



Northern Ireland
Assembly

Research and Information Service Briefing Paper

Paper 76/15

19 June 2015

NIAR 338-15

Public Finance Scrutiny Unit

Departmental financial forecasting 2011-12 to 2014-15

To facilitate committees in their scrutiny role, this paper aims to assess departmental forecasting performance in 2014-15, when compared to the three previous years.

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 findings provided in papers previously prepared by RaISe's Public Finance Scrutiny Unit (PFSU),¹ this paper seeks to assess departmental forecasting performance in 2014-15, compared to the three previous years.

RaISe's analysis is based on data provided by the Department of Finance and Personnel (DFP) to the Committee for Finance and Personnel (CFP), which records DFP's assessment of departmental financial forecasting from 2011-12 to 2014-15.

This paper outlines the following:

- Section 1 briefly revisits the purposes of analysing and scrutinising departmental financial forecasting, to provide context for the findings presented later in the paper. It also discusses how the data are constructed.
- Section 2 analyses forecasting accuracy for:
 - non-ringfenced resource expenditure;
 - the capital expenditure; and,
 - the ringfenced resource expenditure.
- Section 3 provides key concluding remarks.

¹<http://assist.assemblyni.gov.uk/services/rsrchlib/products/researchpubs/dept/fp/2013/pidgeon9113.pdf> and <http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2015/finance/7415.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. 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.*³

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.

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)

³ DFP letter to CFP, 6 September 2012 (ref: MISC72/11-15)

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.⁴

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.

1.2. Forecasting accuracy data

To date DFP has provided CFP with four full years' analysis of departmental forecasting accuracy.

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.⁵

⁴ DFP (2012) '2012-13 Outturn and Forecast Outturn Guidance' (see paragraphs 2.1. and 2.2.)

⁵ DFP letter to CFP, 6 September 2012 (ref: MISC72/11-15)

2. Departmental forecasting performance

The following sub-sections analyse the departmental forecasting performance data provided by DFP to CFP for 2011-12 to 2014-15. Sub-section:

- 2.1 addresses the non-ringfenced resource expenditure;
- 2.2 concerns the capital expenditure; and,
- 2.3 looks at the ringfenced resource expenditure

Prior to presenting findings for each expenditure category, it is important to note key limitations of those findings, as stated in Box 1 below. Failing to note the caveats would provide an unreliable view of departmental forecasting performance:

Box 1: limitations of forecasting performance analysis

- **It is not possible to draw firm conclusions from four years' data. A time series based on only four data points is insufficient to construct a reliable analysis on trends. For example, if a department has shown improved forecasting accuracy in 2014-15 over the previous year, but worse than in 2012-13, 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 the UK Government departments is currently unavailable. It is therefore impossible to assess whether Northern Ireland departments' forecasting accuracy is relatively good or poor;⁶**
- **As noted in RalSe paper 190/12 *Financial forecasting performance data: scrutiny by committees*,⁷ the size and structure of expenditure by NICS departments varies widely; a variance of £10 million (m) 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.**

Committees should note that the accuracy analysis undertaken by DFP and assessed by the PFSU was 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. Rather, the analysis measures in aggregate how accurately departments' monthly expenditure profile has been forecast.

In other words, departmental forecasting errors may relate more to timing and sequencing than to overall over- or underspend at year end. It is possible for a department to perform relatively poorly in terms of its monthly forecasting, but to still

⁶ DFP previously advised that the Treasury intends to publish a league table on forecasting accuracy. This had been expected prior to the end of May 2014 but DFP has stated that this no longer appears to be a Treasury priority.

