

COMMITTEE FOR THE ECONOMY

RESPONSE TO THE COMMITTEE FOR FINANCE

DEPARTMENT OF THE ECONOMY: 2022-25 DRAFT BUDGET ALLOCATION

Introduction

1. Department for the Economy officials attended the Committee for the Economy Committee meeting on 12th January 2022 to provide an oral briefing on the January Monitoring Round, as well as comment on the Department's draft budget allocation for 2022-25. For the purpose of this response, the focus will be the Department's draft budget allocation for 2022-25.
2. The Committee was also briefed by the Minister on 26th January, with the draft budget forming a part of the evidence given.
3. As the Committee for Finance will be aware, this is the first time in a number of years that the Department has been allocated a multi-year budget. Officials provided a slide presentation for the briefing, which has been attached for the Finance Committee's consideration and to provide detail.
4. The Committee noted that the allocation is a draft and that the actions set out in the presentation do not represent decisions, they are scenarios modelled by the Department to illustrate how the budget might be used. The Committee acknowledged that the position presented in the slides raises a number of concerns and paints a bleak picture of the Department's ability to fulfil its functions going forward. Members raised a number of queries based on the presentation on which detail has been sought. Any further information that the Committee receives that is relevant to this return will be forwarded in due course. The presentation given to Members by officials is attached for your information.
5. The draft nature of the budget allocation means that the Department's response to it is high-level; however, again, with dissolution so close, it will be difficult for the Committee to undertake the engagement with the Department, it's Arm's Length Bodies and stakeholders around this draft budget that Members would wish.

Headline Issues

6. As with most departments, the Department for the Economy has to find a **2% Baseline Cut** annually across the budget cycle, equating to a cut of **£16.4m** per annum. Over the three-year budget the Department will receive actual additional funding of **£10.6m**, **£21.3m** and **£20.3m**. However, the loss of **£65m** of EU structural funding per annum will mean a **£40m** reduction for the provision of key DfE services.

7. The Department is facing **Inescapable Pressures** of **£78m** in 2022/23, **£109m** in 2023/24 and **£125m** in 2024/25. Additionally, the Department will experience a **56%** reduction in Conventional Capital by 2024/25. As approximately 73% of the Department's budget goes on Education and Skills, it will be these areas that are most likely to face cuts in provision, with a knock-on impact on economic development that is likely to be felt disproportionately in disadvantaged communities. The Committee noted that NI's performance with regard to skills and educational achievement is already far behind comparable small economies.
8. The Department also highlighted that, in the wake of the Covid pandemic, a range of structural issues in the local economy have been exacerbated and require investment to be addressed, as well as to support the continued recovery of the economy following the worst of the pandemic.
9. As indicated above, the loss of EU Structural Funding will impact on a range of Departmental provision, such as key skills programmes like apprenticeships, as well as the ability of Invest NI to support new business going forward. The Committee has concerns that this will mean that NI is ill-prepared to meet the challenges presented by a rapidly evolving global economy and workplace.
10. The Department indicated that there has already been a significant reduction in the skills budget of the past number of years which, as the Department's assessment suggests, could be made much worse by these budget cuts. Ongoing efforts to change trends such as educational underachievement will not receive the funding needed.

Unfunded Inescapable Resource DEL Pressures

11. As slide 6 of the attached deck indicates, the Department has highlighted total inescapable pressures across the three years of the budget cycle of **£77.8m, £109.1m and £124.7m** – assuming no additional funding in-year, something that the Department has come to rely on to fund a range of programmes.
12. This includes key development initiatives such as support for the City Deals, as well as a range of pay and other structural issues, and remaining tails of Covid relief programmes.

High Priority Resource DEL Bids

13. These include making up shortfalls in the Department's funding for key North South Bodies such as Intertradelreland and Tourism Ireland; as well as significant sums to support the implementation of the 10X Economic Vision; and student-related activities.

Non Ring-Fenced Resource DEL

14. Slide 8 of the deck highlights the Department's Non Ring-Fenced RDEL draft budget allocation. The slide illustrates the significant shortfall that need to be met and amounts to real budget change in Baseline of -8.2%, -10.7% and -12.7% across the budget cycle.

