Research and Information Service Briefing Paper

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Departmental Outturn and Forecast Outturn: Commentary on Quarter 3 2020-21 Data

Public Finance Scrutiny Unit

Introduction

This Commentary is part of an ongoing pilot project, proactively undertaken by the Public Finance Scrutiny Unit (PFSU) of the Assembly's Research and Information Service (RaISe). Ultimately, the project aims to further support Assembly committees when discharging their advisory and scrutiny roles and responsibilities under current Northern Ireland (NI) devolution financial arrangements. In particular, it seeks to enhance committees' understanding of departmental Outturn and Forecast Outturn data; so that committees use that data to scrutinise departments' forecasting accuracy – i.e. to scrutinise how effectively departments plan and actually spend their expenditure.

Central to the project has been the creation of an interactive Dashboard;[1] currently hosted on RaISe's online blog - [Research Matters](#) – located on the Assembly's

[1] A Dashboard User Guide is available to download at: http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2017-2022/2021/finance/0321.pdf

website. The Dashboard visually represents departmental Outturn and Forecast Outturn data, including a selection of summary statistics, up to and including December 2020. The Dashboard's contents are updated each time the Department of Finance (DoF) releases new data. This typically occurs monthly. A Commentary is produced quarterly, to provide an evidence base to inform committees' engagement with their respective departments on budget planning and decision-making; both at the time departments profile their bids, pre-formulation of the Executive Budget, and during monitoring rounds when departmental reallocations occur in-year.

This is the second Commentary published to date, building on the first one published in December 2020.[2] It examines departmental outturn and forecast outturn data, covering the period 1 September 2020 to 31 December 2020 - i.e. Quarter 3 (Q3) of the 2020-21 financial year. First, however, for context, Section 1 outlines international good practice and Northern Ireland requirements that concern government budgeting and strategic policy planning. Section 2 then provides an overview of the Q3 2020-21 data, discussing their quality, including limitations. Finally, section 3 outlines key findings arising from those data regarding department's financial forecasting accuracy, which committees may wish to address with their respective departments

In is important to note that COVID-19 has had an enormous impact on all elements of public and private life. The data and analysis presented in section 3 attempt to illustrate impacts arising from COVID on departmental forecasting. Committees may wish to consider the points made in the conclusion, at section 4, when discharging their scrutiny and advisory roles, particularly when reviewing the forthcoming Spring Supplementary Estimates.

1. Government budgeting and strategic policy planning: good practice, established rules and future plans

When considering the accuracy of departmental financial forecasting, committees may wish to rely on the Recommendation on Budgetary Governance, with accompanying ten budgeting principles, as defined by the Organisation of Economic Cooperation and Development (OECD). Both collectively establish budgeting standards that are relevant to scrutiny and oversight; and are explained below in sub-section 1.1. Also relevant to committee considerations in this area is sub-section 1.2, which identifies requirements under Northern Ireland's Public Finance Framework (PFF – i.e. devolved financial arrangements) relating to financial forecasting. And finally, sub-section 1.3 explains the relevance of the Executive's adoption of an Outcomes-Based

[2] This Commentary follows on from an initial Commentary issued by RaISe in December 2020, entitled *Pilot Project – Proactive Committee Use of Departmental Forecasting & Outturn Data* (NIAR 251-20). That December 2020 Commentary outlined the project's aims and objectives, alongside context-setting information. It accompanied the Dashboard, which at that time contained departmental outturn data up to and including September 2020, and forecast outturn information for the remainder of the 2020-21 financial year. It also included a Technical Note, outlining guidance on the Dashboard's operation and functionality. http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2017-2022/2020/finance/8020.pdf

Accountability (OBA) model that is to underpin its Programme for Government (PfG); and in time align departmental policy delivery to their budgets.

1.1 OECD: Good practices in government budgeting

In 2015, the OECD Recommendation on Budgetary Governance stated: [3]

> *…good budgeting is supported by, and in turn supports, the various pillars of modern public governance: transparency, integrity, openness, participation, accountability and a strategic approach to planning and achieving national objectives.*

The Preamble to that Recommendation stated:[4]

> *...budgeting is not simply the preserve of central governments, but that it is a process that encompasses all levels of government, where different mandates and levels of autonomy apply in different countries; that budget systems and procedures should be coordinated, coherent and consistent across levels of government in the interests of facilitating a comprehensive national overview of the public finances and promoting an informed discussion of the implications for budgetary management, in line with national legal and institutional frameworks, and that* ***this Recommendation is accordingly relevant to all levels of government****. [emphasis added]*

Accompanying the OECD Recommendation were ten budgeting principles, aimed to implement good practices when designing, implementing and improving budget systems in government.[5] Key amongst those principles for purposes of expenditure forecasting appear to be:

- Principle 1 states that budgets should be managed "…within clear, credible and predictable limits for fiscal policy" while ensuring that "all elements of revenue, expenditure and broader economic policy are consistent and managed in line with the available resources..."[6]
- Principle 2 states that budgets should "…closely align with the medium-term strategic priorities of government, through organising and structuring budget allocations in a way that corresponds readily with national objectives..."[7]
- Principle 5 states the importance of providing for "…an inclusive, participative and realistic debate on budgetary choices, by offering opportunities for the parliament and its committees to engage with the budget process at all key stages of the budget cycle..."[8]

[3] https://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf
[4] ibid, page 9
[5] Principles of Budgetary Governance - OECD
[6] https://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf page 6
[7] https://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf page 6
[8] https://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf page 8

- Principle 6 recommends presenting "…a comprehensive, accurate and reliable account of the public finance, through presenting a full national overview of the public finances – encompassing central and sub-national levels of government..."[9]
- Principle 7 recommends actively planning, managing and monitoring the execution of the budget, through "…the preparation and scrutiny of budget execution reports, including in-year …reports, which are fundamental to accountability and which, if well-planned and –designed, can yield useful messages on performance and value-for-money to inform future budget allocations…"[10]
- Principle 8 states that "…performance, evaluation and value for money are integral parts of the budget process…"[11]

1.2 Established rules

Treasury's Improving Spending Control guidance provides a framework for strengthening and improving spending control in the United Kingdom. Published in 2012, it states: [12]

> *Departments, devolved administration, and their arms-length bodies will be required to monitor and manage information about spending more effectively and improve the skills needed to deliver their spending plans.*[13]

It further states:

> *They will be required to share that information with the Treasury on a regular and consistent basis. Those with good financial management will be given more freedom while those with bad management will be subject to more Treasury control*

While the *exact requirements* for each department are to be agreed with the Treasury, Improving Spending Control states that *at a minimum*, accurate information on *actual and planned spend* must be shared with Treasury on a monthly basis. This expenditure information is frequently referred to as: *outturn and forecast outturn information*.

It highlights the importance of the good quality expenditure information, suggesting that is a *prerequisite* for effective spending control. It further states that the information should be:[14]

- **Robust and reliable**: so that data is accurate and forecasts are as good as they can be;
- **Consistent:** within and between organisations; and,

[9] https://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf page 8
[10] https://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf page 9
[11] https://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf page 9
[12] Improving Spending Control - GOV.UK (www.gov.uk)

[14] Improving spending control (publishing.service.gov.uk) page 9

- **Timely:** so that data is provided on a monthly basis and with minimum delay.

Treasury's Consolidated Budgeting Guidance 2020 to 2021[15] further states robust governance, scrutiny and oversight are integral to ensuring government [16]. In Northern Ireland, Assembly committees typically engage with budget scrutiny and oversight at multiple times throughout the Executive Budget cycle. This is in line with OECD Principle 5 – i.e. seeking to provide for:

> *…an inclusive, participative and realistic debate on budgetary choices, by offering opportunities for the parliament and its committees to engage with the budget process at all key stages of the budget cycle…*[17]

The DoF recognises Assembly committees' important play in the scrutiny of departmental spending plans. It states in its 2020-21 In-Year Monitoring Guidelines[18] (the IYM Guidelines) that departments must ensure that they engage fully with their Assembly committees in respect of in-year monitoring. This is in line with OECD Principle 7, which recommends actively planning, managing and monitoring the execution of the budget, through:

> *…the preparation and scrutiny of budget execution reports, including in-year …reports, which are fundamental to accountability and which, if well-planned and –designed, can yield useful messages on performance and value-for-money to inform future budget allocations…*[19]

However, in practice, it seems that the onus is on the committee as to the extent and the timing of that engagement.

