Northern Ireland Assembly

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Briefing Paper

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Draft Executive Budget 2022-2025: Northern Ireland Economic Context

Paper 2 of 4

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This Paper – Paper 2 – is part of a four-part series addressing key themes arising from the Draft Executive Budget (DEB) 2022-25, which the now collapsed Executive had approved in December 2021 for consultation alone. The Paper explores the economic context in which DEB was compiled by the Minister of Finance (MoF). In the lead up to the end of the Assembly mandate in late March 2022, this Paper seeks to inform Assembly statutory committees' consideration of budgetary matters relating to next year – 2022-23 – and beyond, given that an Executive Budget now cannot be agreed and other means now are to be taken.

Introduction

This Paper addresses the economic context in which the Draft Executive Budget (DEB) 2022-25 was compiled. It is the second in a four-part series addressing key aspects of DEB.[1] It should be read in conjunction with the rest of the series, in particular Papers 1 and 3 concerning Northern Ireland's (NI's) Public Finance context and its Capital Investment Funding. The entire series aims to inform Assembly statutory committees in their consideration of budgetary matters for next year – 2022-23 – and beyond. It follows on from a request made by the Committee for Finance (the Committee) in mid-January 2022 – prior to the Executive's collapse in early February 2022.

Thereafter, that Committee request remained valid, given Assembly statutory committees' consideration of budgetary matters for next year – 2022-23 – and beyond. Those considerations are impacted by a number of factors, including:

(i) No Executive since early February 2022;

(ii) Department of Finance's (DoF's) consideration of other legal options to ensure a Budget for NI for 2022-23 and thereafter (2023-25) is needed, in the absence of an Executive from now until the end of the current Assembly mandate on 27 March and the start of the new budget year on 1 April, and potential issues potentially arising post-May Assembly election, which could further impact budgetary considerations for NI;

(iii) Central government developments arising (directly and indirectly) from the UK's exit from the European Union (EU) include those relating to public finance and the economy in NI - for example, centrally administer EU replacement funding such as the Shared Prosperity Fund and Community Renewal Fund;

(iv) No Executive agreement on DEB – only the Executive's agreement in December 2021 that the DoF could consult on it; and,

(v) Now "paused" DEB public consultation, as directed by the MoF on 15 February, following his receipt of legal advice.

This Paper examines key aspects of the DEB document[2] and the accompanying MoF written statement,[3] bearing in mind:

- Key economic challenges facing NI for some time now and those more recently; and,
- The general economic context in which DEB was compiled.

[1] Northern Ireland Draft Budget 2022-25
[2] Ibid
[3] Department of Finance. Written Ministerial Statement. 10 December 2021.

It does so using the following four sections:

1. NI's recent economic performance and short-term outlook using key growth metrics;
2. Recent trends in the NI labour market – including employment, unemployment and inactivity;
3. Discussion of key challenges facing NI's economy – cost of living, supply chain problems and labour shortages; and,
4. Concluding remarks.

Throughout, blue boxes provide potential issues meriting committee consideration.

1. NI's recent economic performance and short-term outlook – using key growth metrics

The NI economy is continuing to recover from the pandemic, and appears to be performing better than expected heading into 2022. In terms of economic output, the economy has finally returned to (and exceeded) pre-pandemic levels. The number of payrolled employees is also higher than it was at its previous peak of March 2020 (although total employment – which includes the self-employed – remains slightly below).

But this does not mean that the recovery is complete. Unemployment, while still relatively low, remains on the wrong side of pre-pandemic levels, and economic inactivity is still stubbornly high.

NI still faces significant challenges. Those include the increased cost of living, rising energy prices and political uncertainty and tensions relating to the NI Protocol. In addition, many of the historical structural issues that have limited our economic growth in the past still need addressed – including economic inactivity, relatively low productivity, low pay and regional imbalances.

This section of the Paper discusses recent trends in NI, using key economic growth indicators – namely Gross Value Added (GVA) and the NI Composite Economic Index (NICEI) (sub-sections 1.1- 1.2). GVA is used because it is the standard statistical measure used to assess economic growth in regions; and therefore enables meaningful comparisons. The NICEI is used because it is a "proxy" measure for GDP, allowing for comparisons with other countries. Thereafter, the section provides a short-term economic outlook (sub-section 1.3). The material covered in all these sub-sections is relevant to committees' consideration of budgetary matters for 2022-23 and beyond.

