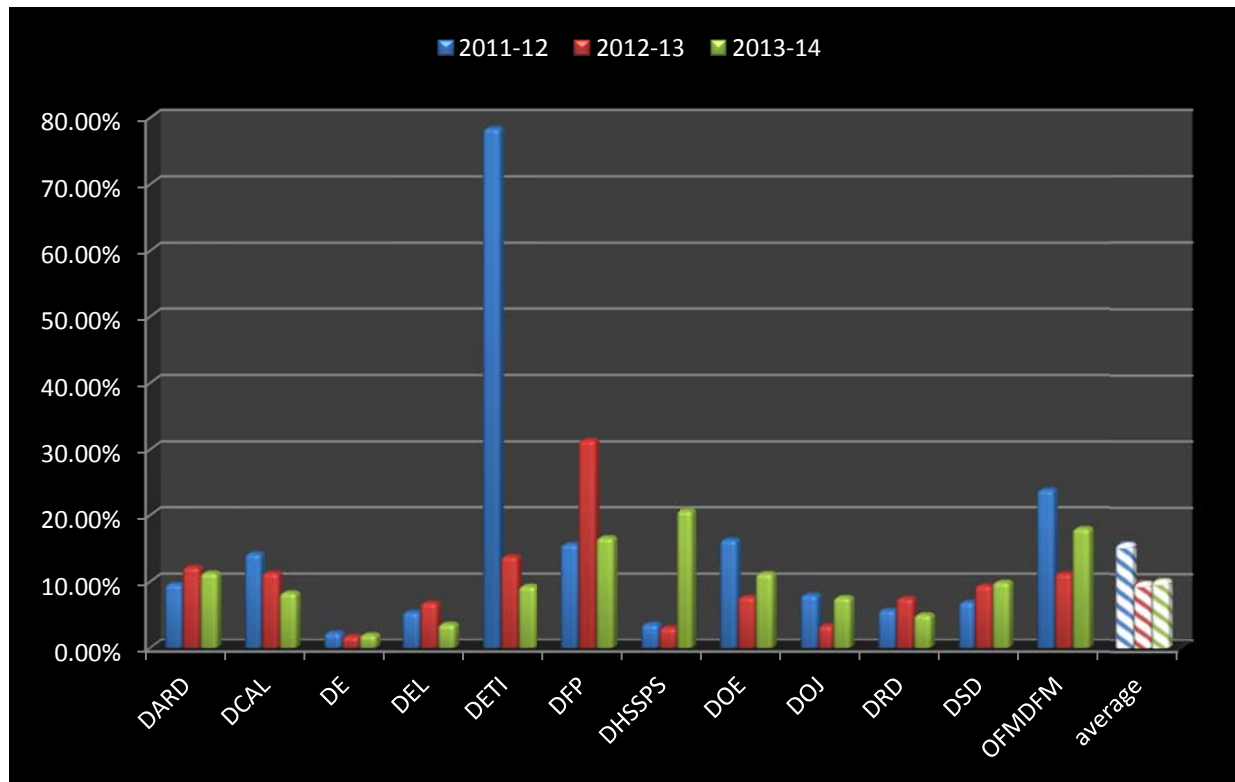
2. Non-ringfenced resource forecasts

Figure 1 shows the level of deviation in forecasts for non-ringfenced resource expenditure.

⁹ DFP has advised that the Treasury intends to publish a league table on forecasting accuracy. This had been expected prior to the end of May but appears to have been delayed (see section 1.1 of the paper above).