⁷ http://www.niassembly.gov.uk/Documents/RalSe/Publications/2012/finance_personnel/19012.pdf

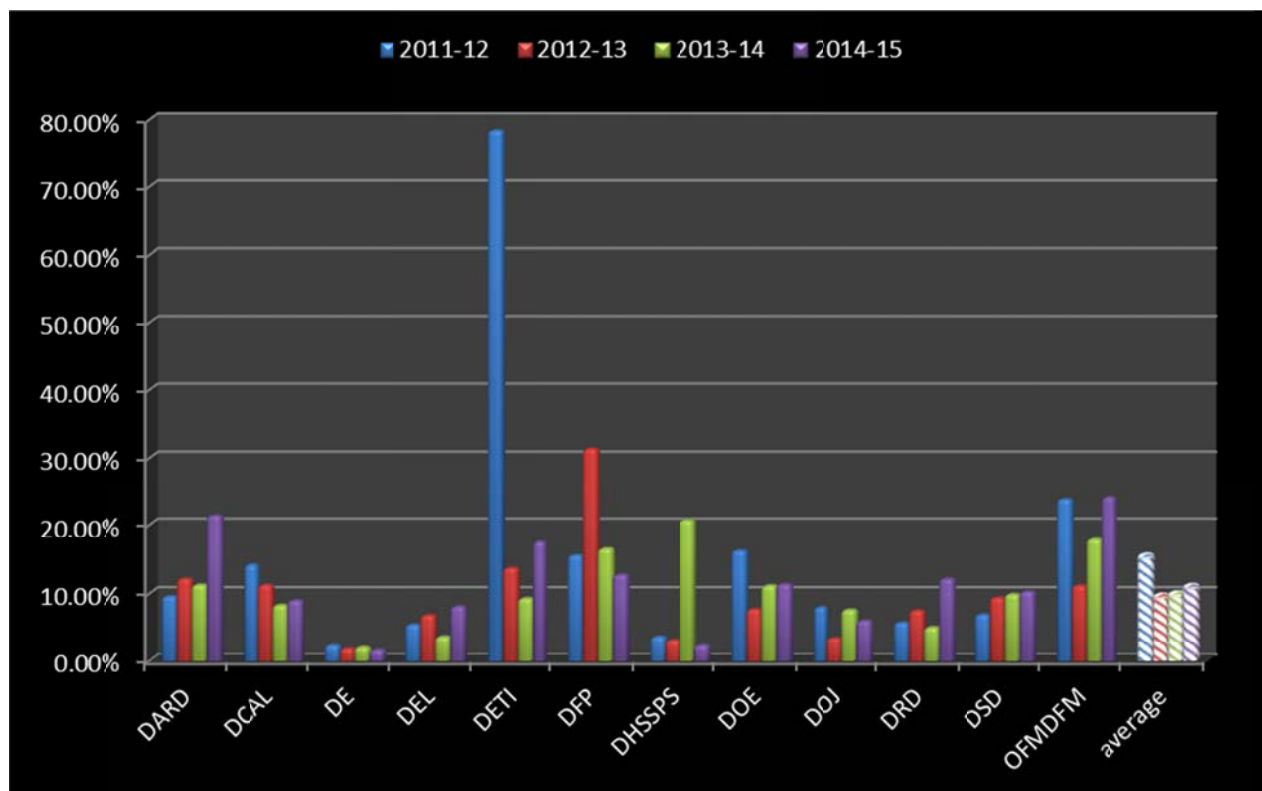
achieve final outturn for the year which is close to its monitoring total. For example, OFMDFM's monthly forecasting of non-ringfenced resource expenditure was, in aggregate, inaccurate by 18% in 2013-14. But at year end, the underspend for OFMDFM was only 0.9%.⁸

Nonetheless, it is valuable to continue to compile papers like this both now and in future, as they help to build a data source that enables scrutiny. For now, it enables committees to look at departmental forecasting accuracy and engage the departments using the scrutiny points outlined throughout this section. And in future, when there is a longer time series of data, such papers will enable the committees to examine trends and patterns over a number of years.

