Monitoring Underspend and Overspend

The Budget Process and Accountability

The budget process is an annual event culminating in an annual budget motion tabled by the Finance Minister as required by section 125 of the Government of Wales Act 2006[1]. It is the means by which the Assembly authorises the use of resources by the Welsh Ministers for use on specified services and purposes. These specified services and purposes (or ambits) reflect the spending plans for each of the departments of the Welsh Assembly Government, for the next budget period. Since the Chancellor's Comprehensive Spending Review in 1998, the budget plans at UK level have covered three years. This is also the case across the devolved administrations, with firm plans for the first year and indicative plans for the subsequent two years.

Once agreed, Parliament and the devolved assemblies / parliaments vote expenditure for the purposes specified in their respective budgets. The governments of the devolved administrations are responsible to the national assemblies / parliament (and to Parliament at Westminster) for the proper spending of monies so voted. This accountability is managed through the system of Accounting and Accountable Officers.[2]

Why monitor underspend and overspend?

Section 131 (5) of the 2006 Act requires the Welsh Ministers to submit the accounts that they have prepared for a given financial year to the Auditor General for Wales (AGW) by 30 November in the following financial year at the latest. The accounts should serve to confirm that the resources voted to departments were spent in the proper manner and on the purposes for which they were voted. The AGW is required to lay a copy of the examined and certified accounts, together with his/her report on them, before the Assembly no later than 4 months after the accounts were submitted.

A significant amount of time may, therefore, elapse before the accounts are audited and submitted to the Assembly. It may be many more months or years before a particular spending programme area (SPA), or policy area is subjected to a Value for Money audit by the Audit Office.

In Year Monitoring

Given the seriousness of the responsibilities placed on the Accounting Officer, and the importance that already scarce public resources be put to efficient and effective use, it is prudent that a mechanism be put in place to keep a regular check on how spending is progressing during the financial year. This mechanism is called in-year monitoring.

[1] Section 125 is found in Part 5 of the Government of Wales Act 2006 which deals with finance. The Act is available at: http://www.opsi.gov.uk/ACTS/acts2006/20060032.htm

[2] The Wales Audit Office defines Accounting and Accountable Officers as:
"The senior officials within the Assembly, its related public bodies and NHS Wales bodies who take personal responsibility for the finances entrusted to their care. These responsibilities include the need to ensure proper financial management, regularity and propriety and secure value for money in the use of resources."
The Permanent Secretary is the Principal Accounting Officer for the National Assembly for Wales, as appointed by the Treasury. To assist in carrying out the duties of Accounting Officer, the Treasury, or the Principal Accounting Officer may appoint other additional Accounting and Accountable Officers. Accounting and Accountable Officers may be called to give evidence before the Assembly Audit Committee and the House of Commons Committee of Public Accounts.

In–year monitoring, as the name suggests, occurs during the current financial year. Although it can occur at any time, the intervals are usually related to significant points in the budget cycle, or occur at standard intervals such as quarterly[3]. In general, because monitoring requires significant work, the intervals should be chosen to serve some useful purpose. Northern Ireland, for example, has a system of roughly quarterly monitoring (in June, September, December, and February) that feeds into the annual budget process at key points.

The role of In-Year Monitoring in Budget and Financial Scrutiny

In-year monitoring is a system used to compare actual expenditure against spending plans for a given financial year, enabling the adjustment of resource allocations to reflect changed circumstances in that year. It contributes to good financial management by helping the Executive to target resources more effectively. The importance of in-year monitoring for budget and financial scrutiny lies in developing an understanding of the policy and financial planning performance of a particular department or programme.

A key aspect of good financial planning is to compare actual resources used in a given financial year against the plans made for that year. A budget is a plan of what a Department hopes to achieve in a planning period and can, therefore, be used to judge actual performance. Differences between what was planned and what occurred can help to:

- identify emerging pressures and reduced requirements;
- ensure that, at the end of the financial year, actual spending is within overall resource allocations;
- improve the accuracy of financial forecasting and planning within Departments.