The DoF further recommends in its IYM Guidelines that committees should be kept informed of financial matters on an ongoing basis.[20] The Guidelines make reference to the monthly outturn and forecast outturn data provided by the DoF to the Committee for Finance (CfF), and the DoF's expectations of the CfF's scrutiny, which is particularly relevant in the context of this paper. The Guidelines state:[21]

> *The Outturn and Forecast Outturn information, including forecasting accuracy data, will be provided to the Committee for Finance on an ongoing basis...It is anticipated that Assembly Committees will be taking an active role in the scrutiny of these returns.*

[15] fuhttps://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/876155/CBG_for_publication.pdf

[16] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/876155/CBG_for_publication.pdf page 46

[17] https://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf page 8

[18] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/2020-21%20In-Year%20Monitoring%20Guidelines.pdf

[19] https://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf page 9

[20] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/2020-21%20In-Year%20Monitoring%20Guidelines.pdf

[21] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/2020-21%20In-Year%20Monitoring%20Guidelines.pdf page 41

1.3 Future plans: OBA and PfG

Budgeting in government is not a standalone process that is removed from strategic policy planning. Instead, the Budget is a central document for Government; used to implement prioritised annual and multi-annual policy objectives, through public expenditure allocation. And the OECD states at its Principle 2 that budgets should be:

> *…closely align with the medium-term strategic priorities of government, through organising and structuring budget allocations in a way that corresponds readily with national objectives...*[22]

In Northern Ireland, since approximately 2016, shortly before the Executive collapsed and remained so for approximately 3 years, efforts were made to implement an OBA-based PfG model, based on agreed outcomes and a range of indicators to measure.[23] So far, that work has manifested in the form of an Outcomes Delivery Plan (ODP): a document that sets out the actions that departments should take to give effect to the previous Executive stated objectives of: *Improving wellbeing for all - by tackling disadvantage and driving economic growth.*[24] The ODP is structured around a framework of 12 outcomes, and each outcome is then measured by a range of indicators.[25] One of the underlying aims of the ODP is good alignment between budgetary plans and departmental priorities.

In the January 2020 the New Decade New Approach political agreement was signed. Amongst a number of things, therein was a commitment to retain an OBA PfG, under which the work of the Executive and the broader public sector is to be directed towards a set of agreed outcomes. A year on - 25 January 2021 - the Executive launched its draft PfG Outcomes Framework for an eight-week public consultation.[26] In that Framework, the Executive reiterated its commitment to using OBA.

As the outcome of that consultation is awaited, a couple of observations should inform that exercise. First, an OBA approach can be a supportive measure toward creating a greater link between budgetary plans and departmental priorities. Moreover, performance budgeting tools are key to enabling governments to assess periodically whether the policy objectives, for which spending was committed, are in fact achieved.[27] This is in line with OECD Principle 8, which states that *"…performance, evaluation and value for money are integral parts of the budget process*…"[28] Going forward, a PfG based on OBA could helpfully facilitate committees' financial forecasting

[22] https://www.oecd-ilibrary.org/sites/9789264301856-6-en/index.html?itemId=/content/component/9789264301856-6-en#boxsection-d1e4446
[23] https://www.executiveoffice-ni.gov.uk/sites/default/files/publications/execoffice/odp-dec-%202019.pdf
[24] https://www.nisra.gov.uk/statistics/programme-government
[25] https://www.executiveoffice-ni.gov.uk/indicators
[26] https://www.northernireland.gov.uk/sites/default/files/consultations/newnigov/pfg-draft-outcomes-framework-consultation.pdf
[27] https://www.oecd-ilibrary.org/sites/9789264301856-6-en/index.html?itemId=/content/component/9789264301856-6-en#boxsection-d1e4446
[28] https://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf page 9

scrutiny; informing future analysis of outturn and outturn forecast data, which could be included in subsequent commentaries accompanying future Dashboard updates.

2. Departmental Outturn and forecast outturn data

This section provides an overview of the departmental outturn and forecast outturn data, covering the period 1 September 2020 to 31 December 2020 - i.e. Quarter 3 (Q3) of the 2020-21 financial year. It explains the importance of the data collected, as well as its limitations.

2.1 Importance of outturn and forecast outturn data: forecasting accuracy

As noted in sub-section 1.2 above, each Whitehall department and all Devolved Administrations' (DAs') departments have an obligation to provide the Treasury with monthly outturn and forecast outturn information. Treasury uses the data for three main purposes:[29]

- To aid management of the overall fiscal position and to inform fiscal policy;
- To facilitate the compilation of overall national statistics on public expenditure; and,
- To enable Treasury to fulfil its role in monitoring the performance of Whitehall departments and DAs against their agreed expenditure limits.

The OECD Principle 6 recommends the presentation of "…a comprehensive, accurate and reliable account of the public finance, through presenting a full national overview of the public finances – encompassing central and sub-national levels of government..."[30] While the OECD Principle 8 further states that "…performance, evaluation and value for money are integral parts of the budget process…"[31]

In that regard, Treasury uses three indicators to monitor Northern Ireland's public spending performance:

- Timeliness – Timetable for publication of the data is tight and inflexible;
- Realistic profiles – If profiles are realistic, it is easier to understand when the fiscal position is going off track, or is likely to do so over the rest of the year; and,
- Accurate data – This should align as far as possible with internal management information.

Essentially, the usability of the data submitted is determined by the second and third measures, and so providing accurate and realistic data is imperative to ensuring credibility is maintained with Treasury.

[29] https://www.finance-ni.gov.uk/sites/default/files/publications/dfp/2020-21%20In-Year%20Monitoring%20Guidelines.pdf
[30] https://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf page 8
[31] https://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf page 9

Consequently, Northern Ireland departments are required to provide monthly data to the DoF, including actual expenditure for the preceding month(s), and forecast expenditure for the remaining months of the financial year.

In addition to compiling an aggregate return for Treasury, the DoF also uses the data to monitor Northern Ireland departments' spending patterns. The DoF uses the data as a forecasting tool:

- To monitor the overall fiscal position;
- To estimate over and underspends, making them more visible:
- To enable timely surrender of underspends, thereby enabling timely reallocation that represents value from money, and importantly avoids year-end surges and or "carry forward" concerns and or surrender to Treasury;[32]
- To inform decision making during the in-year monitoring process;
- To aid in planning concerning Reinvestment and Reform Initiative (RRI) borrowing; and,
- To provide relevant and accurate information to policy-makers regarding forecasted public spending levels.

Reflecting further on the above, it merits mentioning the quality of year-end spending. There is some evidence that expenditure occurring in a rush at the year-end may not deliver the same level of value-for-money that tax payers expect. That issue was explored in detail in the 2014 RaISe paper entitled "Year-end surges in Northern Ireland departmental expenditure".[33] This is what the OECD Principle 7 seeks to avoid through active planning, management and monitoring of budget execution, i.e.:

> *...allowing some limited flexibility, within the scope of parliamentary authorisations, for ministries and agencies to reallocate funds throughout the year in the interests of effective management and value-for-money, consistent with the broad purpose of the allocation.*[34]

Moreover, it should be noted that there is a broader relationship between forecasting and the timing of expenditure. If forecasting is inaccurate, the risk of year-end surging may become more significant. At the same time, it must be acknowledged that there are many reasons outside departments' control, which may lead to changes in expenditure profiles - e.g. planning delays, legal challenges or other unforeseen events such as severe weather.

[32] The limits to end-year carryover of funding into future years are set out in the Treasury's Statement of Funding Policy (chapter 12). This is regularly a feature of Assembly discussion in relation to the budget. It is of particular relevance in 2020-21 because the Minister of Finance has – along with his counterparts in the other DAs – raised concerns that more flexibility is needed due to Covid-19.

[33] http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2014/finance_personnel/8214.pdf

[34] https://www.oecd.org/gov/budgeting/principles-budgetary-governance.htm

2.2 Data limitations

In line with Treasury's Improved Spending Performance Initiative,[35] and the measure of the Executive forecasting accuracy applied by Treasury, departments must provide robust forecasts, and should ensure that forecasts are based on their best information. This is necessary to provide information to policy-makers about forecast levels of public spending, both to enable them to monitor the overall fiscal position and to take spending decisions. These aim to ensure expenditure is allocated in a way that provides value for money. Timely, accurate forecasts enable visibility of overspends, as well the opportunity for any underspends to be identified in good time, so as they can be reallocated, and not go back to Treasury if they cannot be carried forward.