2.1 Non-ringfenced resource expenditure forecasts

Figure 1 shows the level of deviation in departmental forecasts for non-ringfenced resource expenditure and should be interpreted with the caveats listed in Box 1 in mind:

Figure 1: Average absolute deviation from non-ringfenced resource forecast 2011-12 to 2014-15



The following observations may be made about Figure 1:

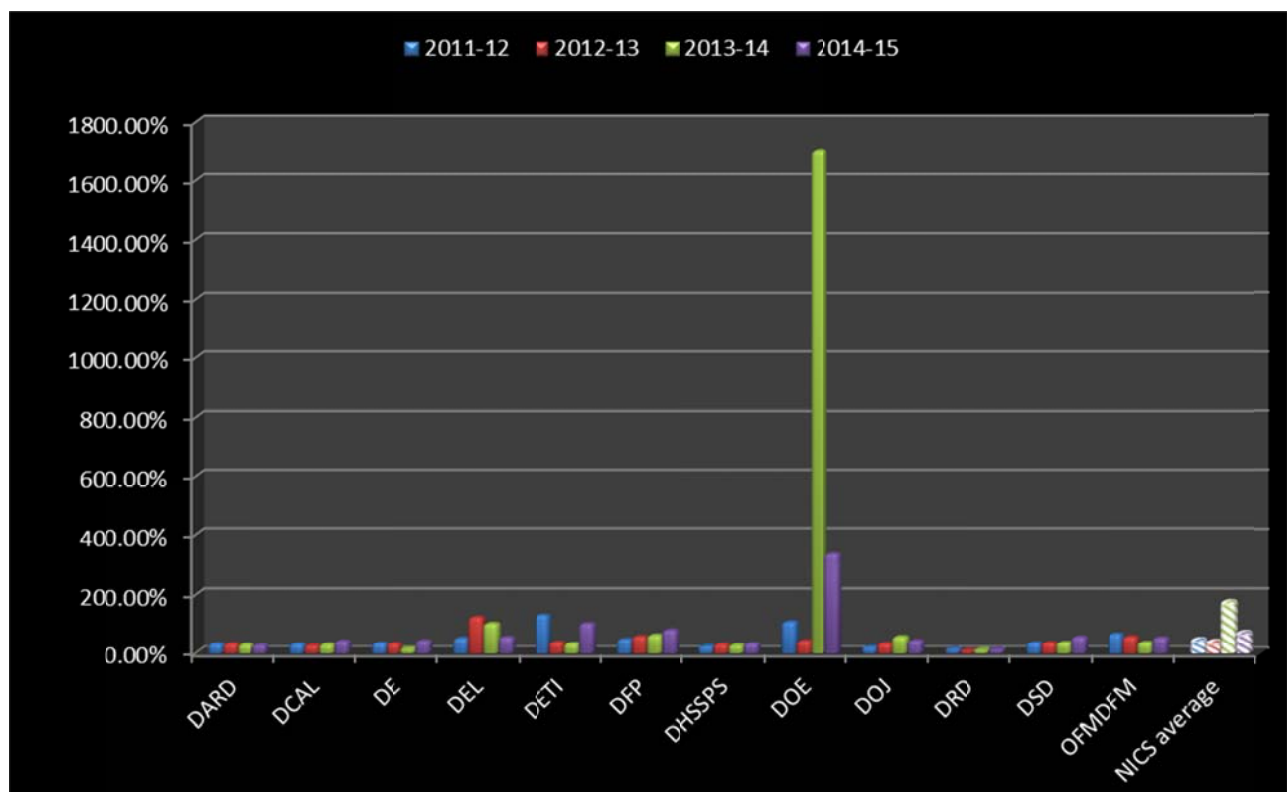
⁸<http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2015/finance/7415.pdf>

- In 2014-15, the average deviation from forecast across the departments was marginally higher than the preceding year, i.e. just over one percentage point.
- Four departments' forecasts deviated significantly more in 2014-15 than in the preceding year, i.e. more than five percentage points. These were DARD, DETI, DRD and OFMDFM.
- One department's forecasts deviated significantly less in 2014-15 than in the preceding year, i.e. more than five percentage points. This was DHSSPS.
- DFP's forecasting accuracy has improved for two years in a row.
- OFMDFM's forecasting accuracy has worsened for two years in a row.
- DE's forecasting has been consistently accurate over the period.