1.1 Gross Value Added

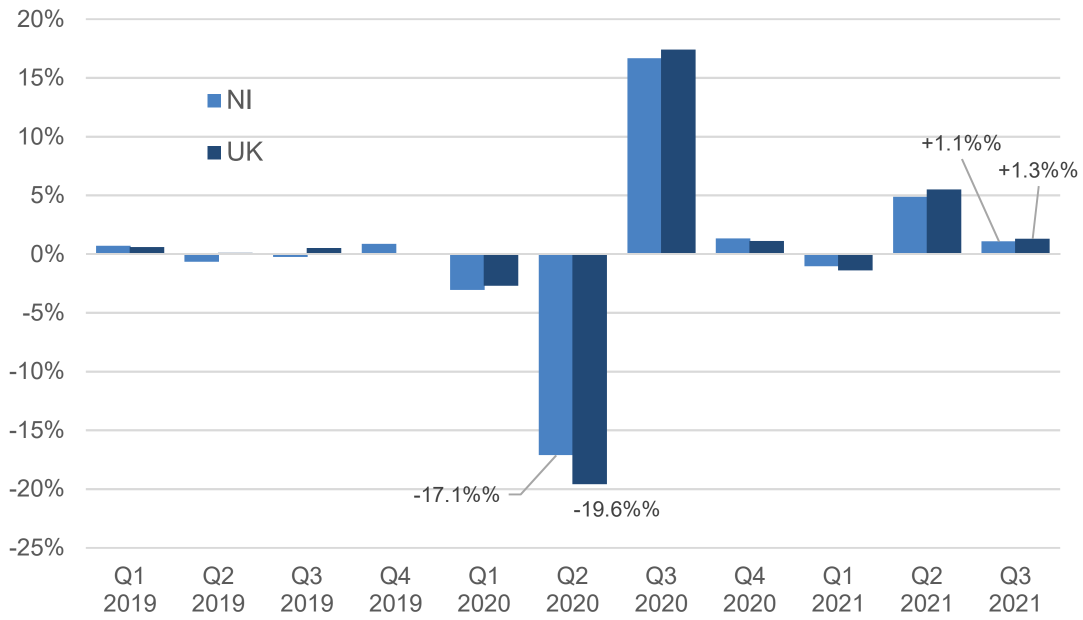
Gross Domestic Product (GDP) is a national-level indicator, and is therefore not available at a regional/NI level. However, GVA[4] is a very similar indicator, and is used for regional analysis and comparisons. It measures the increase in the value of the economy from the production of goods and services.

Unsurprisingly, given the onset of the pandemic and the United Kingdom's (UK's) transition to exit the EU, the NI economy shrank during 2020; experiencing the worst downturn since records began. In other words, the value of goods and services produced in the economy decreased relative to the year before. As illustrated in Figure 1 below, Office for National Statistics (ONS) estimates show that NI's GVA fell by more than 17% in the second quarter of 2020 (Q2 2020) alone. In the first half of 2021, further implications arising from the pandemic caused another downturn; although not as severe as during the initial lockdown in 2020. As the Covid-19 vaccine rollout gathered pace across the UK, and the infection rate fell, the NI economy began to recover; growing by around 5% in Q2 2021.[5]

The most recent official data from the ONS[6] shows that NI's economy grew by 1.1% in Q3 2021. This was below the UK average of 1.3%; that was similar to Scotland and Wales. However, separate analysis of the data by the *Financial Times* (FT)[7] showed that total economic output in NI in Q3 2021 was just 0.3% below that of its pre-pandemic level in Q4 2019. The FT analysis suggested NI had performed better than any other UK region, and the UK as a whole (which had fallen 2.1% over the same period):

[4] Gross Value Added (GVA) is a measure of the value of goods and services produced in an area, industry, or sector of the economy.
[5] ONS, Monthly GDP series (ECY2). 11 November 2021.
[6] ONS (Experimental new data). Model-based early estimates of regional Gross Value Added. 29 November 2021. Next release due 24 February 2022. This data should be treated with some caution, as it is an experimental measure with significant margins of error.
[7] Financial Times. Northern Ireland economy has outperformed rest of UK, ONS figures show. 29 November 2021.

Figure 1: Quarterly GVA growth, NI and UK, Q1 2019 – Q3 2021



Source: ONS, November 2021.

1.2 NI Composite Economic Index

Although GDP data at the NI level is unavailable, the NI Statistics and Research Agency (NISRA) produce a broadly equivalent measure – the NI Composite Economic Index (NICEI). This index shows a similar trend to the GVA data discussed in the previous sub-section. It is instructive in two ways:

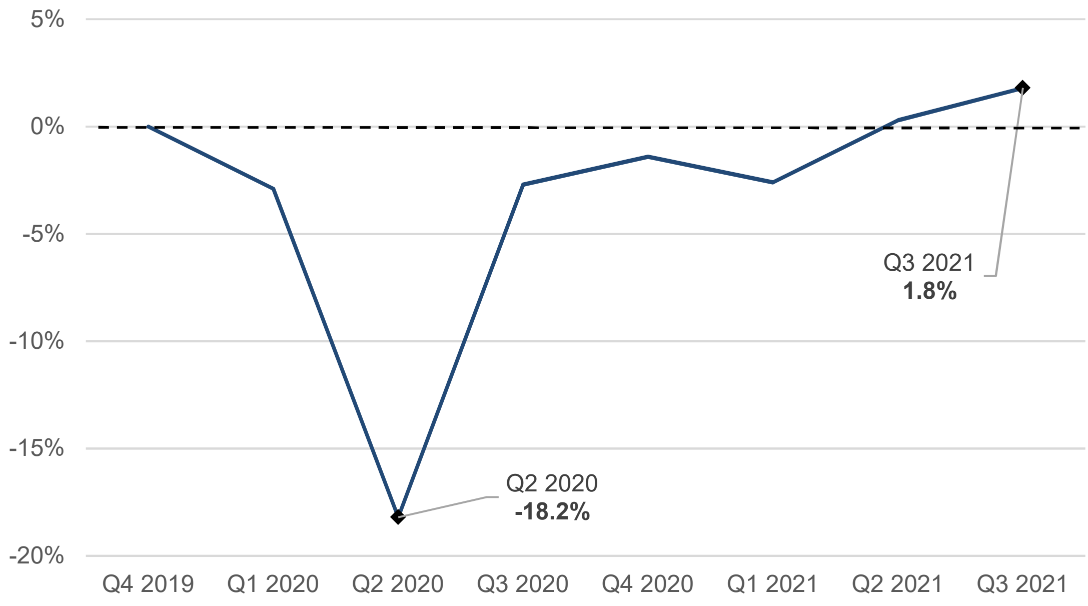
(i) Gives an indication of how the NI economy has performed each quarter; and,