It should be noted that in order for the DoF to comply with the Treasury timetable for returns, i.e. by 10am on the 8th working day of the month, departments must submit their returns to the DoF by 5pm, normally on the 6th working day of the month. When referring to this timeline, a representative from Central Expenditure Division (CED) within the DoF stated:36

> *We are aware that departments in meeting the 5pm working day 6 deadline are using data from Account NI which does not fully reflect the close of the month just finished. For this reason we do not use this version of actual expenditure reported to compare to the last forecast received – forecasting performance instead uses the second return showing spend for a particular month.*

A key data limitation is that there is an unavoidable time lag between when a forecast is made for a particular month, and when the actual outturn data for that month becomes available. In other words, the accuracy of a November expenditure forecast made in October cannot be verified until at least January.

RaISe normally receives the data one working day after the return; the data used in this paper was received by RaISe on 9 February; necessitating prompt turnaround to receive, consider, analyse and then compile findings for committees

When relying on the data in this Commentary, it must be noted that The Executive Office (TEO) advised the DoF in advance of the December return, that it was experiencing some staffing difficulties in the face of increased pressures arising from the current working environment due to COVID-19. Therefore, TEO did not submit a return for December, so the data used are the numbers provided in their previous month's return.

[35] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/220648/improving_spending_control.pdf

[36] Email communications

3. Key findings

The following section discusses the data for the period 1 October 2020 to 31 December 2020 -Q3 2020-21. At sub-sections 3.1-3.2, it provides brief analysis of the expenditure patterns of Northern Ireland departments for the stated time period, both individually and in aggregate, for both capital and resource expenditure.

That analysis is discussed using the following sub-sections:

- Year-to-date expenditure – overall position
- Year-to-date expenditure – by department
- Year-end capital expenditure forecast
- Expenditure spikes and year-end surge

Then, at sub-sections 3.3 and 3.4, forecasting accuracy is considered for the month of November 2020, and then cumulatively.

For the purposes of this Commentary, the below analyses focus on the monthly outturn and forecast outturn of the nine ministerial Departments (the Departments), i.e.: the Department of Finance (DoF); Department of Infrastructure (DfI); Department for Communities (DfC); Department of Education (DE); Department of Agriculture, Environment, and Rural Affairs (DAERA); Department of Health (DoH); Department for Economy (DfE); Department of Justice (DoJ); and, The Executive Office (TEO).

3.1 Expenditure: capital DEL

The Dashboard presents monthly capital expenditure profiles on slide 1, and annual capital expenditure profiles on slide 3. Forecast performance concerning capital expenditure is then presented on slide 5.

The nine departments have a total capital allocation of **£1.7 billion** for the financial year 2020/21. The three departments with the largest capital allocations, are: DfI - £580 million; DoH - £365 million; and, DfC - £245 million. In comparison, the department with the smallest capital allocation is DoF - £22 million. It is important to be mindful of the differences in departmental allocations when considering each department's influence on the overall capital position, as a percentage change in expenditure for departments with larger allocations will be of much greater significance in monetary terms than an expenditure change for a department with a smaller allocation..

3.1.1 Year-to-date (YTD) capital expenditure – overall position

The data show that up until the end of Q3 2020-21, with one quarter remaining in the financial year, the departments had collectively spent £831.5 million on capital projects. This equates to roughly half of their £1.7 billion allocation for the financial year. It is worth noting that up until the end of Q3 2020, at the half way point of the financial year, the departments had collectively spent just under one quarter of their annual capital allocation. **Therefore, in the last three months of the current financial year, departments have, on average, more than half of their capital budgets remaining.**

The YTD expenditure reported at the end of Q3 2020-21 is not dissimilar to what has been reported at the same point in time, in previous years. In the financial year 2019/20, the YTD expenditure at the end of Q3 was 50.2% of the annual capital expenditure; while in 2018/19 and 2017/18 YTD expenditure at the end of Q4 was found to be 48.3% and 48.7% respectively.

YTD expenditure is important because it may give some insight into whether there is a realistic expectation that the full remaining departmental allocation will be spent. If the current year's profile is very similar to prior years, it may be reasonable to assume that the department will spend its full allocation. If they do not do so, there is a risk that resources will be surrendered to Treasury, if they cannot be carried forward, and therefore unavailable for allocation in NI on other priorities.

3.1.2 Year-to-date (YTD) capital expenditure – by department

Four of the nine departments report expenditure of more than 56% of their annual capital allocation by the end of Q3 2020-21 (DE– 59.7%; DfI – 57.8%; TEO – 56.7%; DAERA – 56.0%). The DoJ report a YTD expenditure of 34.1% of their £83 million capital allocation; while the DoF report a YTD expenditure of 29.0% of their £21 million capital allocation. The YTD expenditure of the DfE is noteworthy, at -14.4%. A negative capital expenditure can occur when a department disposes of an asset, in the case of the DfE, an expenditure of approximately -£14 million has been reported for the month of November 2020. This is due to a £17.3 million receipt from Presbyterian Mutual Society.

3.1.3 Year-end capital expenditure forecast

As reported through individual departmental returns, all departments forecast a year-end expenditure of 96.8% of their total capital allocation of £1.7 billion for the financial year 2020/21. Seven of the nine departments forecast a year-end capital expenditure of between 93.2% and 100.0% of their total capital allocations. TEO forecast a year-end capital expenditure equating to 100.2% of their capital allocation. This equates to a forecast overspend of £193,000. The DfE forecast spending the lowest proportion of its total annual capital allocation, at 87.7%, which equates to a forecast underspend of £11.5 million.

The limits to end-year carry over of funding into future years are set out in the Treasury's Statement of Funding Policy (Chapter 12).[37] This is regularly a feature of

[37] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/943689/Statement_of_Funding_Policy_2020.pdf

Assembly discussion in relation to the Budget. It is of particular relevance in 2020-21 because the Minister of Finance has – along with his counterparts in the other DAs– raised concerns that more flexibility is needed due to COVID-19.

3.1.4 Expenditure spikes and year-end surge

A notable feature of the combined capital expenditure profile of the departments, as shown in Figure 1, is the dramatic surge in capital expenditure forecast for March 2021. Figures relating to department's YTD expenditure showed that departments have, on average, more than half of their capital budgets remaining, so a year-end surge is unsurprising.

Eight of the nine departments forecast their highest expenditure to occur in March 2021. TEO, however, reported their highest expenditure in November 2020, with a second noticeable spike forecast for March 2021. Four departments report significant mid-year spikes in capital expenditure: DAERA (December 2020); DE (October 2020); DfC (November 2020); and, DoH (February and May 2020).

Another issue relates to the quality of year-end spending. There is some evidence that expenditure which occurs in a rush at the year-end may not deliver the same level of value-for-money that taxpayers expect. This issue was explored in detail in the 2014 RaISe paper entitled *Year-end surges in Northern Ireland departmental expenditure.*[38] This concept aligns with the OECD Principle 7 that recommends active planning, management and monitoring of budget execution. That Principle advises:

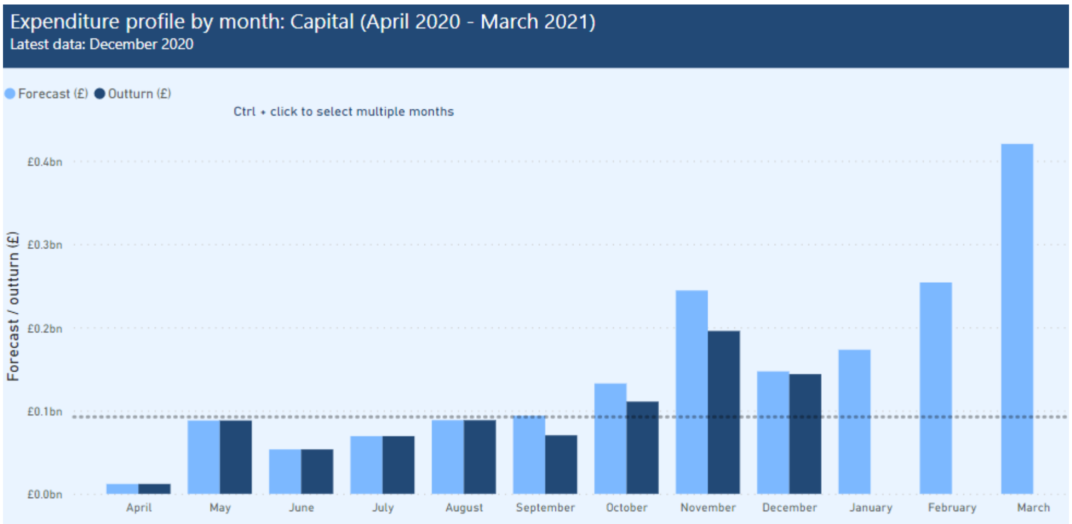
> *...allowing some limited flexibility, within the scope of parliamentary authorisations, for ministries and agencies to reallocate funds throughout the year in the interests of effective management and value-for-money, consistent with the broad purpose of the allocation.*[39]

If increased flexibilities regarding year-end carry over are not granted, committees should be mindful that this could lead to spending which is not value-for-money. Committees may wish to request additional information regarding planned year-end expenditure from their respective departments.