¹⁰ http://www.niassembly.gov.uk/Documents/RalSe/Publications/2012/finance_personnel/19012.pdf

Figure 1: Average absolute deviation from non-ringfenced resource forecast 2011-12 to 2013-14



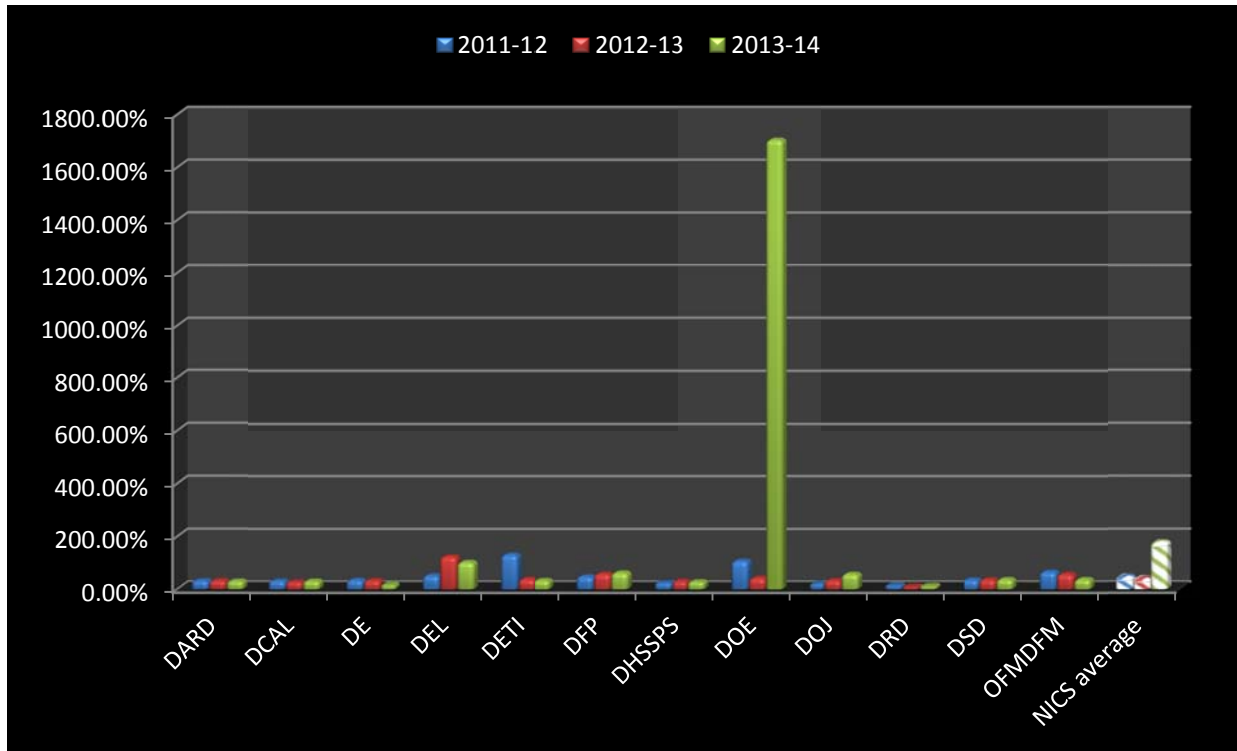
The following observations may be made about Figure 1:

- The average absolute deviation from forecast across the Northern Ireland departments in 2013-14 did not differ significantly when compared with 2012-13;
- DARD, DCAL, DEL, DETI, DFP and DRD all achieved lower deviations from forecast in 2013-14 than in 2012-13;
- DCAL and DETI achieved lower deviations from forecast for the second year running;
- DE, DHSSPS, DOE, DOJ, DSD and OFMDFM all showed greater deviation from forecast in 2013-14 than in 2012-13;
- OFMDFM's deviation from forecast in 2013-14 was 18.00%, a relatively significant increase of 6.8 percentage points from the preceding year;
- DHSSPS' deviation from forecast in 2013-14 was 20.7%, a significant increase of 17.6 percentage points from the preceding year; and,
- DARD, DFP, DHSSPS, DOE and OFMDFM showed greater deviation from forecast than the departmental average.

3. Capital forecasts

Figures 2 and 3 show the level of deviation in forecasts for capital expenditure.

Figure 2: Average absolute deviation from capital forecast 2011-12 to 2013-14



The particularly significant DOE deviation from forecast (1703.7%) dramatically distorts Figure 2; consequently the relative performance of the other departments is difficult to observe. For this reason, Figure 3 shows departmental performance with DOE excluded.