(ii) Enables broad comparisons with the UK as whole.

In Q2 2020, the NICEI shows that the NI economy contracted by 18.2% – the largest fall since this record began in 2006. Similar to the UK-level trend, growth in NI stalled in early 2021 as lockdown restrictions were re-introduced; falling by 2.6% in Q1 2021. Summer 2021 saw a relaxation of restrictions and a largely successful vaccine rollout. Economic output subsequently increased by 0.3% in real terms in NI over the quarter to Q2 2021. With further growth in output in Q3 2021 of 1.8%, the NICEI is now higher than it was at its previous peak in Q4 2019.[8] Figure 2 below highlights the NI economic context using the NICEI:

[8] Based on the Q4 2019 NICEI index value of 100.5, the latest figure for Q3 2021 is 102.3. A difference of just 1.8%.

Figure 2: NI Composite Economic Index, % difference compared to Q4 2019



Source: NISRA, January 2022.[9]

1.3 Economic outlook

In late January 2022, a Treasury survey of economic forecasters showed that the average forecast for UK GDP growth in 2022 was 4.5%.[10] In NI, the outlook for growth is usually slightly weaker than the UK overall. This again appears to be the case with the most recent forecasts from the EY ITEM[11] Club[12] and Ulster University Economic Policy Centre (UUEPC).[13] Each named forecast is shown below in Table 1:[14]

[9] NISRA. NICEI publication and tables Q3 2021. Table 1. 13 January 2022.
[10] Treasury. Forecasts for the UK economy: January 2022. 19 January 2022.
[11] Independent Treasury Economic Model
[12] EY. Economic Eye Winter 2021 Forecast. January 2022.
[13] Ulster University Economic Policy Centre. UUEPC Summer Outlook 2021. August 2021.
[14] It is worth noting that the UUEPC forecasts were published earlier than the EY forecasts. The economic environment will have changed between August 2021 and January 2022 – meaning that the data underpinning those forecasts will also have changed. They have been used here to illustrate the possible outlook for the NI economy, but should not be used as direct comparisons.

Table 1: Economic growth forecasts - EY ITEM Club and UUEPC

	2020	2021	2022	2023	2024
EY ITEM Club[15]					
NI	-9.0%	6.0%	5.3%	2.1%	1.4%
UK	-9.7%	6.9%	5.6%	2.3%	1.8%
UUEPC[16]					
NI	-10.4%	5.8%	4.1%	2.2%	1.8%
UK	-9.8%	6.0%	5.3%	1.7%	1.6%

Source: EY (January 2022), UUEPC (August 2021)

The EY economic outlook states that the economic environment in NI is better than initially projected heading into 2022; with strong headline economic growth of 5.3% expected. It further notes that:[17]

> *The extension of government supports, and the long tail of the pandemic means that headline growth is projected to stay above trend in 2022 before reverting closer to its long-term path by 2023.*

Table 1 above shows that economic growth in NI is forecast to return to 2.1% in 2023 and 1.4% in 2023 – slightly weaker than the UK average.

The UUEPC forecasts show a very similar short-term outlook for NI, and also state that the they present a “much more positive picture” than was anticipated earlier in 2021. It states:[18]

> *The UUEPC anticipate growth of 5.8% in 2021, following a contraction of 10.4% in 2020, and a return to pre-COVID levels of GVA in 2023 compared to mid-2022 for the UK as a whole and a return to pre-COVID levels of employment in 2024. This is much more positive than was anticipated at the outset of the pandemic.*

Further evidence of the strong short-term outlook for the NI economy is presented in recently published forecasts from the National Institute for Economic and Social Research (NIESR).[19] It draws on the experimental estimates of regional GVA from the ONS (see sub-section 1.1. of this Paper); noting:[20]

> *While there is substantial uncertainty surrounding these early estimates, they indicate a stronger recovery from the pandemic in London and parts of Wales, and **particularly in Northern Ireland**.* [emphasis added]

The report goes on to note that the NI economy is expected to be 1.5% larger by the end of 2022 than its pre-pandemic level of Q4 2019; and is expected to be 3.3% above

[15] Published January 2022.
[16] Published August 2021.
[17] EY. Economic Eye Winter 2021 Forecast. Page 11. January 2022.
[18] Ulster University Economic Policy Centre. UUEPC Summer Outlook 2021. Page 3. August 2021.
[19] National Institute of Economic and Social Research. UK Economic Outlook – Winter 2022. February 2022.
[20] Ibid. Page 31.

that level by the end of 2024. By way of comparison, this is similar to Wales (3.3%), but behind London (7%) and the North of England (4.1%).