2.2 Capital expenditure forecasts

Figures 2 and 3 show the level of deviation in departmental forecasts for capital expenditure and should be interpreted with the caveats listed in Box 1 in mind:

Figure 2: Average absolute deviation from capital forecast 2011-12 to 2014-15



The following observations may be made about Figure 1:

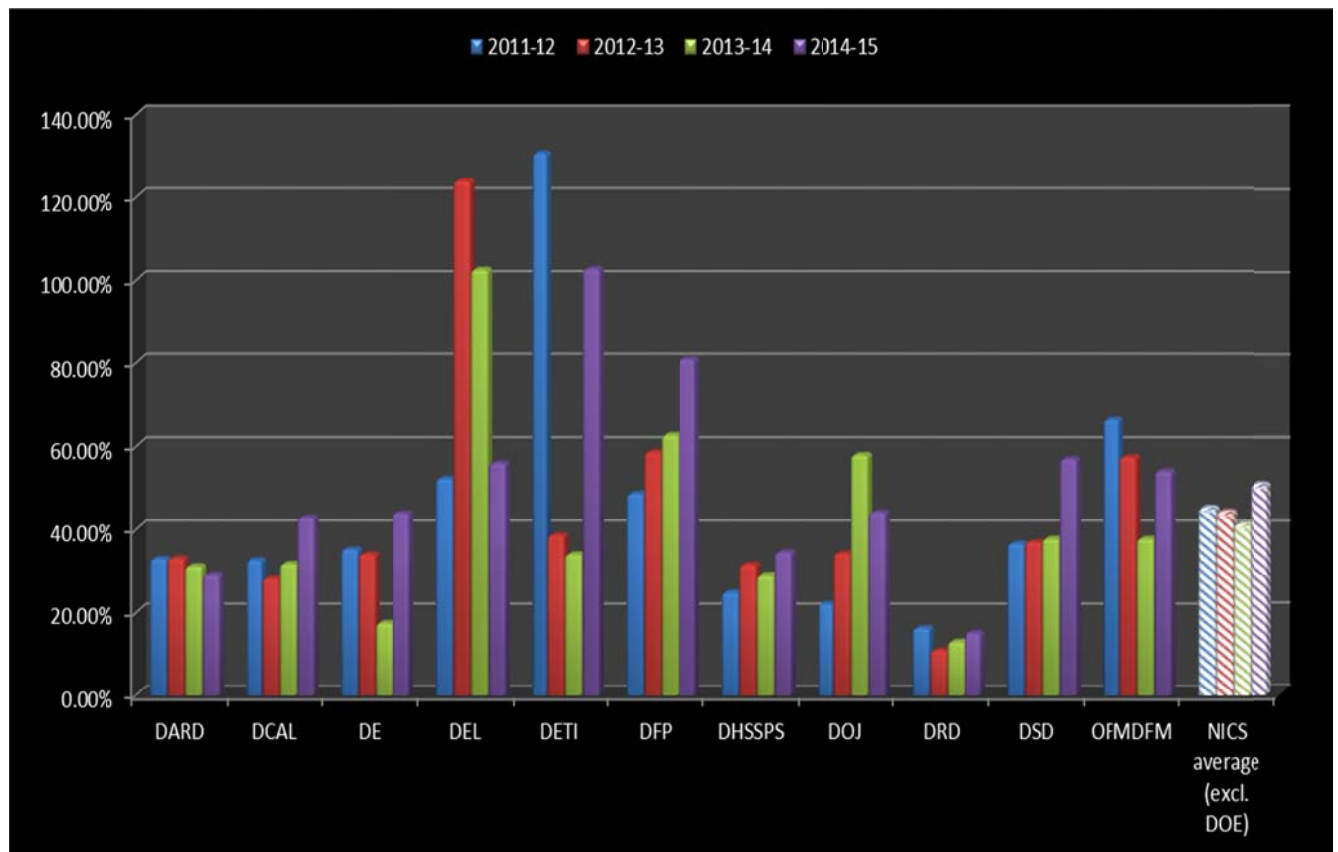
- The particularly significant DoE deviation from forecast (1,703.7%) dramatically distorts Figure 2. Consequently the relative performance of the other departments is difficult to observe. For this reason, Figure 3 below shows departmental performance with DoE excluded.