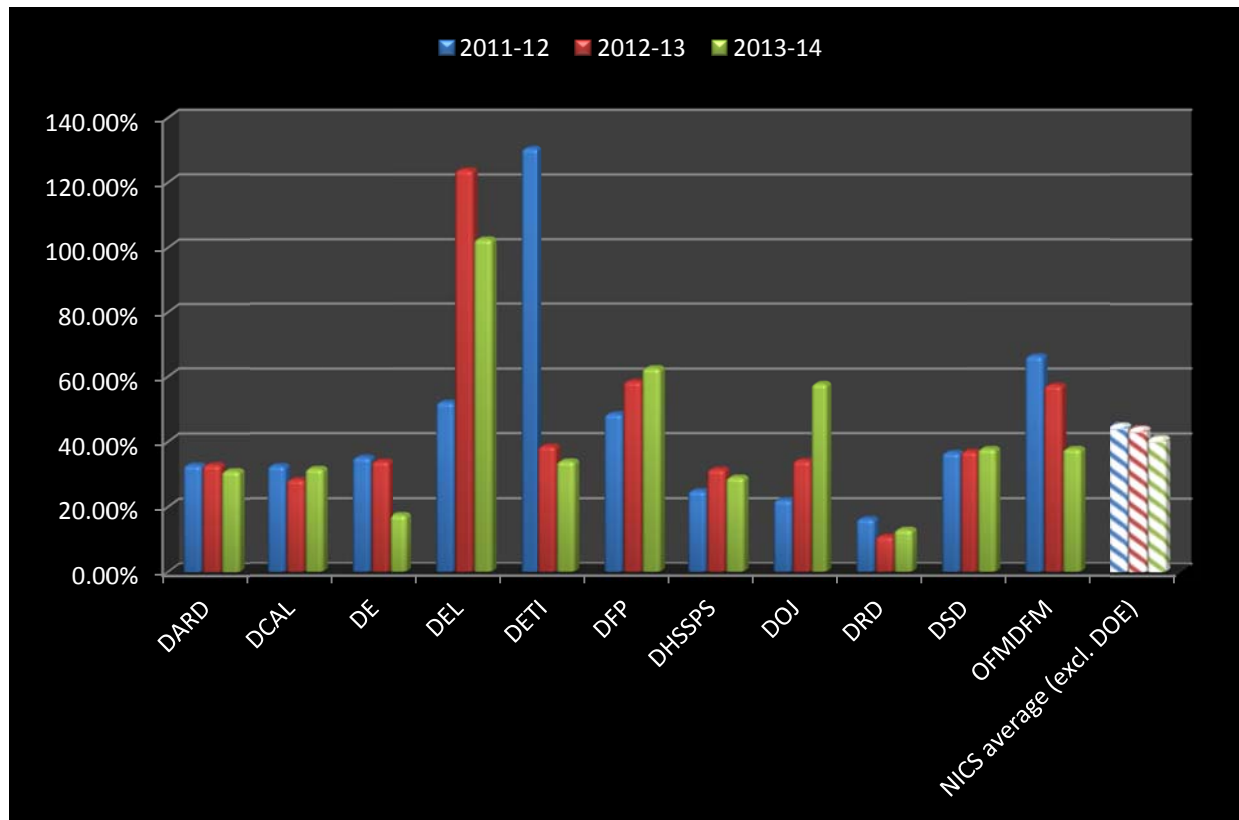
DFP explained the large DOE variance in a letter to CFP as follows:

This variance is due to a posting of an in-year accrual (Rethink Capital Waste grant) not previously forecast.¹¹

Point for scrutiny: CFP and/or the Committee for the Environment may wish to seek further briefing from DOE regarding the reasons for, and the implications of, the Rethink Capital Waste grant forecast.