The UK's regional economic performance is also affected by the ongoing uncertainty surrounding the NI Protocol and specific arrangements for trading and logistics sectors, following on from the UK exit from the EU.

1.4 How could the DEB document help to support economic growth?

The DEB document makes numerous references to opportunities to boost economic growth. In particular, it states that:[21]

> *City and Growth Deals provide an opportunity to reshape our approach to delivering place-based growth so it captures the strengths and opportunities of the Northern Ireland economy, **helping to drive economic growth and prosperity** for the benefit of all people across Northern Ireland.* [emphasis added]

And:[22]

> *It is anticipated that the central and local government funding supporting City/ Growth Deals will lever in significant investment by private sector partners **supporting economic growth** and regeneration across the region over the coming years.* [emphasis added]

The DEB document also makes references to economic growth in relation to individual departments' strategic objectives. For example, the Department for the Economy's (DfE's) development of a Circular Economy Strategic Framework,[23] which will:[24]

> *…*[set] *out a clear vision and ambition for a Circular Economy in Northern Ireland which will encourage innovation and resilience, create new green jobs, and support sustainable economic growth, while reducing carbon emissions, waste and pollution.*

The DEB document also notes a number of interventions led by the Department for Infrastructure (DfI). In particular, its plans to:[25]

> *Invest in our waste water infrastructure to enable economic growth and societal wellbeing.*

Infrastructure investment is an effective way of boosting or supporting economic growth. The DEB document notes in relation to infrastructure development that:[26]

[21] Northern Ireland Draft Budget 2022-25. Page 20, para. 3.42.
[22] Ibid. para. 3.43
[23] Department for the Economy. A 10X Economy. 5 August 2021.
[24] Northern Ireland Draft Budget 2022-25. Page 41
[25] Ibid. page 51.
[26] Ibid. page 52.

> *Years of underinvestment are now presenting us with significant challenges in relation to our water and sewerage infrastructure. The lack of investment not only creates risks of supply interruption and environmental damage; it also prevents economic growth. New development is already constrained in over 100 locations across Northern Ireland where wastewater treatment works are at capacity. Without change, development will be further constrained. Also, the impact of rising energy costs has placed the sustainability of an effective and efficient water and sewerage service under extreme pressure.*

Here, it is worth noting that the June 2021 report of the NIAO Audit Office (NIAO) report on the NI budget process. Therein the NIAO identified the need in future for clearer linkages between budget allocations and the outcomes identified in the Executive's draft Programme for Government (PfG):[27]

Potential scrutiny points:

1. How will each department work to ensure that economic growth opportunities are assessed and identified for 2022-25 in the absence of an Executive?
2. Since June 2021, what engagement was there in the Executive and/or across departments, to work towards increasing linkages between budget allocations and the outcomes identified in the Executive's draft PfG?
3. In the absence of an Executive, what plan, if any, exists amongst departmental ministers to increase linkages between departmental funding and outcomes?

2. Recent trends in the NI labour market – including employment, unemployment and inactivity

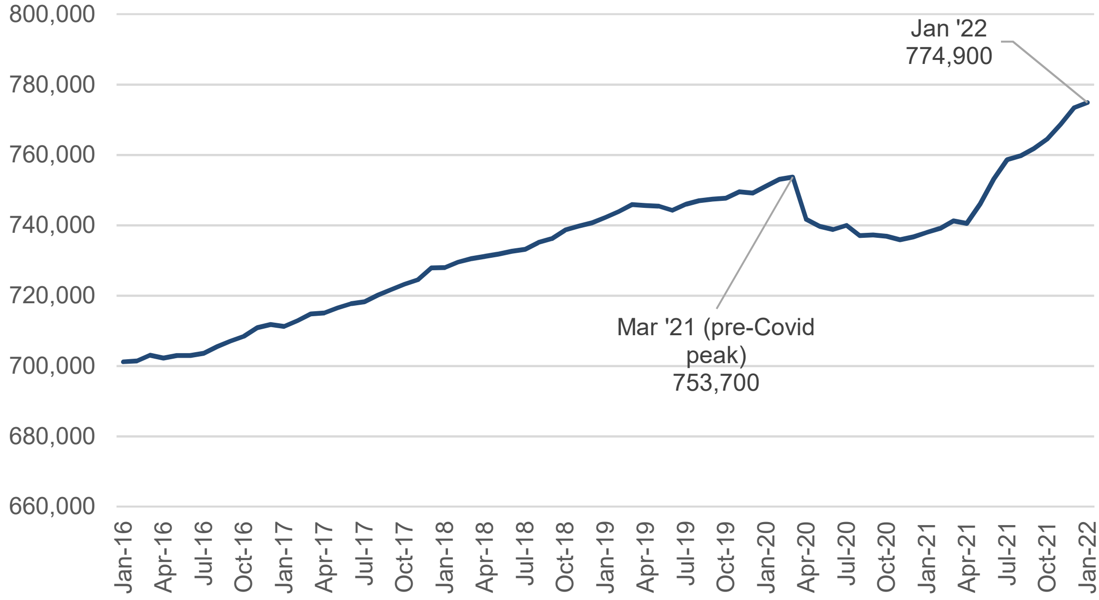
The pandemic had a very significant impact on NI's labour market; with job losses across many sectors and working hours falling as businesses placed staff on furlough. However, official statistics show that the NI labour market is recovering well. This section discusses recent trends in key labour market indicators, followed by a short-term outlook.