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.⁹

DoE's forecasts for 2014-15 showed much less deviation in 2014-15 than in the preceding year. But the level of deviation remained strikingly high at 337.4%.

Figure 3: Average absolute deviation from capital forecast 2011-12 to 2014-15 (excluding DoE)



The following observations may be made about Figure 3:

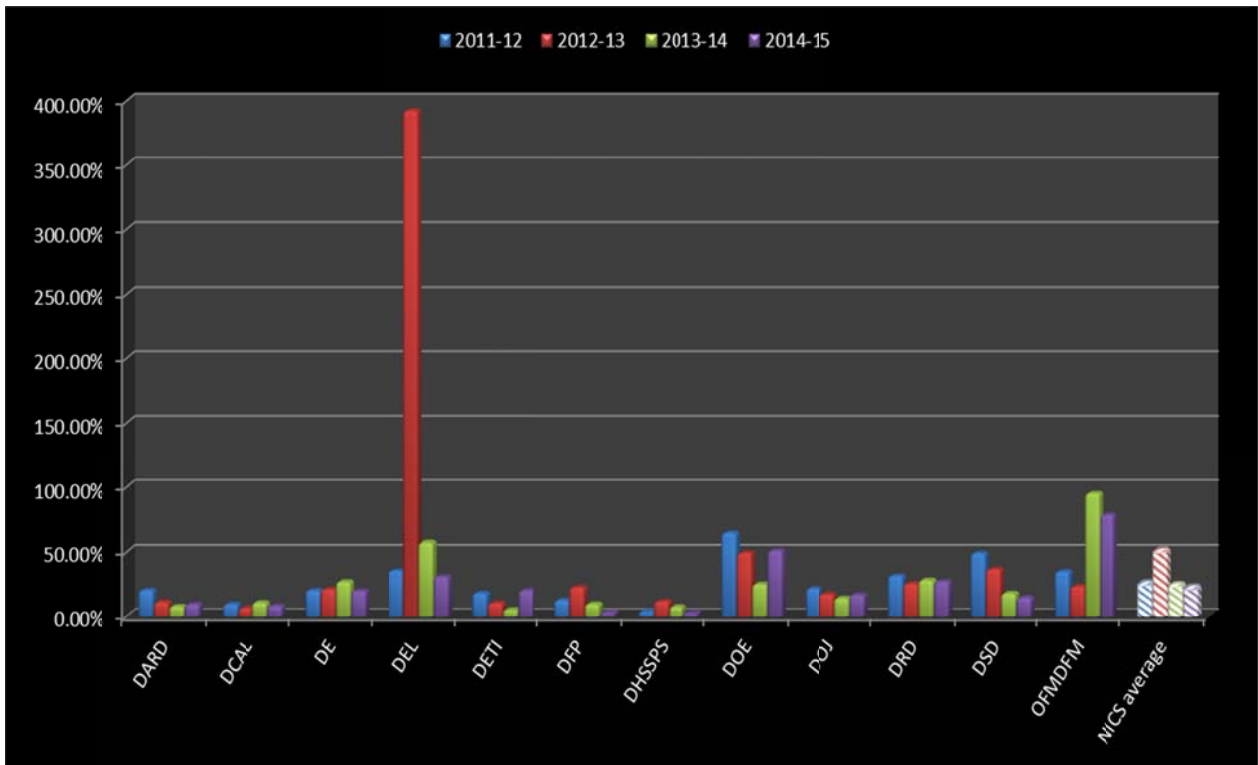
- In 2014-15, once DoE is excluded, the average deviation from forecast across the departments was more than nine percentage points higher than the preceding year.
- Five departments' forecasts deviated significantly more in 2014-15 than in the preceding year, i.e. more than fifteen percentage points.
- DEL's forecasting was significantly more accurate in 2014-15 than in the preceding year.
- Both DFP and DSD's forecasts have showed increases in deviation for three years in a row. DFP's deviation has increased more significantly.
- DARD's forecasts have showed lower deviations for two years in a row.