[38] Year-end surges in Northern Ireland departmental expenditure (niassembly.gov.uk)

[39] ibid page 9

Figure 1: Monthly expenditure profile - capital



3.2 Expenditure profiles: resource DEL

The Dashboard presents monthly resource expenditure profiles on slide 2, and annual resource expenditure profiles on slide 4. Forecast performance concerning resource expenditure is then presented on slide 5.

The nine departments have a total resource allocation of £14.6 billion for the financial year 2020-21. It is important to note that the DoH has a significantly larger resource allocation than the other departments, equating to approximately £7.1 billion, or just under half of the total. The DE reports the next largest resource allocation, with £2.5 billion. The DfE, the DoJ, and the DfC each have resource allocations of approximately £1 billion each.

3.2.1 Year-to-date (YTD) resource expenditure – overall position

The data show that up until the end of Q3 2020-21, with one quarter remaining in the financial year. The departments had collectively spent £10.3 billion, equivalent to more than 70% of their £14.5 billion resource allocation. In previous years, resource expenditure at the end of Q3 was found to be marginally higher (2017/18 – 72.8%; 2018/19 – 72.5%; 2019/20 – 72.6%).

3.2.2 Year-to-date (YTD) resource expenditure – by department

Eight of the nine departments report a resource expenditure of between 63.1% and 73.7% of their annual resource allocation by the end of Q3 2020-21. The DAERA reports a resource expenditure of 85.7% of their annual £563 million allocation. This is a significantly higher proportion of expenditure when compared with the other departments. The DAERA YTD expenditure can be explained by a large expenditure of

£307 million in October 2020, relating to the Single Farm Payments, which equates to almost 55% of the Department's resource allocation for the year.

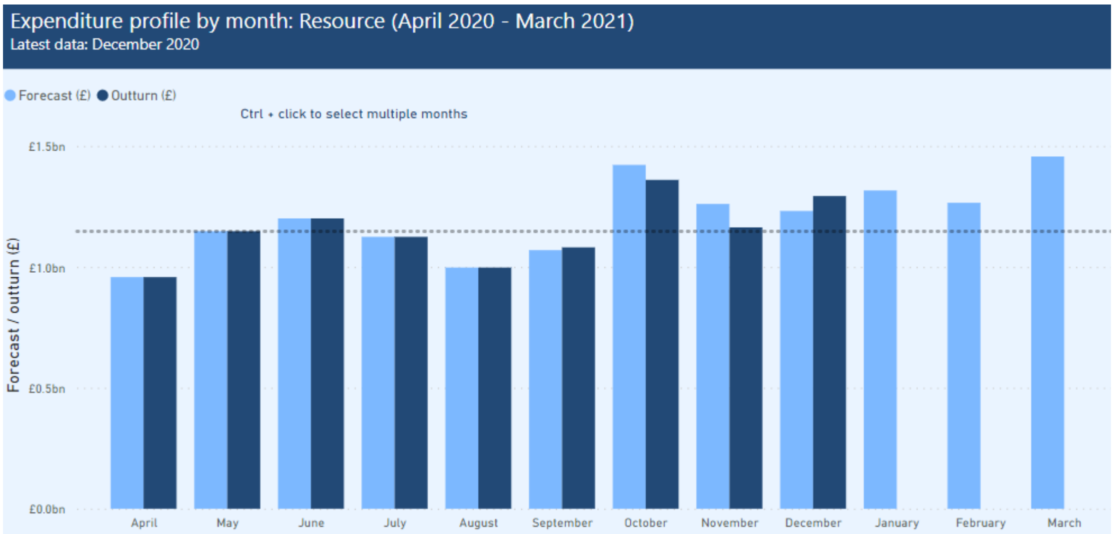
3.2.3 Year-end resource expenditure forecast

The departments forecast a year-end expenditure of 98.6% of their total resource allocation of £14.5 billion for the financial year 2020/21. Five of the nine departments forecast a year-end resource expenditure of exactly 100% (DoF; DE; DoJ; DfI; DAERA). The DfC and the DoH report a year-end resource expenditure of 99.6% and 98.4% respectively. The DfE forecasts the lowest year-end resource expenditure of 91.5% of their £1.1 billion resource allocation. This equates to a forecast underspend of £97.1 million. TEO is the only department to forecast a resource expenditure of more than their resource allocation. It reports a resource expenditure forecast of 107.4%, which is equivalent to an overspend of £7.8 million.

3.2.4 Expenditure spikes and year-end surge

Figure 2 presents the combined resource expenditure profile for the departments. While it appears that the highest level of expenditure is forecast for March 2021, the variance between the planned expenditure for March 2021, when compared with prior months, does not appear to be significant. There appears to be a small spike in resource expenditure in October 2020.

Figure 2: Monthly expenditure profile - resource



Having looked at the monthly profiles, the following sub-sections of the paper comments upon the forecasting variance calculations presented in the Dashboard. The methodology is the same as used by the DoF, and more detail can be found in the Dashboard's User Guide.[40]

[40] http://www.niassembly.gov.uk/globalassets/documents/raise/publications/2017-2022/2021/finance/0321.pdf

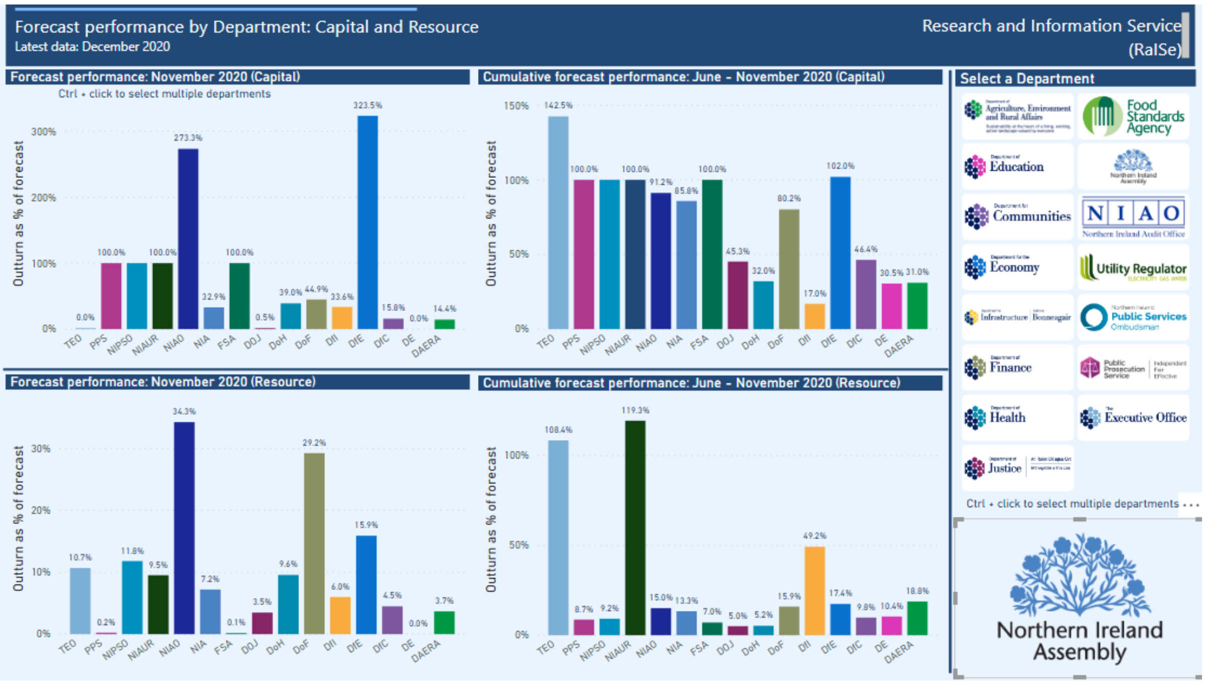
The forecasting variance data are shown on slide 5 of the Dashboard. There are individual months (in the most recent case, November 2020) on the left side, for both capital and resource. On the right-hand side there are cumulative charts, again for capital and resource.

In addition, for the purposes of illustration, there are figures included below. These are screenshots from different views of the Dashboard, with the appropriate filters applied, so that the relevant departments' data is shown.