Potential Savings Modelled

15. The Department stressed that the potential savings modelled on slide 9 of the deck are illustrative and do not reflect any decisions made by the Minister. However, as indicated above, with almost three-quarters of the Department's budget going to Education and Skills, these are the areas most likely to be affected by cuts.
16. The Committee expressed considerable concern that the modelled savings, if applied, would have a serious detrimental impact on the development of our skills base, attempts to correct structural issues within our economy, and efforts to widen opportunities to disadvantaged young people and communities. Cuts to the numbers of students and the support afforded to them, combined with raising tuition fees, would be likely to make further and higher education unaffordable for many.
17. Additionally, the impact of Invest NI ceasing new business in the 2021/22 financial year would further hinder efforts to develop and expand the local economy and to generate and capitalise on opportunities within it.
18. The wider impact of these possible savings is illustrated in slide 10 of the deck. Implications of budget cuts would worsen the local structural weaknesses in skills and education, as well as seeing the gap in these areas between NI and neighbouring jurisdictions continue to widen. It is likely budget cuts would have a disproportionate impact on disadvantaged communities, increasing the skills gap between socio-economic groups and worsening existing barriers. The cuts would also be likely to increase the number of young people not in employment, education or training, so-called NEETs; as well as making the financial position of the HE sector more vulnerable.
19. Additionally, the reduction in life chances for disadvantaged young people would lead to greater pressures on the budgets of Health, Communities and Justice.

Capital Position

20. The details of the Department's top 5 capital bids highlighted in slide 11 of the deck, feature initiatives that are the foundation of economic development and investment in skills, as well as key to facilitating communities to move towards 'Net Zero' through energy efficiency. The shortfall in the funding available to the Department through the draft budget is concerning to the Committee.

Conclusion

21. The final slide of the deck sums up the picture that the Department believes reflects the issues it faces with the draft budget allocation that have been outlined. The Committee believes that the potential savings modelled by the Department are deeply concerning and could set back an already structurally weak economy much further. Reducing investment in skills would have a

cumulative impact and would make our economy increasingly uncompetitive and less attractive to investors.

22. Members challenged the Minister and officials to highlight how savings with less long-term impact could be focused. However, as stated above, 73% of the Department's budget is focused on Education and Skills and, therefore, there is an inevitability that cuts in these areas would be difficult to avoid. As indicated above, the modelled savings are suggestions and the Minister has made no decisions. Great detail of specific budget lines would allow the Committee to undertake better scrutiny. However, Members and the Committee are already receiving considerable correspondence from sectors that will be affected by this draft budget.