2.1 Employment

The latest labour market data from NISRA shows that the number of employees receiving pay through Her Majesty's Revenue and Customs (HMRC) Pay as You Earn (PAYE)[28] in January 2022 was 774,900. That represents an increase of 0.4% over the month and 5.0% over the year. This is **the highest level on record and the eighth consecutive month that employee numbers have been above pre-Covid levels** – as shown below in Figure 3:

[27] NI Audit Office. The Northern Ireland budget process, page 8. 29 June 2021.
[28] PAYE is HMRC's system to collect Income Tax and National Insurance from employment.

Figure 3: Payrolled employees, NI, Jan 2016-Decmber 2021



Source: NISRA. 15 February 2022.

Some sectors have been quicker to recover than others. According to the most recent sector-level data from NISRA,[29] several sectors still remained below their pre-COVID employment levels by October 2021 – particularly in the retail and manufacturing sectors.

The education sector reported the largest increase across all sectors in the number of payrolled employees between March 2020 (pre-COVID) and October 2021, with an increase of over 6,000 employees. The hospitality sector (covered in official statistics by the "accommodation and food services" sector) has bounced back well – with the number of payrolled employees having been above the pre-COVID level since July 2021 - when many restrictions were lifted.

The Treasury-funded support schemes introduced during the pandemic were aimed at supporting/sustaining businesses and their employees throughout the pandemic. The apparent strength of the labour market recovery to date suggests that this was successful. In particular, Coronavirus Job Retention Scheme (CJRS or "furlough" scheme) statistics and DoF analysis[30] show that over the course of the pandemic, there have been around 287,000 employments cumulatively furloughed in NI. The number of furloughed employments fell from over 139,000 in July 2020 to 26,600 by the end of September 2021,[31] when the scheme ended – indicating a significant decrease in reliance on the scheme by the time it closed.

It is worth noting that despite the encouraging growth in the number of payrolled employees; **total employment remains below pre-Covid levels. That is attributed**

[29] NISRA. HMRC PAYE RTI earnings and employment to Oct-21 (Industry breakdown). November 2021.
[30] Department of Finance. NI Draft Executive Budget 2022-25. 22 December 2021.
[31] HMRC. CJRS Statistics 16 December 2021. 16 December 2021.

to the inclusion of the self-employed in this figure. NISRA's Labour Force Survey data shows that the total employment is 2.4% below its previous peak during the period of October-December 2019; while the number of self-employed people has fallen 22% in the same period.[32]

The long-term effects of the pandemic on labour markets are yet to be seen or fully understood in NI and beyond. Some measures have still not returned to/surpassed pre-Covid levels. Until they do, it is not likely that a full and accurate assessment of the long-term pandemic impacts on the NI labour market could be done. A watching brief should be maintained to monitor how the labour market recovery progresses in the short, medium and long-terms.

2.2 Unemployment

The impact of the pandemic can be clearly seen in official unemployment and claimant count statistics. The economic support packages (particularly the CJRS) mitigated a lot of the damage that might otherwise have been done to the NI labour market. Despite this, NI still experienced unprecedented labour market impacts.

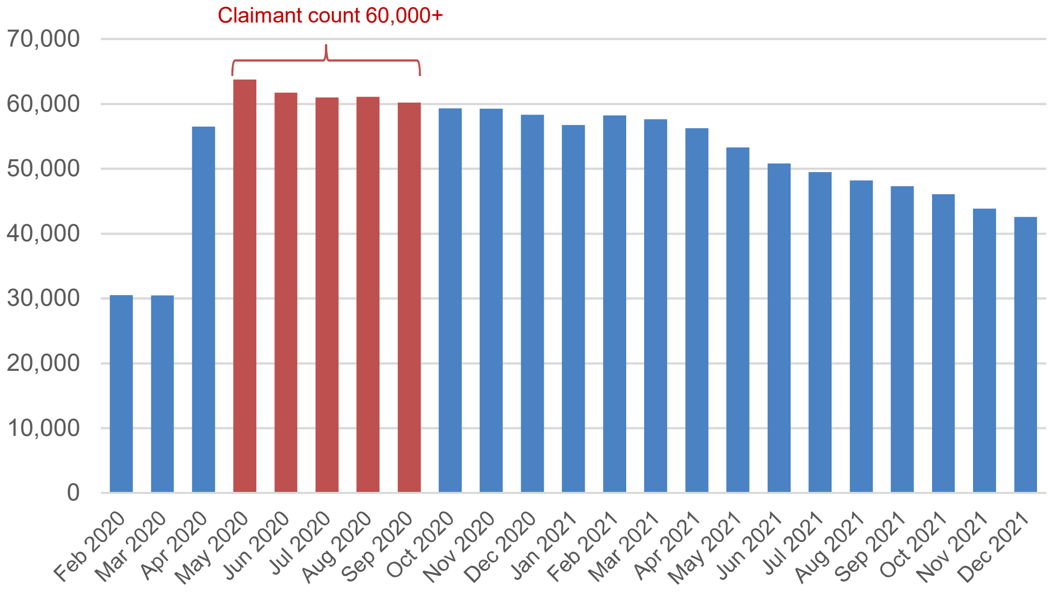
Figure 4 below shows that in February 2020, there were 30,521[33] people claiming[34] unemployment-related benefits in NI. By May 2020, this had increased to 63,753; a rise of 209%. The claimant count spent five consecutive months above 60,000 – a level not seen since 2013. The claimant count has decreased gradually since its peak in May 2020, but is still well above pre-Covid levels. The latest data for December 2021 shows that it had fallen to 42,553 – approximately 40% higher than in March 2020:

[32] NISRA. Labour Force Survey tables – February 2022. 15 February 2022.

[33] ONS, Nomis. Seasonally adjusted claimant count.

[34] The Claimant Count measures the number of people claiming benefit principally for the reason of being unemployed. It includes all Universal Credit claimants who are required to seek work and be available for work, as well as all JSA claimants.

Figure 4: Payrolled employees, NI, Jan 2016-Decmber 2021



Source: ONS. Claimant count, seasonally adjusted. February 2022.

Signs of the continued recovery of NI's labour market can be seen in other indicators too. The unemployment rate[35] for the period of October-December 2021 fell to 2.7%, from 4.0% in July-September 2021. That is equivalent to a fall from 36,000 to around 24,000.

The average number of weekly hours worked across the NI economy increased slightly in October-December 2021, to 27.1; having fallen as low as 25.5 in the period October-December 2020 – one of the lowest weekly averages on record.

It is worth noting that while the claimant-count and unemployment rates are moving in the right direction; the levels of economic inactivity in NI are still very high. When unemployment decreases, there is not always a corresponding increase in employment. The unemployed are defined as actively seeking work, and are therefore economically "active". If they then stop actively seeking work, they are no longer counted as unemployed. This can be either because they have taken up a job (and are counted as employed), or have stopped actively seeking work (and are counted as economically inactive).

2.3 Labour market outlook

The most recent forecasts from the EY ITEM Club and UUEPC suggest that NI should see employment growth of between 1.2%-2.1% in 2022, before returning to more modest growth rates in 2023 and 2024. The UUEPC anticipates a slight fall in the

[35] The proportion of economically active people aged 16+ who were unemployed

unemployment rate[36] in the next 3 years; reaching 3.7% by 2024. These are shown below in Table 2 below:

Table 2: Labour market forecasts - EY ITEM Club and UUEPC

	2020	2021	2022	2023	2024
EY ITEM Club					
Jobs growth	-0.9%	-3.1%	2.1%	1.0%	0.6%
UUEPC					
Jobs growth	-0.9%	-2.1%	1.2%	1.4%	0.8%
Unemployment rate	3.1%	4.5%	4.3%	3.9%	3.7%

Source: EY (January 2022), UUEPC (August 2021)

As noted in sub-section 2.2 of this Paper, total employment in NI remains slightly below its pre-Covid peak. The EY ITEM Club outlook suggests that the labour market is "almost back to pre-pandemic levels"; whilst the NIESR Autumn outlook states that:[37]

> *…Northern Ireland is projected to fare the worst, with projected employment well below pre-pandemic 2019Q4 levels even by the end of 2024.*

The continued pace of economic recovery in NI will be dependent – in part – on the timing of changes to Covid-19 restrictions and related guidance. The last remaining legal restrictions were lifted by the Health Minister on 15 February 2022, but some measures which had previously been guidance rather than law – such as working from home where possible – have not been changed at the time of writing. A watching brief should be maintained to monitor the impact of these changes. For example, if guidance on working from home where possible is removed, this could have implications for town/city centre hospitality businesses, or those involved in office cleaning and maintenance, which in turn could impact the economy recovery.

Potential scrutiny point:

4. In the absence of an Executive, what plan, if any, exists amongst departmental ministers to engage and address skills in 2022-23 and beyond – i.e. to invest in support for people who have lost their jobs in the pandemic or face reduced working hours, such as skills training?

[36] Note: this is based on the "ILO unemployment" definition, which accounts for those aged 16-64. NI Labour Force Survey statistics use the 16+ age group for unemployment.

[37] National Institute of Economic and Social Research. UK Economic Outlook – Winter 2022. Page 32. February 2022.

3. Discussion of key challenges facing NI's economy – cost of living, supply chain problems and labour shortages

The UK and NI economies are facing a range of challenges in the short- and medium terms. In NI, these include, but are not limited to: an emerging cost of living crisis; persistently high economic inactivity; historical regional imbalances; NI Protocol and political uncertainty; and, EU replacement funding. Each challenge impacts the NI economy now, and is likely to be relevant during 2022-25. There are addressed in turn below, at sub-sections 3.1 – 3.4.