3.3. Forecasting accuracy: November 2020

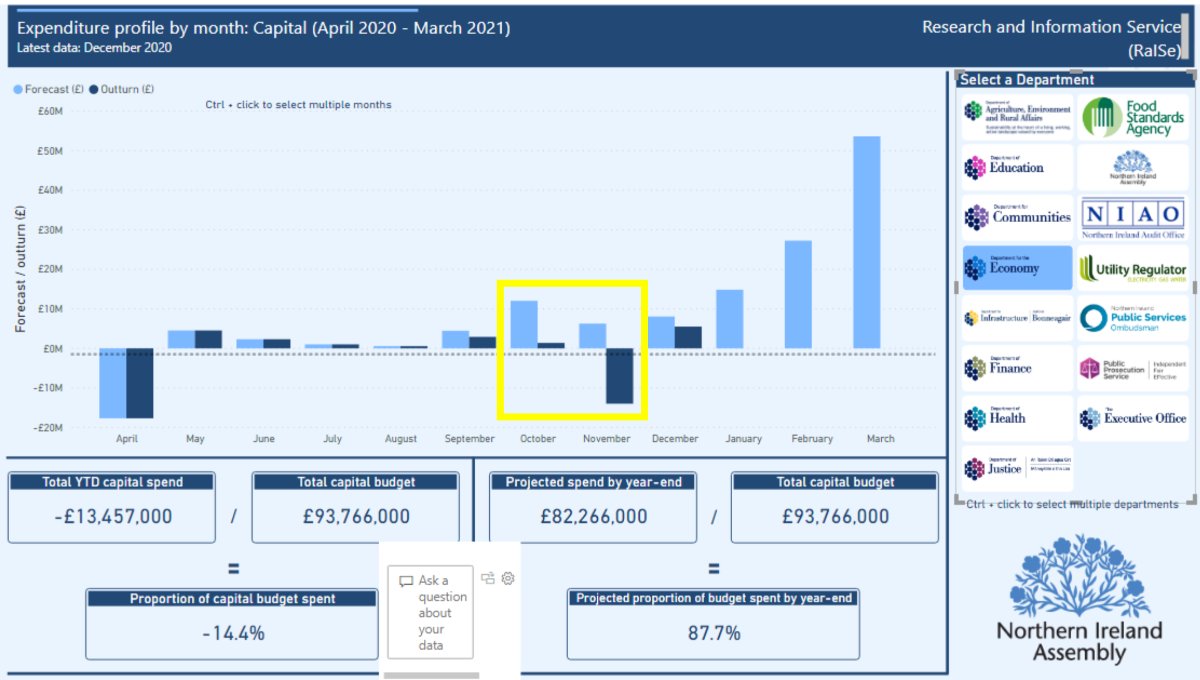
In November 2020, the DfE, the DfI, the DoF and the DoH showed significant variances, as can be seen in the top left chart in Figure 3 below. Because timing issues can affect departmental forecasting significantly, it may be of more value to look at the cumulative position, which the DoF says should "smooth out" one-off variations. This sub-section does that, after first looking at the very large DfE variance. The aim here is to provide an illustration of how one-off variations can impact forecasting variance figures. (The DfE variance is explained following Figures 3 and 4.)

Figure 3: Forecasting variance



The DfE variance is shown more clearly in Figure 4 below.

Figure 4 DfE Monthly capital profile



As can be seen from Figure 4, the yellow box shows negative expenditure (i.e. income) in November 2020, which had not been forecast at the time, following on from a considerably lower than forecast outturn in October 2020.

The DoF (2021) *Analysis of Forecast Outturn for December 2020* states:[41]

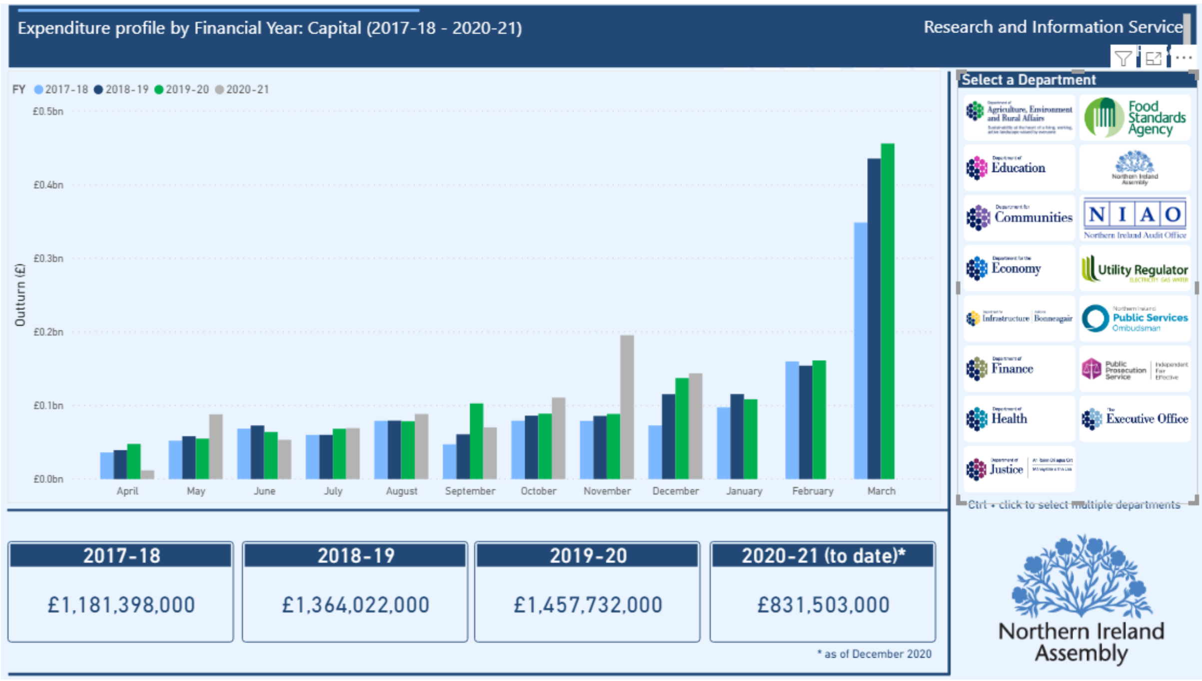
> *DfE shows the next most prominent variance mainly due to a £17.3m receipt from Presbyterian Mutual Society which was received on the last day of November but had been forecast to be received in December. Smaller variances recorded by Invest NI include a reduced requirement in FTC, direct capital being behind profile and delays in drawdowns of Growth Finance Fund.*

This suggests that the DfE variance is due to an issue of timing, rather than a completely unexpected occurrence. The Committee for the Economy (CfE), and the Committee for Finance (CfF), may wish to inquire about this explanation, given that the variance is not only in November, but also in the preceding month.

2020-21 has clearly been a challenging year in many ways due to COVID and post-Brexit. Looking at the annual profile of capital expenditure since 2017-18 in Figure 5 below, it can be seen that November 2020 shows a particular spike in Capital expenditure, showing there are significant changes on the usual pattern.

[41] Paper supplied to Committee for Finance along with forecast outturn data. DoF ref: GM 0092-2021

Figure 5 Capital Expenditure profile since 2017-18



It is worth noting that departments reported Capital expenditure of £195.6 million in November 2020. In the preceding year, the corresponding expenditure was £88.6 million. It should be borne in mind that the significantly increased expenditure is related to the COVID-19 response, and potentially post-Brexit issues. This is an unprecedented event of epic proportions, making it extremely challenging for departments to forecast.

3.3.2 Forecasting variance: resource (November)

In terms of resource expenditure forecasting accuracy, the November 2020 chart, at the bottom left of Figure 3 above shows two significant departmental variances, i.e.: DoF at 29.2%; and, DfE at 15.9%.

