

Department for Agriculture, Environment and Rural Affairs

2022-25 Multi-Year Budget Proposals

Committee for Agriculture, Environment and Rural Affairs Report

Context

The Department for Agriculture, Environment and Rural Affairs (DAERA) has a statutory remit encompassing the support of farming, fisheries and forestry sectors, as well as protection of the natural environment and development of rural communities.

This report sets out the AERA Committee's assessment of DAERA's proposed expenditure plans for 2022-25 in order to help inform the Committee for Finance's scrutiny of the draft multi-year budget.

Committee-Department Engagement

The Committee wrote to DAERA on 1 October 2021 requesting early sight of its multi-year proposals in advance of the anticipated publication of the draft budget in December of last year.

Following release of the 2022-25 Draft Budget by the Department of Finance on 16 December 2021 DAERA officials were invited to brief the AERA Committee on 20 January 2022 in respect of its plans.

However, DAERA failed to provide the requisite documentation in time for this scheduled briefing.

Officials subsequently attended the AERA Committee on 27 January 2022 to brief Members and answer questions on the spending proposals.

Indicative Budgetary Allocations

DAERA's indicative annual allocations between 2022-25 are as follows:

	2022-23 (£m)	2023-24 (£m)	2024-25 (£m)
Resource DEL*	550.7	566.6	571.2
Capital DEL (less EU match funding)	101.2	124.0	117.8

***Note** – baseline revenue funding of £224.2m per annum with additional “EU Replacement Funding” of approx. £320m each year from the UK Government to facilitate Direct Payments to farmers

The NI Fiscal Council's January 2022 assessment of the 2022-25 Draft Budget notes that DAERA fares relatively well compared to other Executive Departments in terms of the annual indicative resource allocations over the period after taking into account the need for 2% operational efficiencies.

In relevant terms, DAERA's resource allocation over the multi-year budget is -0.56% less in 2022-23 (compared to 2021-22) and is set to increase by 2.89% and 0.81% in 2023-24 and 2024-25 respectively.

Budgetary Pressures

The AERA Committee has identified a number of anticipated pressures within DAERA's spending proposals both in relation to revenue and capital allocation and these are outlined below:

Resource Pressures

DAERA submitted applications to the Department of Finance totalling an additional £224.3m over the course of the next three financial years and has been indicatively allocated **only £50.7m (23%)**.

This resource gap is likely to have significant implications for a range of initiatives the Department had planned to take forward:

- ***Funding for EU Exit***

DAERA sought a total of approx. £33m over the course of the Draft Budget period in order to facilitate the appointment of additional staff to carry out Sanitary and Phytosanitary (SPS) checks on goods imported to local Ports of Entry (PoE) from Great Britain.

However, only £1m per annum has been allocated which represents a significant shortfall and raises fundamental questions about the provision of resources to enable DAERA to carry out its responsibilities as outlined in the Ireland/Northern Ireland Protocol (“the Protocol”).

While the AERA Committee acknowledges that negotiations between the European Union and United Kingdom (UK) Government on revisions to the Protocol are ongoing, it is likely that, regardless of any agreed changes, additional SPS checks will be required on GB imported goods.

It is imperative that DAERA has the appropriate human, and physical, resources in place to discharge these duties.

- ***Tackling Rural Poverty and Social Isolation (TRPSI)***

A core element of the Rural Development Programme in recent years has been progression of initiatives to address social isolation in rural areas. To that end the fact that no allocations have been made against TRPSI across the multi-year budget, **despite a need of £1.8m per year**, is concerning as the outcomes of this programme can have very positive benefits for people’s health and well-being and where “a little goes a long way.”

DAERA advised the Committee that it is hopeful of potential in-year funding for this initiative in 2022-23 via allocations from the Treasury for tackling severe deprivation and addressing mental health issues. However, provision of this resource is not certain and the Committee considers that funding to support TRPSI should be considered a priority.

- ***Environment Fund and Strategic Environmental Programme***

DAERA informed the Committee that with a collective bid of £21.5m for these initiatives that it intended to progress a number of schemes to enhance Environmental health and tackle Climate Change, including:

- *“Progression of new commitments and priorities arising from COP 26 and the new Environment Strategy (Environmental Improvement Plan), new Biodiversity Strategy, new Peatland Strategy, Climate Change plans and new PfG”*

- *“Addressing key environmental pressures such as climate change, air and water pollution, addressing impacts from ammonia emissions and building a more resilient natural environment which can deliver the full range of ecosystems services supporting health, wellbeing and our economy”*

In return **only £2.8m** of funding has been allocated for these programmes. While the Committee was not provided with granular detail on the specific workstreams that would be enabled by the anticipated additional funding, the significant under allocation will inevitably have an effect and will likely delay the commencement of strategic priorities in this policy area.

DAERA advised the Committee that it intends to address this shortfall through in-year financing opportunities and while the Committee accepts that this may bolster the resource available to the Department, this approach does not facilitate effective long-term planning and there is no certainty regarding provision of resource which may be made available in Monitoring Round exercises.

Capital Pressures

- Green Growth Strategy

DAERA made a substantive application for £600m additional capital funding in order to support its draft Green Growth Strategy which ostensibly sets out a pathway for local industry to move towards a cleaner, greener and more climate-friendly system of working over the next 30 years.

This is a “flagship” Departmental strategy to deliver on many of the sustainability pledges outlined in the Programme for Government.