Department for the Economy Budget 2022/23 – 2024/25

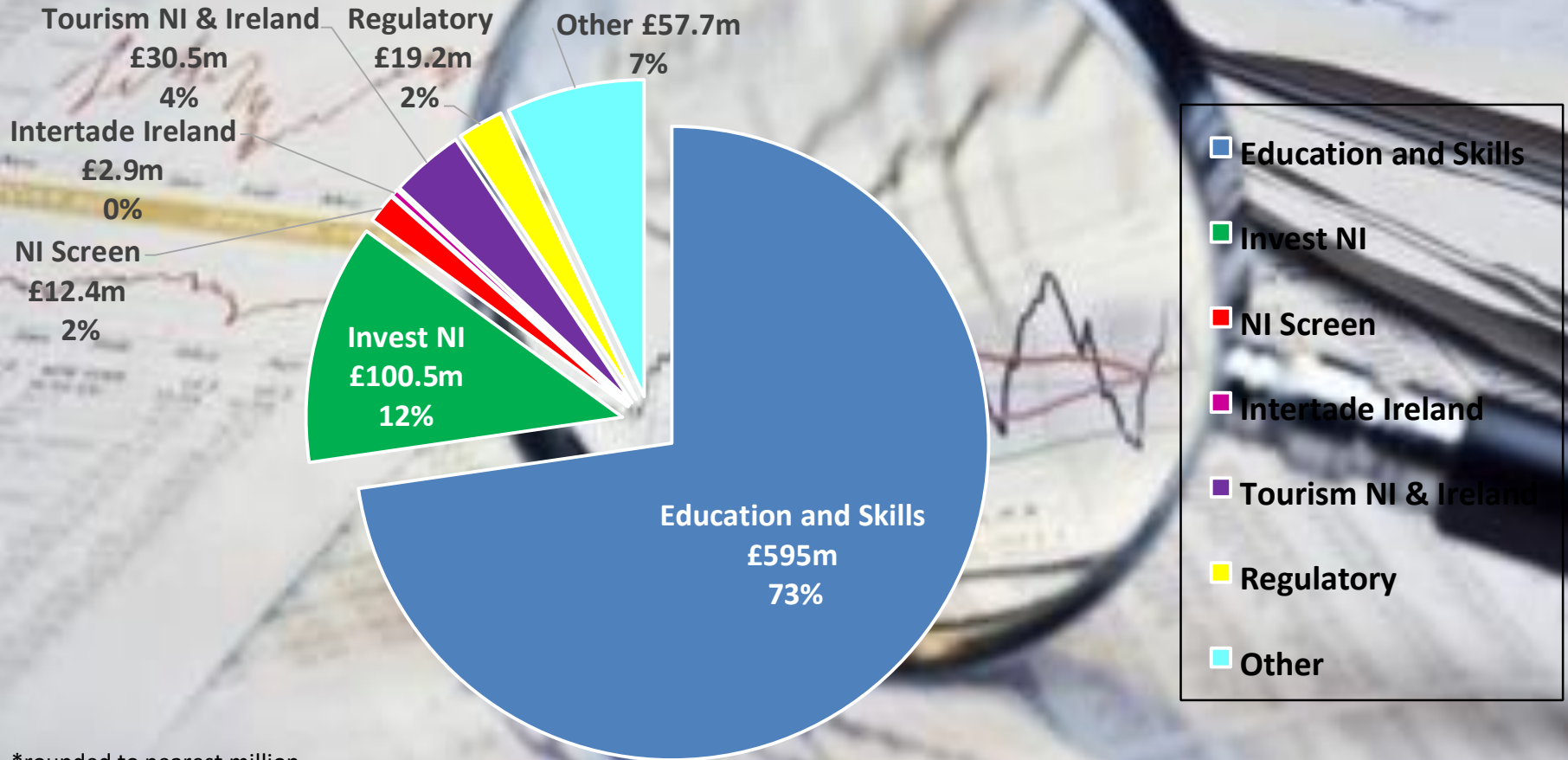


Headlines

- **2% Baseline Reduction Each Year** = Cut of £16.4m per annum.
- Actual Additional Funding = **£10.6m, £21.3m & £20.3m**
- Loss of £65m EU funding per annum = **£40 million reduction in funding for key DfE Services**
- **Inescapable Pressures of £78m 2022/23, £109m 2023/24 & £125m 2024/25**
- **56% reduction in Conventional Capital by 2024/25**
- 73% of DfE Baseline = Education and Skills
- Northern Ireland already rates poorly on key skills and innovation indicators

Creating a globally competitive economy that works for everyone

Where is DfE baseline allocation of £817.8m spent?



*rounded to nearest million

Landscape

- **Economic Pandemic**
 - **Risks remain, such as ‘scarring’ and economic inactivity remains high** - need to nurture economic recovery to minimise.
 - **No baseline funding increase for economic recovery** - full recovery will take time.
- **Loss of EU Structural Funding (£65m)**
 - **Huge hole in DfE core business**
 - loss of Innovation funding for Invest NI and Apprenticeship Funding.
 - **More than ever, there is a need to invest to drive innovation led growth.**
 - Northern Ireland least innovative compared when compared to all UK and Republic of Ireland regions¹
 - Northern Ireland investment in gross R&D as a percentage of GDP was 1.5% in 2018, narrowing the gap with the UK average (1.7%) - No Replacement for ERDF will impact this

¹ European Commission's Regional Innovation Scoreboard 2019

Landscape: Education and Skills

- **DfE is already in a constrained funding environment**
 - over the last decade investment in education and skills has fallen significantly.
 - 14% reduction in NI public spending on Education in Northern Ireland since 2010/11 ¹
 - Underinvestment has affected Northern Ireland's competitive performance²
- **Our economic performance is poor by international standards** - lower productivity and skills constrains living standards.
- **Competitor countries/ regions are not standing still and are investing in skills as a way out of the pandemic.**
 - weakest skills profile of any UK region with 12.6% of 16-64 years old possessing no qualifications compared with 6.6% for the UK as a whole
- **NI weaker starting point = Greater risk our skills base won't support the economy.**
- **Northern Ireland Rates Poorly on Key Skills and Innovation Indicators:**