⁹ Letter from DFP to CFP, ref MISC137/11-15, dated 16 October 2013

2.3 Ringfenced resource forecasts

Figures 4 and 5 show the level of deviation in departmental forecasts for ringfenced resource expenditure and should be interpreted with the caveats listed in Box 1 in mind:

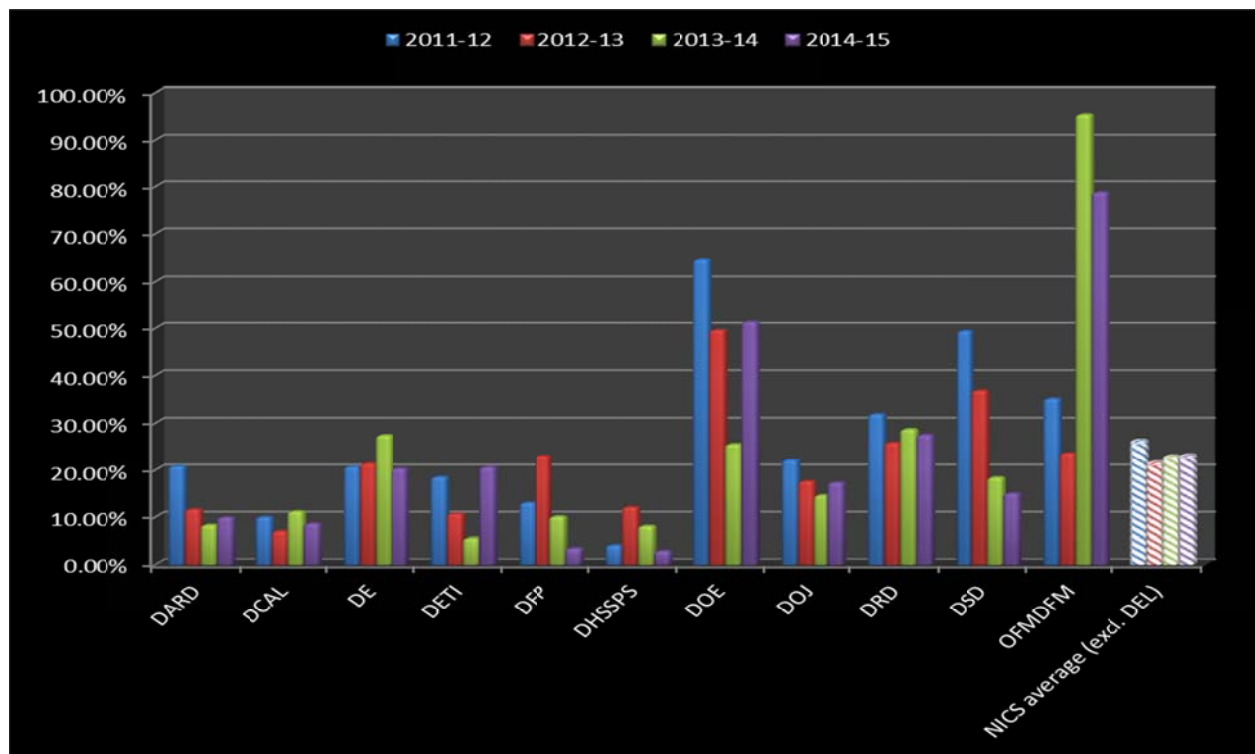
Figure 4: Average absolute deviation from ringfenced resource forecast 2011-12 to 2014-15



The following observations may be made about Figure 4:

- 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 2014-15 (excluding DEL)



The following observations may be made about Figure 5:

- In 2014-15, once DEL is excluded, the average deviation from forecast across the departments was less than one quarter of a percentage point higher than the preceding year.
- Five departments' forecasting was significantly more accurate in 2014-15 than in the preceding year, i.e. more than five percentage points. These were DE, DEL, DFP, DHSSPS and OFMDFM).
- DETI and DOE's forecasting was significantly less accurate in 2014-15 than in the preceding year, i.e. 15 and 25 percentage points respectively.

3. Concluding remarks

As noted earlier in Box 1, it is not possible with a four-year time series of data to draw firm conclusions about performance trends in departmental forecasting. Nevertheless, the following main conclusions and potential points for scrutiny arise.