3.1 Increased cost of living

Inflation has been increasing throughout 2021 and into early 2022, and the effect on the cost of living has been widely discussed.[38] [39] Consumer prices, as measured by the Consumer Price Index (CPI), were 5.4% higher in December 2021 than a year before.[40] That is significantly higher than the Bank of England's target of 2%.[41] The Bank states:[42]

> *Higher energy prices are one of the main reasons for this [inflation reaching 5.4%]. Large increases in oil and gas prices have pushed up petrol prices and utility bills.*
>
> *Higher prices for goods that we buy from abroad have also played a big role. As economies reopened around the world, people started to buy more goods. Some businesses struggled to meet this extra demand, held back by, for example, shortages of materials and workers. That pushed up their costs and led to higher prices for consumers.*
>
> *These effects are likely to continue pushing inflation up in the coming months. **We expect inflation to rise to around 7% in the spring.***
>
> *We expect inflation to fall back from the middle of this year. We don't expect that energy prices will continue to rise as fast, and the shortages that are currently making it difficult for businesses to make their products should ease. We expect inflation to be close to our target in around two years' time.* [emphasis added]

The NIESR Winter outlook[43] states that rising inflation will push more households towards destitution – "extreme poverty levels where they lack resources to purchase basic necessities". The modelling carried out by the NIESR concludes that:[44]

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[38] BBC. Rising living costs "crippling people in Northern Ireland". 28 November 2021.
[39] BBC. Northern Ireland could face "extreme poverty surge". 8 February 2022.
[40] ONS. Consumer Price Inflation, UK: December 2021. 19 January 2022.
[41] Bank of England. Inflation and the 2% target.
[42] Bank of England. Monetary Policy Report – February 2022. 3 February 2022.
[43] See footnote 12
[44] National Institute of Economic and Social Research. UK Economic Outlook – Winter 2022. Page 35. February 2022

> *Together, the impact also varies across the nations and English regions. Every region is projected to suffer upwards of a 10 per cent increase in destitution, but* ***the largest increase is projected for Northern Ireland (67 per cent, bringing the total number of destitute households to about 25,000 households)****. This may be viewed against the context of low and falling participation rates in this part of the UK.* [emphasis added]

It is worth noting that on 15 February 2022, the Minister for Communities announced a freeze in Housing Executive rents, in order to support residents in the face of the rising cost of living.[45] The MoF also noted in a statement to the Assembly on 15 February 2022 to explain the NI public expenditure position, that the DEB document included a freeze on both the domestic and non-domestic regional rates for the next three years. His intention had been to help with the rising costs faced by NI households and businesses. The MoF also stated that, on the basis of legal advice, he sought to proceed with this freeze, but could do so for one year only.[46]

The latest release of Ulster Bank's Northern Ireland Purchasing Managers Index (PMI)[47] is consistent with the trend in rising costs - in this case, for businesses. It states that the rate of input cost inflation remained "substantial" in January 2022. It goes on to state that:[48]

> *Although the slowest in five months, the latest increase was still faster than anything seen prior to the current spike in inflation since the survey began in August 2002. Respondents indicated that higher input costs reflected a range of factors, including rising prices for energy, freight, fuel and materials, as well as increased wages.*

These price increases will undoubtedly continue to put households and businesses under significant pressure, particularly over the remainder of the winter period; given the impact of rapidly increasing energy prices, amongst other things.

Recently published research from the ONS[49] has shown that as the cost of living rises, growing energy prices disproportionately impact those on lower incomes. With increasing pressure on budgets, two-thirds (66%) of respondents to the latest Opinions and Lifestyle Survey (OPN)[50] in January 2022 replied that their cost of living had gone up in the last month. Of those, almost 9 in 10 (87%) said the price of their food shop had increased, and 8 in 10 (79%) said gas and electricity prices were a factor.

The ONS research also found that spending on gas and electricity as a proportion of disposable income is highest for the poorest households – with the poorest 10% of

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[45] Department for Communities. Minister Hargey freezes Housing Executive rents. 16 February 2022.
[46] Department of Finance. Minister of Finance Oral Statement – Update on Budgetary Matters. 15 February 2022.
[47] Ulster Bank. NI Purchasing Managers Index. 14 February 2022.
[48] Ibid. page 6.
[49] ONS. Energy prices and their effect on households. 1 February 2022.
[50] ONS. Coronavirus and the social impacts on Great Britain. 21 January 2022.

households spending 7% of their income on gas and electricity – compared to just 2% for the richest 10% of households.

The Chancellor announced an energy bill discount scheme on 3 February 2022 – with £150 million allocated to NI through the Barnett formula – to provide comparable support next year.[51] That too will impact on peoples' "real" income,[52] if wage growth cannot keep pace with rising inflation.

Potential scrutiny point:

5. In the absence of an Executive, what plan, if any, exists amongst departmental ministers to engage and address energy support in NI in 2022-23?

3.2 Historic regional imbalances

Despite the ongoing cost of living challenges facing the NI economy, the long-term structural challenges that have limited economic growth in the past remain. These include, amongst other things, the need to: boost productivity growth; reduce economic inactivity; create higher-paying jobs; and, address regional imbalances within the economy.

3.3 NI Protocol and political uncertainty

Following the UK's exit from the EU, there have been ongoing discussions both within and outside the UK regarding the NI Protocol. These have already had implications in terms of political tension in NI, for the formation of an Executive following the Assembly election in May 2022, and for future trading arrangements between NI and Great Britain (GB).[53] [54] The implications of these latest development are uncertain at the time of writing, but could significantly influence allocation of funding to departments during 2022-23 and beyond.