¹¹ Letter from DFP to CFP, ref MISC137/11-15, dated 16 October 2013

Figure 3: Average absolute deviation from capital forecast 2011-12 to 2013-14 (excluding DOE)



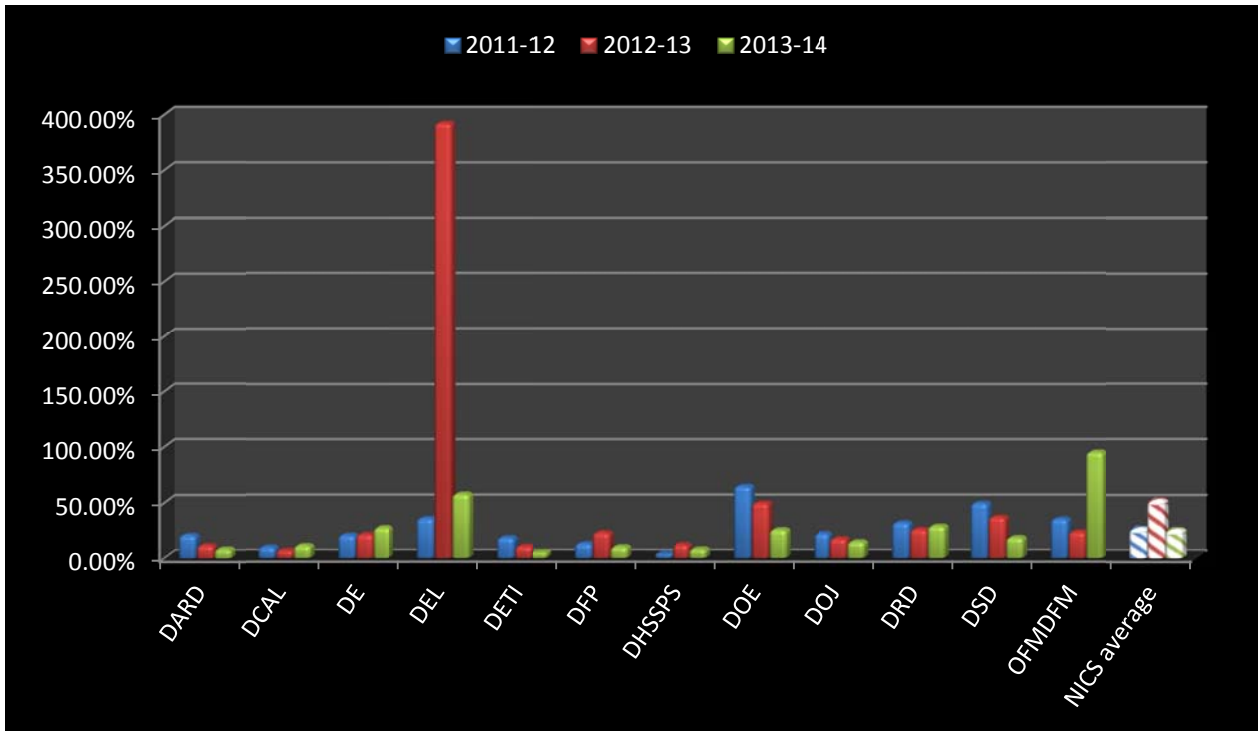
The following observations may be made about Figure 3:

- When DOE is excluded from the analysis, the average deviation from forecast in 2013-14 was lower than the previous two years;
- DARD, DE, DEL, DETI, DHSSPS and OFMDFM all achieved lower deviations from forecast in 2013-14 than in 2012-13;
- DE, DETI and OFMDFM achieved lower deviations from forecast for the second year running;
- DCAL, DFP, DOE, DOJ, DRD, DRD and DSD all showed greater deviation from forecast in 2013-14 than in 2012-13;
- DFP, DOJ and DSD showed greater deviations for the second year running; and,
- DOJ's deviation from forecast in 2013-14 was 58%, a significant increase of 23.8 percentage points from the preceding year.