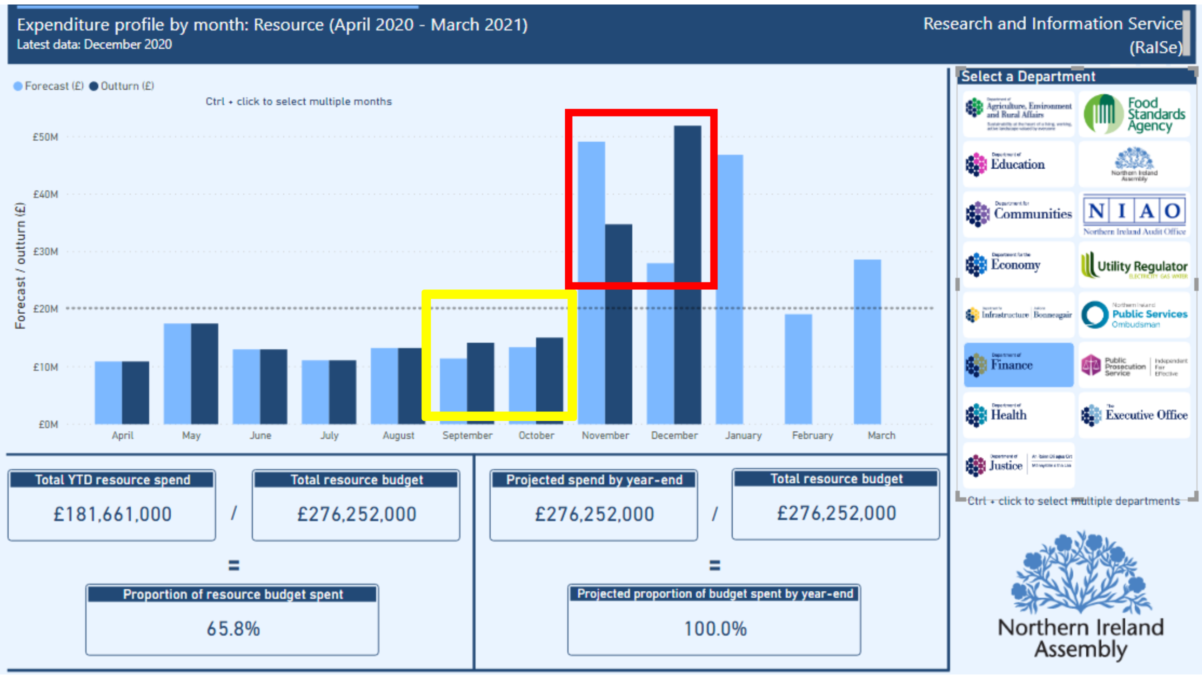
The DoF (2021) *Analysis of Forecast Outturn for December 2020* states:[42]

> *DoF's variance is due to additional COVID funding of £35m for Grants to Business which was initially profiled in full against November as no forecasts were available. A more accurate forecast has been provided and has been reflected in the most recent profile return.*

Figure 6 below helps further illustrate what has led to the variance figure.

Figure 6: DoF monthly resource profile 2020-21

[42] Paper supplied to Committee for Finance along with forecast outturn data. DoF ref: GM 0092-2021

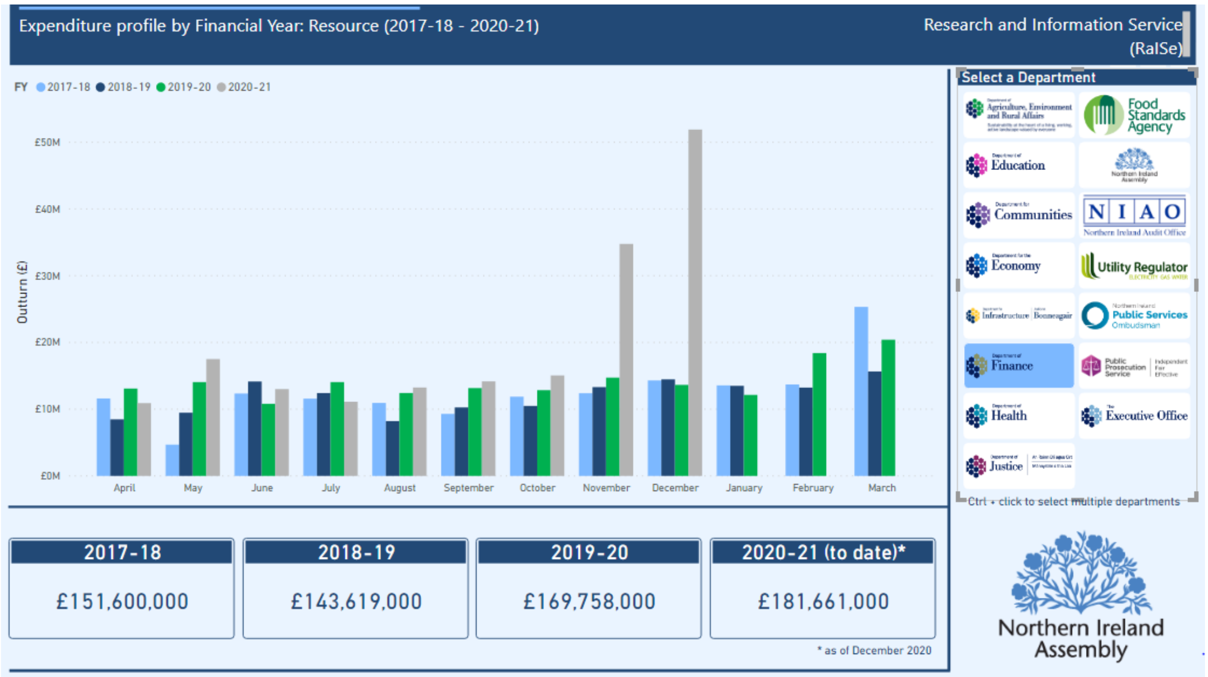


The yellow box in Figure 6 highlights slightly higher outturns than the forecasts in both September and October 2020. The red box in Figure 6 then shows November 2020 outturn (£34.8 million) was significantly less than the forecast (£49.1 million). Then in December 2020, the reverse is shown, with again a much higher outturn (£51.9 million) than the forecast (£28.0 million).

Because of the time lag in data, as explained above, the December figures are still subject to change. It therefore may look different once the outturn figure for December is confirmed.

It is worth noting that, although these variances look significant, they arise within the context of a new COVID-specific scheme. It is apparent therefore, that the DoF did not have past experience on which to base forecasts. It may also be of interest to note that Figure 7 shows the past years' DoF resource expenditure, which illustrates the impact of the additional COVID-19 expenditure on the regular DoF expenditure pattern.

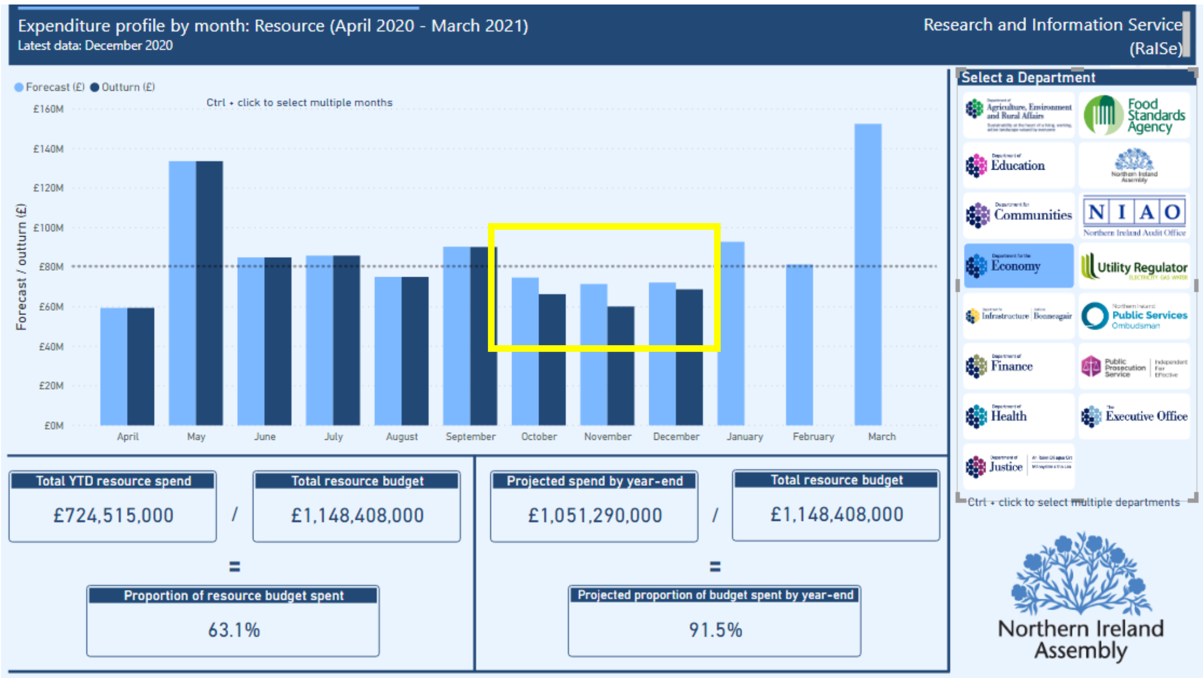
Figure 7: DoF resource DEL profile since 2017-18



It is immediately apparent from Figure 7 above that the quantum of expenditure that the DoF is managing in 2020-21 is very different from previous years, in the months of November and December. In the last three years, typical DoF November resource spend has been £12.4 to £14.7 million. In 2020-21, it was £34.8 million, i.e. considerably more than double.