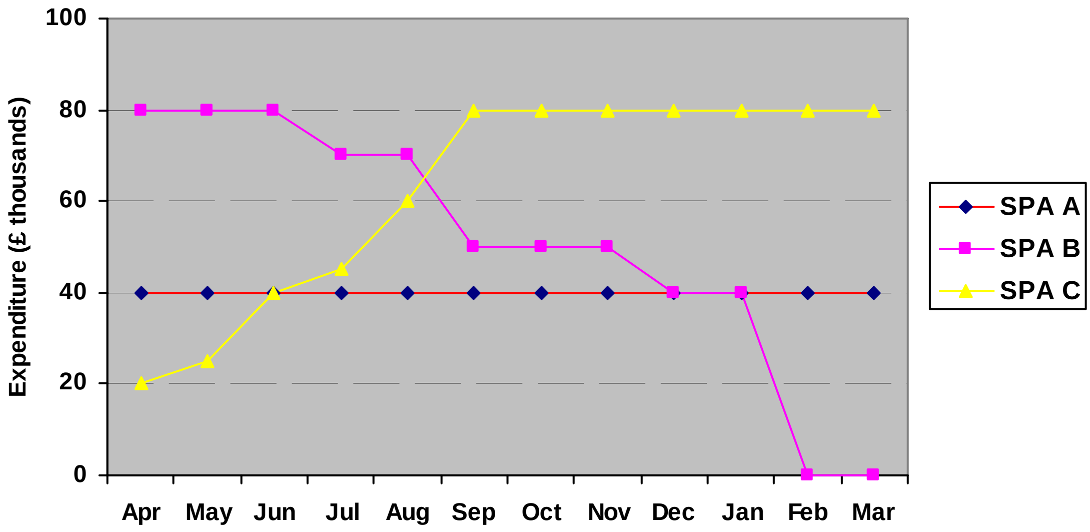
Underspend or overspend might occur for unavoidable or unforeseen reasons, such as the outbreak of foot and mouth disease. On the other hand, under or overspend might be a reflection of poor budget planning (inappropriate profiling), or changing policy or programme needs not yet reflected in departmental activities. Knowledge of this aspect of departmental performance might be of use to Committees and Assembly Members in coming to a view on the budget priorities and the draft and final budget allocations as part of their scrutiny involvement in the annual budget cycle.

Conducting In-Year Monitoring

There are a number of steps involved in conducting in-year monitoring. At the beginning of the financial year, a spending profile, showing anticipated spend on a month by month basis, is prepared. The shape of each spending profile will depend on the activity to which it relates. Spending profiles can be any shape – the shape of a 'normal' profile is dictated by the nature of the activity the resources are to fund.

[3] Monitoring intervals may also be specified by internal audit arrangements.

Consider a hypothetical department with accountability for three Spending Programme Areas.



Each of these SPAs is likely to have a different shaped spending profile related to the uses the resources will be put to.

- One of the SPAs (SPA A) might be expected to consume the same set amount of resources every month for the financial year. This could be, for example, to cover salary costs or the unitary charges on a privately financed capital asset.

- The second SPA (SPA B) within the department might have a spending profile that reduces to zero over the course of the year. This might reflect a service that is being wound down or a grant scheme that closes to applications in January, and makes no payments in February or March.

- The final SPA (SPA C) might show a profile that increases for the first six months of the year before levelling off. This might be the case for the development of a new service which becomes fully operational after six months and then maintains a steady rate of spending.

The profiles illustrated above are just a few examples of spending profiles that you might expect to see within a given department. They are all quite different in shape but they can all be considered normal due to the different activities which they may relate. More important than the shape of the profile is how closely actual spending throughout the year corresponds to the anticipated spending detailed in the profile.

As the year progresses, actual spend is recorded against anticipated spend and the difference (+ / -) is noted. This difference is called budget variance[4]. Spending more than was anticipated in the budget (positive variance) is termed overspend, and spending less than was anticipated in the budget (negative variance) is known as underspend.

[4] Budget variance is the difference between the planned budget profile and actual spending, and not to be confused with statistical variance.

Further Information:

For further information on the topics below, double click on the links.

HM Treasury – Financial Reporting Manual (FReM)

HM Treasury - Resource Accounting Manual

HM Treasury – Managing Resources: Reporting to the Board

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