4. Ringfenced resource forecasts

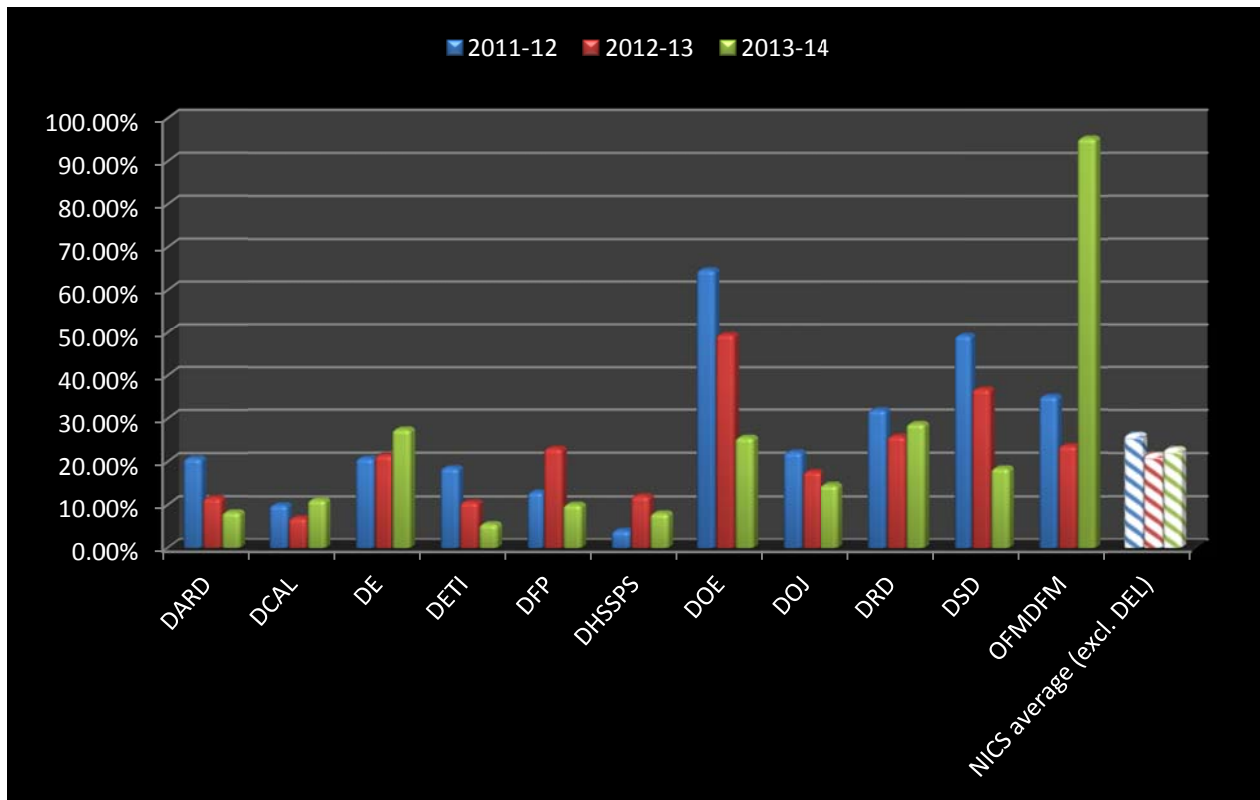
Figures 4 and 5 show the level of deviation in forecasts for ringfenced resource expenditure.

Figure 4: Average absolute deviation from ringfenced resource forecast 2011-12 to 2013-14



The significant DEL deviation from forecast (392.6%) in 2012-13 dramatically distorts the scale of Figure 4; consequently the relative performance of the other departments is difficult to observe. For this reason, Figure 5 shows departmental performance with DEL excluded.

Figure 5: Average absolute deviation from ringfenced resource forecast 2011-12 to 2013-14 (excluding DEL)



The following observations may be made about Figure 5:

- The average deviation from forecast across the Northern Ireland departments increased marginally in 2013-14 compared with 2012-13;
- DARD, DEL, DETI, DFP, DHSSPS, DOE, DOJ, and DSD all achieved lower deviations from forecast in 2013-14 than in 2012-13;
- DARD, DETI, DOE, DOJ and DSD achieved lower deviations from forecast for the second year running;
- DCAL, DE, DRD, and OFMDFM all showed greater deviation from forecast in 2013-14 than in 2012-13; and,
- DE showed greater deviations for the second year running.