Having said that, it can be observed that for non-ringfenced resource expenditure and for capital expenditure, once DoE is excluded, departmental forecasting was generally slightly less accurate in 2014-15 than in the preceding year. There are no particular points that arise in relation to ringfenced resource expenditure.

Scrutiny points:

- 1. The CFP may wish to explore why DFP's forecasting of capital expenditure seems to be increasingly inaccurate.**
- 2. The Committee for the Environment may wish to explore why DoE's forecasting of capital expenditure remained remarkably inaccurate in 2014-15.**

Appendix A: Forecasting data tables¹⁰

Table A1: summary non-ringfenced resource table

Department	2011-12	2012-13	2013-14	2014-15	2014-15 compared to 2013-14
DARD	9.60%	12.20%	11.30%	21.40%	10.10%
DCAL	14.20%	11.30%	8.30%	9.00%	0.70%
DE	2.30%	1.80%	2.00%	1.60%	-0.40%
DEL	5.40%	6.80%	3.60%	8.10%	4.50%
DETI	78.40%	13.80%	9.30%	17.60%	8.30%
DFP	15.60%	31.40%	16.60%	12.80%	-3.80%
DHSSPS	3.60%	3.10%	20.70%	2.30%	-18.40%
DOE	16.30%	7.70%	11.20%	11.40%	0.20%
DOJ	8.00%	3.40%	7.60%	6.00%	-1.60%
DRD	5.70%	7.50%	5.00%	12.20%	7.20%
DSD	6.90%	9.40%	9.90%	10.30%	0.40%
OFMDFM	23.80%	11.20%	18.00%	24.10%	6.10%
NICS average	15.82%	9.97%	10.29%	11.40%	1.11%

Table A2: summary capital table

Department	2011-12	2012-13	2013-14	2014-15	2014-15 compared to 2013-14
DARD	32.90%	33.00%	31.10%	29.10%	-2.00%
DCAL	32.60%	28.30%	31.70%	43.00%	11.30%
DE	35.20%	34.00%	17.50%	44.00%	26.50%
DEL	52.30%	124.00%	102.60%	56.00%	-46.60%
DETI	130.70%	38.60%	34.00%	102.80%	68.80%
DFP	48.70%	58.70%	62.80%	80.90%	18.10%
DHSSPS	24.90%	31.50%	29.00%	34.50%	5.50%
DOE	107.90%	43.10%	1703.70%	337.40%	-1366.30%
DOJ	22.10%	34.20%	58.00%	44.20%	-13.80%
DRD	16.30%	10.90%	13.00%	15.10%	2.10%
DSD	36.60%	37.00%	37.80%	57.00%	19.20%
OFMDFM	66.50%	57.50%	37.80%	54.10%	16.30%
NICS average	50.56%	44.23%	179.92%	74.84%	-105.08%
NICS average (excluding DOE)	45.35%	44.34%	41.39%	50.97%	9.58%

¹⁰ 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	2014-15	2014-15 compared to 2013-14
DARD	20.80%	11.60%	8.30%	9.90%	1.60%
DCAL	10.00%	7.00%	11.20%	8.60%	-2.60%
DE	20.70%	21.40%	27.40%	20.30%	-7.10%
DEL	35.70%	392.60%	57.60%	31.30%	-26.30%
DETI	18.50%	10.70%	5.60%	20.60%	15.00%
DFP	13.00%	23.00%	10.10%	3.50%	-6.60%
DHSSPS	4.10%	12.10%	8.10%	2.90%	-5.20%
DOE	64.70%	49.60%	25.50%	51.40%	25.90%
DOJ	22.10%	17.60%	14.60%	17.30%	2.70%
DRD	31.90%	25.80%	28.70%	27.50%	-1.20%
DSD	49.40%	36.90%	18.40%	15.00%	-3.40%
OFMDFM	35.20%	23.60%	95.40%	78.80%	-16.60%
NICS average	27.18%	52.66%	25.91%	23.93%	-1.98%
NICS average (excluding DEL)	26.40%	21.75%	23.03%	23.25%	0.23%