¹ HM Treasury's Country and Regions Analysis

² Ulster University's Economic Policy Centre

Unfunded Inescapable Pressures Budget 2022-25

Description	2022/23 £'million	2023/24 £'million	2024/25 £'million
Loss of EU Structural Funding for Core Services	13.0	42.9	47.1
FE Colleges - Inescapable Pay Remit Pressures	20.4	29.3	38.7
Historic and Current Pay and Price Pressures	15.4	17.3	19.6
Skills and Training Price and Demand Pressure	5.1	9.3	10.1
Previous Covid-19 Initiative Financial Tails	9.5	2.3	1.2
Loss of Income	3.4	3.4	3.4
City Deals Programme Support	2.3	2.3	2.3
Increase in Executive Match Funding	5.0	-	-
FE Colleges – Delivery Model Review	0.5	2.0	2.0
FE Colleges - Holiday Pay Liability	3.2	0.3	0.3
Total Inescapable Pressures	77.8	109.1	124.7
Year on Year Additional Increase	-	31.3	15.6

Description	2022/23 £'million	2023/24 £'million	2024/25 £'million
Total Previous Executive Commitments	3.7	3.0	3.0
Total Inescapable Pressures	77.8	109.0	124.6
High Priority Bids			
Economic Recovery supporting attainment of 10x Economy	65.3	93.9	116.4
Intertradelreland Shortfall Based on Current North South Ratios	1.4	2.1	2.1
Tourism Ireland Shortfall Based on Current North South Ratios	6.0	6.0	6.0
Energy Intensive Industries Compensation Scheme	1.6	1.7	1.7
EMA bid due to Population Increase	0.2	0.5	0.9
Vocational Qualification Reform	1.0	1.0	1.0
Support for mental health interventions for HE Students	0.4	0.3	0.2
Total Resource DEL Bids	157.4	217.5	255.9

Non Ring-fenced Resource DEL DRAFT Budget Outcome 2022-25

Description	2022/23 £'million	2023/24 £'million	2024/25 £'million
Non Ring-fenced Resource DEL Opening Baseline	817.8	817.8	817.8
Less 2% Cuts	(16.4)	(16.4)	(16.4)
Non Ring-fenced Resource DEL Baseline	801.4	801.4	801.4
Additional Funding	30.7	40.7	39.9
Baseline + Additional Funding	832.1	842.1	841.3
% Change in Baseline Presented in Draft Budget Paper	+1.75%	+1.22%	-0.09%
Actual Increase in Funding	14.3	24.3	23.5
Less Executive Commitments	3.7	3.0	3.0
Real Increase in Funding	10.6	21.3	20.5
Less Inescapable Pressures	77.8	109.0	124.6

Shortfall to Be Met	(67.2)	(87.7)	(104.1)
Real Budget Change in Baseline	-8.2%	-10.7%	-12.7%

Summary of Savings Modelling

	2022/23 £m	2023/24 £m	2024/25 £m	TOTAL £m
In Year Baseline Reduction 2%/2%/2%	16.4	16.4	16.4	49.2
Inescapable Pressures + Executive Commitments	81.5	112.0	127.6	321.1
Less Additional Funding	(30.7)	(40.7)	(39.9)	(111.3)
Real Savings to be Generated	67.2	87.7	104.1	259.0
Modelled Options				
Reduction in Higher Education Student Places (6,328 FTE)	30.0	30.0	30.0	90.0
59% Increase in Student Fees from Sept'24			63.0	63.0
50% Reduction in Apprentices and Cease all Higher Level Apprentices			6.0	6.0
Cessation of Student Support Grant	51.0	51.0	51.0	153.0
Cessation of Educational Maintenance Allowance	15.0	15.0	15.0	45.0
Cease New Business Invest NI In 2021/22	6.0	19.0	39.0	64.0

Total Modelled Options	102.0	115.0	204.0	421.0
Less Student Fees retained by University Yr 1 Only			(33)	(33)
University to Retain Proportion of Fees Year 1 Only	102.0	115.0	171.0	388.0⁹

Impact

Without adequately funding DfE many businesses and the livelihoods of families across Northern Ireland will be materially worse off.