5. Concluding remarks

As noted above in Box 1, it is not possible with a three-year time series of data to draw firm conclusions about trends in the accuracy of financial forecasting by Northern Ireland departments.

Having said that, committees may draw some assurance from the fact that the accuracy of forecasting for non-ringfenced resource expenditure was almost the same in 2013-14 as it was in 2012-13. Secondly, for capital, once the DOE is excluded, the average accuracy of forecasting by departments improved. Thirdly, for ringfenced resource, once DEL is excluded, the average accuracy of forecasting worsened only slightly.

This paper provides committees with a reasonable evidence base to further enable their scrutiny of departmental financial forecasting accuracy, which - all other things being equal - should help drive further improvements in departmental processes.

Appendix A: Forecasting data tables¹²

Table A1: summary non-ringfenced resource table

Department	2011-12	2012-13	2013-14	2013-14 compared to 2012-13
DARD	9.60%	12.20%	11.30%	-0.90%
DCAL	14.20%	11.30%	8.30%	-3.00%
DE	2.30%	1.80%	2.00%	+0.20%
DEL	5.40%	6.80%	3.60%	-3.20%
DETI	78.40%	13.80%	9.30%	-4.50%
DFP	15.60%	31.40%	16.60%	-14.80%
DHSSPS	3.60%	3.10%	20.70%	+17.60%
DOE	16.30%	7.70%	11.20%	+3.50%
DOJ	8.00%	3.40%	7.60%	+4.20%
DRD	5.70%	7.50%	5.00%	-2.50%
DSD	6.90%	9.40%	9.90%	+0.50%
OFMDFM	23.80%	11.20%	18.00%	+6.80%
NICS average	15.82%	9.97%	10.29%	+0.32%

Table A2: summary capital table

Department	2011-12	2012-13	2013-14	2013-14 compared to 2012-13
DARD	32.90%	33.00%	31.10%	-1.90%
DCAL	32.60%	28.30%	31.70%	+3.40%
DE	35.20%	34.00%	17.50%	-16.50%
DEL	52.30%	124.00%	102.60%	-21.40%
DETI	130.70%	38.60%	34.00%	-4.60%
DFP	48.70%	58.70%	62.80%	+4.10%
DHSSPS	24.90%	31.50%	29.00%	-2.50%
DOE	107.90%	43.10%	1703.70%	+1660.60%
DOJ	22.10%	34.20%	58.00%	+23.80%
DRD	16.30%	10.90%	13.00%	+2.10%
DSD	36.60%	37.00%	37.80%	+0.80%
OFMDFM	66.50%	57.50%	37.80%	-19.70%
NICS average	50.56%	44.23%	179.92%	+135.68%
NICS average (excluding DOE)	45.35%	44.34%	41.39%	-2.95%

¹² Average absolute deviation from forecast figures provided by DFP. Additional calculations by RaiSe.

Table A3: summary ringfenced resource table

Department	2011-12	2012-13	2013-14	2013-14 compared to 2012-13
DARD	20.80%	11.60%	8.30%	-3.30%
DCAL	10.00%	7.00%	11.20%	+4.20%
DE	20.70%	21.40%	27.40%	+6.00%
DEL	35.70%	392.60%	57.60%	-335.00%
DETI	18.50%	10.70%	5.60%	-5.10%
DFP	13.00%	23.00%	10.10%	-12.90%
DHSSPS	4.10%	12.10%	8.10%	-4.00%
DOE	64.70%	49.60%	25.50%	-24.10%
DOJ	22.10%	17.60%	14.60%	-3.00%
DRD	31.90%	25.80%	28.70%	+2.90%
DSD	49.40%	36.90%	18.40%	-18.50%
OFMDFM	35.20%	23.60%	95.40%	+71.80%
NICS average	27.18%	52.66%	25.91%	-26.75%
NICS average (excluding DEL)	26.40%	21.75%	23.03%	+1.27%