3.4 EU replacement funding

It is still uncertain how EU replacement funding is to be allocated and spent. The Shared Prosperity Fund (SPF)[55] is the successor to the EU Structural Fund and is to be administered centrally by the UK Government.[56] That is the subject of some dispute

[51] BBC. Most homes to get energy bill discount of £350. 3 February 2022.
[52] Income adjusted for inflation.
[53] Financial Times. Northern Ireland first minister resigns over Brexit trade rules. 3 February 2022.
[54] Financial Times. UK to make new offer on Northern Ireland in talks with EU. 11 February 2022.
[55] House of Commons Library. The UK Shared Prosperity Fund. 29 January 2021.
[56] BBC. New UK Shared Prosperity Fund to bypass Holyrood. 17 January 2021.

from Devolved Administrations.[57] Numerous written Parliamentary Questions[58] [59] have been submitted in the House of Commons about the SPF's operation in NI. It appears there is still a lack of detailed information on that Fund and how it is to operate.

That is also the case with the Community Renewal Fund (CRF),[60] which is intended as a pilot for the SPF in 2021-22.[61] The CRF operates on a UK-wide basis, and is centrally administered by the UK Government.

Each fund is discussed further in Paper 3 of this series.

4. Concluding remarks

Below are some key points arising from the earlier sections in this paper:

- Assembly statutory committees' consideration of budgetary matters for next year – 2022-23 – and beyond are impacted by a complex political context that includes factors such as:

    (i) No Executive since early February 2022;

    (ii) DoF's consideration of other legal options to ensure a Budget for NI for 2022-23 and thereafter (2023-25) is needed, in the absence of an Executive from now until the end of the current Assembly mandate on 27 March and the start of the new budget year on 1 April, and potential issues potentially arising post-May Assembly election, which could further impact budgetary considerations for NI;

    (iii) Central government developments arising (directly and indirectly) from the UK's exit from the EU include those relating to public finance and the economy in NI - for example, centrally administer EU replacement funding such as the SPF and CRF;

    (iv) No Executive agreement on DEB – only the Executive's agreement in December 2021 that the DoF could consult on it; and,

    (v) Now "paused" DEB public consultation, as directed by the MoF on 15 February, following his receipt of legal advice.

- The most recent official data from the ONS shows that NI's economy grew by 1.1% in Q3 2021. This was below the UK average of 1.3%; similar to Scotland and Wales.
- With growth in output in Q3 2021 of 1.8%, the NI Composite Economic Index is now higher than it was at its previous peak in Q4 2019.

[57] On the subject of inter-governmental relations within the UK, and how any potential future disputes would be managed, useful detail can be found in the Treasury's Statement of Funding Policy (SoFP), updated in October 2021. The SoFP is a non-statutory policy document, which is routinely reviewed, amended and re-issued alongside Spending Reviews.
The current version states: *"If there is a disagreement between HM Treasury and the devolved administrations about the application of the Statement, the relevant devolved administration can pursue the matter with HM Treasury."*
[58] UK Parliament. UIN 59717, tabled on 20 October 2021.
[59] UK Parliament. UIN 35769, tabled on 19 July 2021.
[60] MHCLG. UK Community Renewal Fund: prospectus. 11 May 2021.
[61] Irish News. London still ignoring calls for meaningful role in EU replacement funds – Murphy. 17 February 2022.

- Recent forecasts from the EY ITEM Club and UUEPC show that the NI economy is expected to grow by around 5% in 2022; before returning to more modest growth rates of around 2% in 2023, and 1.5% in 2024 – similar to the UK overall.
- The latest labour market data from NISRA shows that the number of employees in January 2022 was 774,900. That was **the highest level on record and the eighth consecutive month that employee numbers have been above pre-Covid levels**.
- It is worth noting that despite the encouraging growth in the number of payrolled employees, **total employment remains below pre-Covid levels, because they include the self-employed**. Labour Force Survey data from NISRA shows that total employment is 2.2% below its previous peak from the period of October-December 2019.
- The most recent forecasts from the EY ITEM Club and UUEPC suggest that NI should see employment growth of between 1.2%-2.1% in 2022, before returning to more modest growth rates in 2023 and 2024. EY stated that the labour market is "almost back to pre-pandemic levels", whilst the National Institute of Economic and Social Research estimates that employment in NI should remain well below pre-pandemic levels until the end of 2024.
- The ongoing increase in the cost of living represents a very significant challenge for households and businesses in NI. Consumer prices were 5.4% higher in December 2021 than a year before. This is significantly higher than the Bank of England's target of 2%. The Bank expects inflation to reach as much as 7% by spring 2022.
- Ulster Bank's most recently published Purchasing Managers Index notes that for businesses, the rate of input cost inflation remains "substantial". And although the rate of increase in the Index was slowing, the latest increase was "still faster than anything seen prior to the current spike in inflation since the survey began in August 2002".
- Despite these ongoing cost of living challenges, the long-term structural challenges that have limited economic growth in the past remain – including: the prevalence of low productivity growth; high economic inactivity; and, regional imbalances within the economy. It is also still uncertain how EU replacement funding is to be allocated and spent, as it appears there is still a lack of detailed information on the replacement funds and how they are to operate.