- Structural weaknesses In Skills and Education will increase.
- Skills gaps between Northern Ireland and the rest of the UK significantly increase.
- NI Skills Gap will increase between socio-economic groups, barriers increasing.
- Increase in NEETs.
- Huge financial stress on HE institutions.
- Wider implications across Government – DoH, DfC & DoJ as life outcomes for young people will change dramatically.
- Reduction in level of Invest NI support for investment opportunities for Northern Ireland

Summary of Capital Position

Description	2022/23 £'million	2023/24 £'million	2024/25 £'million
Mainstream Capital Available to Spend	124.8	86.0	55.4
Less Currently Committed Capital Expenditure	51.8	42.4	21.8
Funding for New Projects	73.0	43.6	33.6
<u>DfE Top 5 Capital Bids Submitted to DoF</u>			
Launch a Programme for Energy Efficiency Home Retrofit	10.0	30.0	30.0
Invest NI - Capital Grant to Business & Capital Investment SFA	2.8	8.4	8.4
Small Business Research Initiative	3.0	3.5	4.0
HERC – DfE Match Funding & BEIS Allocation	2.7	2.7	2.7
Southern Regional College – Craigavon Campus Construction and Newry Campus Refurbishment	7.0	21.5	28.0
Total	25.5	66.1	73.1
Shortfall / (Deficit)	47.5	(22.5)	(39.5)

Summary of DfE Committed Capital

Description	2022/23 £'million	2023/24 £'million	2024/25 £'million
FE Capital Programmes Mainly Northern Regional College	30.1	32.3	11.1
Invest NI - Committed Capital Grants	12.0	5.2	3.7
DfE Contribution to Student Loans Company IT Systems	3.0	3.0	3.0
Project Stratum – DfE Contribution to Expansion	2.7	-	2.1
Research Salaries	1.8	1.8	1.8
ACVED Line of Business Replacement	1.5	-	-
Other Smaller Projects	0.7	0.1	0.1
Total DfE Committed Capital Expenditure	51.8	42.4	21.8

Challenges & Opportunities Foregone

Challenges

- The challenges are pre and post pandemic – risk of scarring.
- Low skills base and low investment in skills to support economy.
- Loss of EU Structural Fund.
- Resourcing.

Opportunities Foregone

- 10X economic vision.
- Skills Strategy.
- Energy Strategy – Green Growth.
- Tourism Strategy. level of



**Northern Ireland
Assembly**

Committee for Finance

Caoimhe Archibald MLA
Chairperson
Committee for the Economy

Our Reference: 2021.553

16 December 2021

Dear Caoimhe,

Draft Budget 2022-25

At its meeting of 15 December 2021, the Committee for Finance received a briefing from the Minister of Finance in relation to the ongoing consultation on the draft Budget for 2022-25.

The Committee for Finance intends to thoroughly and properly scrutinise the draft Budget for 2022-25 and co-ordinate the incisive and cogent feedback from other statutory committees as to how the draft Budget is expected to affect their respective departments, Arms Length Bodies and relevant policy areas.

To that end, the Committee for Finance agreed that I should write to you and ask if your Committee would, as in some previous years, respond on these matters to the timescale set out below.

It is of course entirely a matter for statutory committees to determine how they interact with their departments in this regard and how they formulate their own lines of scrutiny. However, it is suggested that Members should give consideration to the entirety of the 2022-25 period and the consequences of the potential budget settlement for resource and capital DEL and the implications for AME spending, as appropriate.

It is kindly requested that your Committee responds indicating its findings and recommendations in respect of the draft Budget 2022-25 on or before 18 February 2022. The Committee for Finance will then generate and publish a summary report including the feedback from statutory committees. This report, along with the anticipated Northern Ireland Fiscal Council report, will inform a plenary debate which may be scheduled on 28 February 2021.

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It is of course accepted that, coming to the end of the mandate, statutory committees have very busy pre-arranged work programmes. It is hoped that nonetheless, Members will recognize the crucial importance of scrutiny of the budget as a key instrument in achieving medium term policy objectives and meeting societal need and that consequently your Committee will provide a considered and timely reply.

If you require further clarification or explanation, please do not hesitate to have the Clerk of your Committee contact the Clerk to the Committee for Finance.

Yours sincerely

Steve Aiken

Dr Steve Aiken OBE MLA
Chairperson
Committee for Finance

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