The DfE shows a forecasting variance of 15.9% in Figure 3 earlier. Figure 8 below shows the monthly DfE resource DEL pattern.

Figure 8: DfE monthly resource profile 2020-21

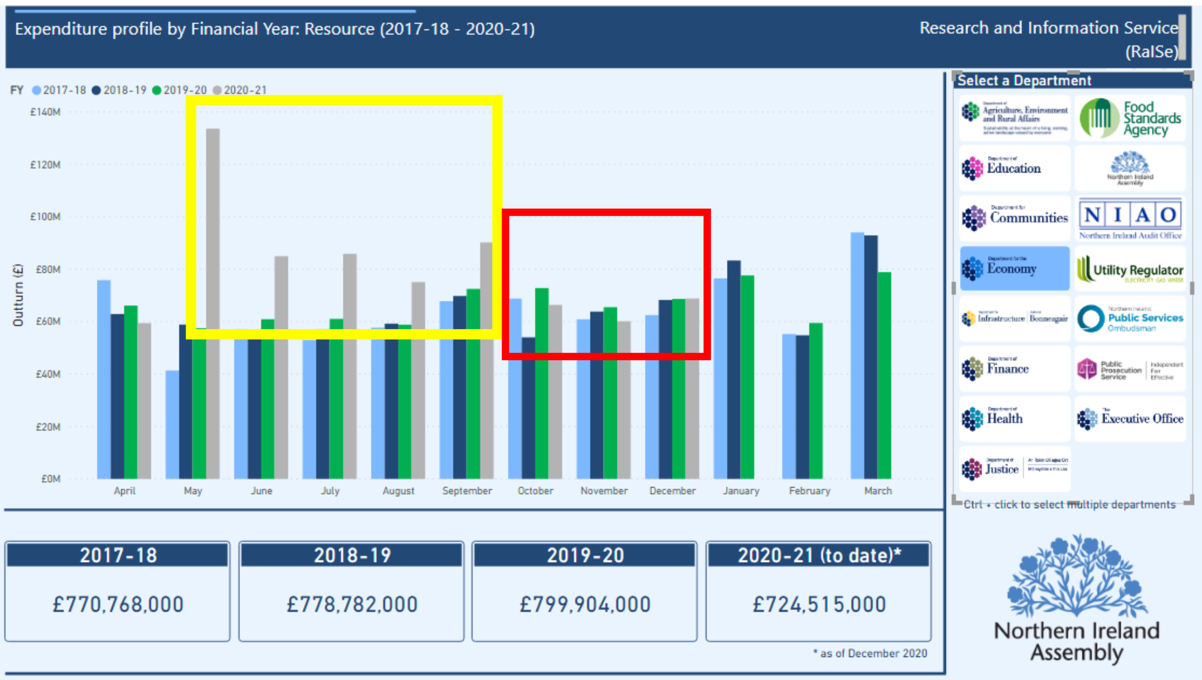


The yellow box in Figure 8 above shows actual expenditure reported as lower than forecast in October, November and December 2020. The DoF (2021) *Analysis of Forecast Outturn for December 2020* gives a variety of reasons for this:[43]

> *DfE advised that their variance was mainly due to delays in expenditure that is partially as a result of COVID-19. COVID-19 related teaching and research grant funding anticipated to commence in November has commenced in December. Reduced requirements in Apprenticeships/ Skilled Youth Training due to lower uptake as a result of lockdown and furlough. Invest NI claims from client companies and Microbusiness Hardship Fund are now expected later in the year. Further Education income expected earlier was delayed due to problems with new software system and realisation of milestones for apprenticeships, the income was not recognised until November.*

From this cited paragraph, it appears that the variance is due to a combination of factors, such as reduced demand for training and a later than expected commencement of grant funding . Looking at the annual DfE pattern, it appears this may be an issue the CfE, or the CfF may wish to explore.

Figure 9: DfE Annual resource expenditure profile since 2017-18



The yellow box in Figure 9 above shows considerably higher DfE resource expenditure earlier in 2020-21, particularly in May, during the midst of the first COVID-19 lockdown. The red box in that Figure, however, shows that 2020-21 DfE outturn in autumn 2020

[43] Paper supplied to Committee for Finance along with forecast outturn data. DoF ref: GM 0092-2021

has been broadly similar to the previous three years. This may be coincidental, however, it does raise a potential question about the November forecast variance.

3.4 Forecasting variance: cumulative

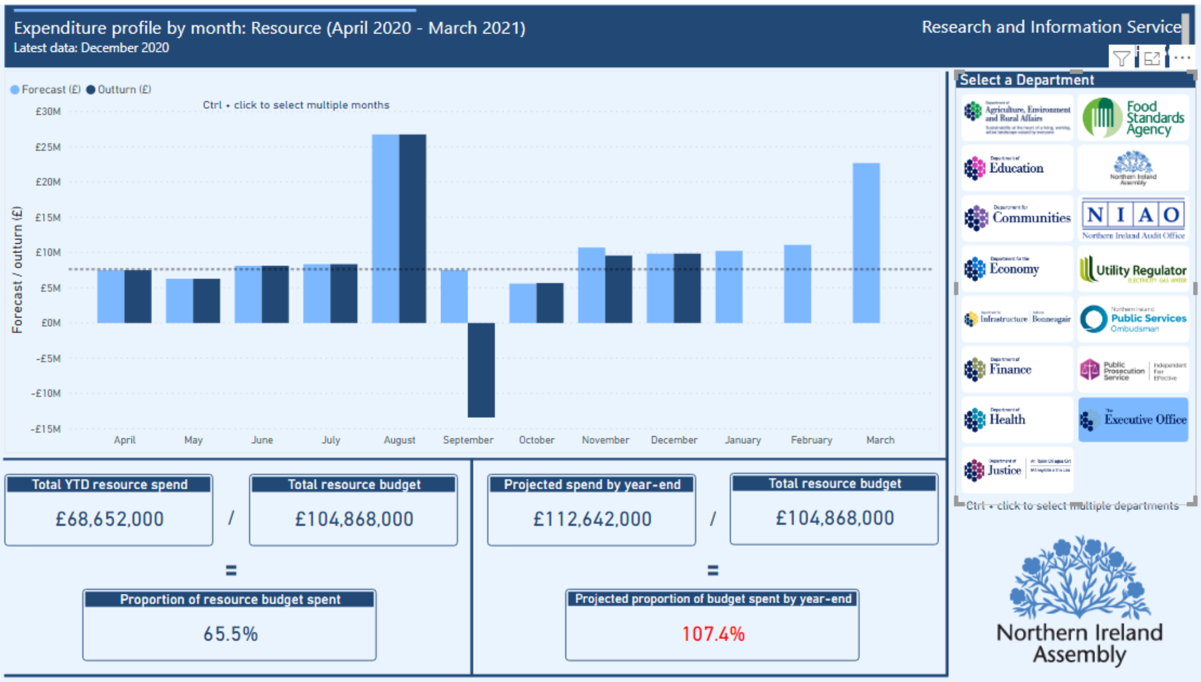
In the cumulative forecast variance chart in Figure 3 above, two departments stand out: TEO; and, DfI.

In relation to TEO, the DoF (2021) *Analysis of Forecast Outturn for December 2020* explains:[44]

> *TEO is as a result of the profiling anomalies recorded in August and September which has been resolved.*

It appears that this contention is borne out by looking at Figure 10 below:

Figure 10: TEO monthly resource expenditure profile 2020-21



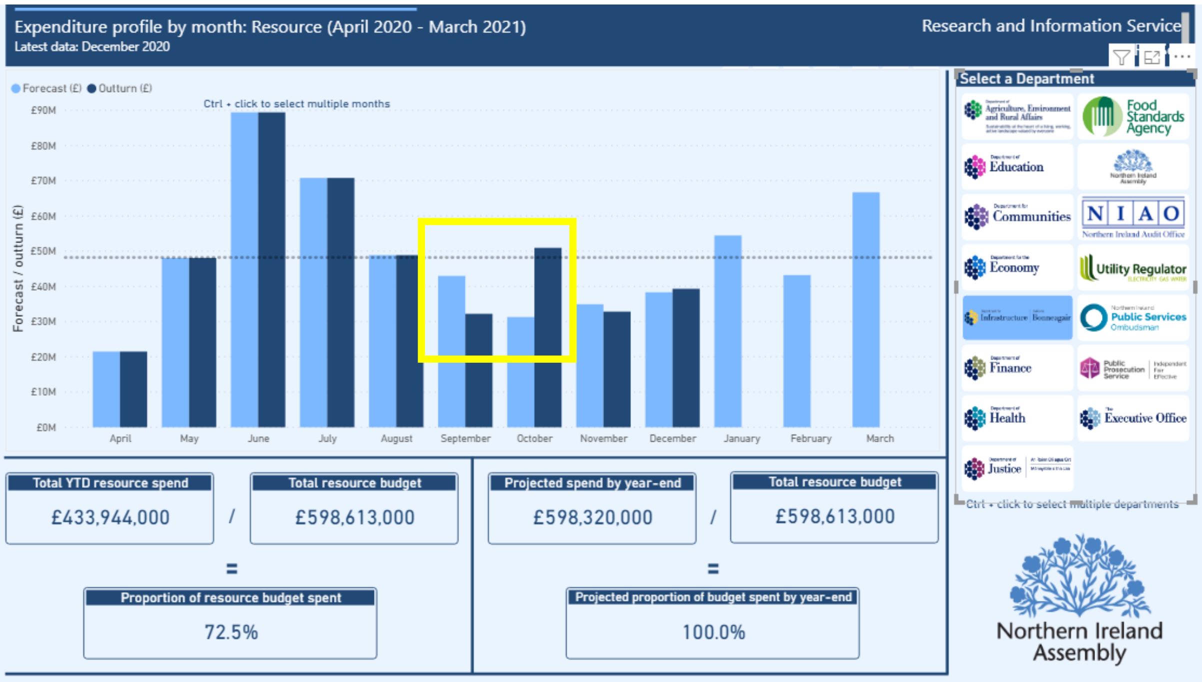
It is immediately apparent that apart from the large variance in September 2020, TEO's outturn has been very close to its forecast for every month.

In the case of the DfI, the DoF (2021) *Analysis of Forecast Outturn for December 2020* explains that variance as:[45]

> *…mainly as a result of earlier months where forecasting the COVID response was difficult.*

[44] Paper supplied to Committee for Finance along with forecast outturn data. DoF ref: GM 0092-2021
[45] Paper supplied to Committee for Finance along with forecast outturn data. DoF ref: GM 0092-2021

Figure 11: DfI monthly resource profile 2020-21



The yellow box in Figure 11 above highlights large variances between outturn and forecast in September 2020 (£10 million lower) and October 2020 (£19 million higher). Outside these two months, the forecast is very close to the outturn. This suggests that the CfI may wish to confirm with the DfI that these months align with the "earlier months" of the COVID-19 response, as per the cited passage from the DoF paper.

4. Concluding remarks

- The OECD Recommendation on Budgetary Governance includes ten budgeting principles, which aim to implement good practices when designing, implementing and improving budget systems in government.
- These principles include recommendations that: budgets must closely align with the strategic priorities of government; parliament and its committees should engage with the budget process at all stages of the budget cycle; and, performance, evaluation and value for money are integral parts of the process.
- The Executive's Outcomes Delivery Plan is structured around a Framework of 12 outcomes, with each outcome is then measured by a range of indicators. One of the underlying aims of the ODP is good alignment between budgetary plans and departmental priorities.
- The analysis in Section 3 of this paper focuses on the nine ministerial departments. Collectively, they have a total capital allocation of £1.7 billion for the financial year 2020/21. The DfI, the DoH, and the DfC account for the majority of this, with almost 70% of the capital budget allocated to them.
- With one Quarter remaining in the financial year, the nine departments have collectively spent £831.5 million (roughly half of their budget). This means that, coming into the final three months of this financial year, departments have, on average, more than half of their capital budgets remaining.
- This is not an unusual trend. By December in each of the last four financial years, departments had on average, spent the same proportion of their capital budgets as in this year – around 50%.
- Given the current year's profile is very similar to previous years, it is reasonable to assume that this year will be no different, and departments will again spend their full allocation. The risk of not doing so is that such budget will be surrendered to Treasury, if it cannot be carried forward, and therefore made unavailable for allocation to other priorities of the Executive.
- This also presents the risk of a year-end surge in spending; and that is regularly a feature of Assembly discussion in relation to the Budget. There is some evidence that this expenditure that occurs in a rush at the year-end may not be allocated in the most efficient way, or deliver the best value-for-money.
- On average, departments forecast expenditure of 96.8% of their total capital allocation of £1.7 billion by the financial year-end. Seven of the nine departments forecast expenditure of between 93.2% and 100.0% of their total capital allocations. The DfE is a notable exception, and currently forecasts spending less than 90% of its total annual capital allocation; equivalent to an underspend of £11.5 million.
- In terms of resource budget, the nine departments have a total allocation of £14.6 billion for the financial year 2020/21. The DoH accounts for 49% of the total

resource budget, equivalent to £7.1 billion. The DE reports the next largest allocation, with £2.5 billion, equivalent to 17%.

- The DfE, the DoJ, and the DfC each have resource allocations of approximately £1 billion each.
- With one quarter remaining in the financial year, the nine departments have collectively spent £10.3 million (70% of their budget). This is slightly below what they have spent by the same stage of the year in previous financial years, which has been closer to 73%.
- The DAERA is a notable exception, having spent 85.7% of its annual £563 million allocation. This is because of a large expenditure of £307 million in October 2020 related to the Single Farm Payments; equivalent to almost 55% of the department's resource allocation for the year.
- The departments' forecast expenditure of 98.6% of their total resource allocation of by the financial year-end. Five of the nine departments forecast a year-end resource expenditure of exactly 100% (DoF; DE; DoJ; DfI; DAERA).
- All but one of the departments forecast their highest resource expenditure will be in March 2021. However, the difference relative to prior months is not significant, and could not be considered as year-end surge.
- In November, the DfE, the DfI, the DoF and the DoH showed significant variances in forecast and actual capital expenditure. The DfE variance is due a £17.3 million receipt from the Presbyterian Mutual Society, which was received in November 2020, but had been expected in December.
- This year has been a challenging one for a variety of reasons, and this is reflected in Departments' expenditure data in many cases. For example, total capital expenditure in November was reported as £195.6 million, compared with £88.6 million last year.
- In terms of resource forecast and expenditure, the most significant variances were in DoF (29.2%) and DfE (15.9%). In particular, the variance in DoF's forecast and expenditure was due to additional COVID-19 funding of £35 million for Grants to Business. It is worth noting that, although these variances look significant, it is within the context of a new COVID-specific scheme. The expenditure the department is managing in 2020-21 is very different from previous years in the months of November and December. In the last three years, typical November resource spend has been £12.4 to £14.7 million. In 2020-21 it was £34.8 million – considerably more than double.
- Looking at the cumulative trend for June – October 2020 can help "smooth out" some of the larger, one-off variances in departments' forecast and outturn expenditure.
- It is clear from some of the analysis presented in sub-sections 3.3 and 3.4 that some departments have hugely increased levels of funding during 2020-21 to manage. In itself, this may not cause a problem for forecasting. But it is likely that

the unprecedented nature of some of the COVID-19 schemes has caused problems. Forecasting expenditure when there is no track history to refer to is inevitably something of a challenge.

- Furthermore, the difficulties around forecasting new programmes may be compounded by factors outside departments' control. The most obvious of these is uncertainty about their final budgets for 2020-21. In his Written Statement on 10 February, the Minister of Finance wrote:

  We are in the process of finalising 2020-21 funding with Treasury and we will be expecting to carry forward any further funding provided into 2021-22, and I will advise the Assembly of the outcome of these discussions when they are concluded. However, we have been advised by Treasury that this will not include flexibility in relation to funding received before Christmas.[46]

- Although departments are only required to forecast their confirmed allocations and not what they *might* be allocated , it seems likely that uncertainty around finalised budgets, in addition to the pressure to ensure that funding that cannot be carried over is utilised, which further complicates departmental financial management.
- The uncertainty and difficulties related to COVID-19 expenditure profiling discussed above seem likely to have fed into the departmental positions, which will be presented in the Spring Supplementary Estimates in the coming weeks.

[46] http://www.niassembly.gov.uk/assembly-business/official-report/written-ministerial-statements/department-of-finance---2020---2021-public-expenditure-allocations/