The Department has been allocated only **£175m** against the Green Growth application for 2022-25, and while officials informed the Committee that they were looking at this allocation “positively”, it will undoubtedly hamper intended progress of the Green Growth Strategy workstreams.

In response to the under allocation DAERA intends to prioritise initiatives and prepare now *“for additional Capital that is likely to become available in 2023-24 and 2024-25”* and proposes to allocate £8.0m more in these financial years than what has been proposed by the Executive.

Officials also advised the Committee that the immediate priority of the Green Growth strategy will be on policy development and that it envisages significant programme delivery to commence after 3 years, which will provide time to scope opportunities to secure additional resources.

Again, the Committee is concerned that without a clear path to acquire additional investment, planning, development and roll-out of key initiatives will be hampered.

It is accepted that the detailed costings for specific workstreams may not as yet be developed, but there are a number of programmes under the auspices of Green Growth that will require a significant capital outlay including:

- Funding for Peatland restoration (as set out in the Peatland Strategy) – the Department was unable to inform the Committee of its anticipated costing plan and resource allocation for this
- Establishment of a “Just Transition Commission”

- Facilitation of grants and support schemes to enable industries to invest in new carbon-friendly technologies
- Funding of innovation and research

The Department was unable to provide clarity on the specific outcomes that would be delivered via the £175m capital allocation.

However, given the sizeable financial resources applied for relative to the allocation provided it is inevitable that DAERA will struggle to deliver on its pledges and ambition as set out in the Green Growth Strategy and this could have profound knock-on implications for the health of the local environment, the ability to deliver investment in a “greener economy” and for the Executive to meet its legislative duties in a Climate Change Act which is expected to pass before the end of the current electoral Mandate.

The Committee questioned DAERA on the methodology that was used to determine the £600m resource envelope for the Green Growth Strategy and was advised by officials that this was “an indicative profile” based on the funding that Business Areas within DAERA felt would be required to reduce carbon and GHG emissions until 2026-27.

Officials advised that additional investment would be required over the lifetime of the Strategy and that DAERA would continually explore opportunities for additional funding.

Further, the Committee identified that DAERA has allocated £43.7m (25%) of its £175m Green Growth capital funding to facilitate the continuation of the Farm Business Improvement Scheme (FBIS) over the next three years which has hitherto been resourced via EU Funding.

While DAERA informed the Committee that the FBIS is aligned with the aims of Green Growth by enabling on-farm resource and production efficiency, the Committee questions the appropriateness of utilising a proportion of the Green Growth capital allocation for the FBIS, given that the Green Growth Strategy is a “new policy area” with a specific aim and remit.

Additionally, the Committee notes a significant anticipated capital pressure against DAERA’s “Green Growth Agri-food Strand”, which encompasses extension of the FBIS in 2024-25 when legacy EU funding ends (approx. shortfall of £5-8m).

-Green Growth Challenge Fund

DAERA has allocated £37m over the multi-year budget for this initiative which is designed to support projects and pilots to test solutions which may help to mitigate emissions.

Whilst the Committee recognises the importance of engaging with industries and stakeholders to encourage new ways of working and thinking, the Committee has been provided with little assurance as to how this Fund will be managed. DAERA informed the Committee that *“innovation, research and development is an important lever in meeting net zero targets. The Green Growth Challenge Innovation Fund is a mechanism to enable this. An Investment Framework is being developed which will allow funding to be channelled to the areas which can deliver the most.”*

Further, there is a well-established evidence base for measures which are known to be effective in facilitating carbon sequestration including nature-based solutions such as peatland restoration and forestry: the Committee considers that prioritisation of resources for such initiatives may be more worthwhile and effective than pursuing speculative innovations.

-Rural Development Policies

There is a capital pressure in respect of funding for Rural Development Policies in DAERA’s proposals. These schemes have been funded via the EU’s Rural Development Programme over the last number of years and there is an evidential drop-off in 2024-25 by which time the Department will no longer be able to claim EU-match funding for existing schemes:

	2022-23 (£m)	2023-24 (£m)	2024-25 (£m)
RDP – Environmental Farming Scheme	7.3	8.1	/
RDP - LEADER	0.7	/	/

RDP – Rural Tourism	0.9	/	/
RDP - Replacement	1.0	5.1	3.8
RDP TOTAL	9.9	13.2	3.8

This raises questions about the long-term viability and resourcing of initiatives to support greater cohesion, develop infrastructure and improve social mobility in local rural communities.

DAERA acknowledges the anticipated funding shortfall and explained that, strategically, it hopes to facilitate long-term replacement for EU funds for rural policy initiatives via the UK Shared Prosperity Fund and PEACE PLUS grants that will be administered by the UK Government.

While these may prove to be viable avenues for accessing additional resource, their roll-out and eligibility criteria are yet to be determined, and there is no guarantee as to the level of resource DAERA may successfully obtain from any application.

There is therefore significant uncertainty about the future resourcing of the Department’s capital rural development projects.

-Capital Costs associated with High-Risk Projects

The Committee sought clarity from the Department regarding its management of four projects which were among those identified by the Department of Finance CPD team as being “high-risk” and the anticipated capital costs of these over the next three years.

Two of these projects are anticipated to incur significant expenditure over the multi-year budget period:

- Northern Ireland Food Animal Information System – development and roll-out of an enhanced information system for the recording of livestock on farm holdings:
 - 2022-23: £3.2m
 - 2023-24: £1.5m
 - 2024-25: £3.2m

- Science Transformation – a range of initiatives to modernise and develop DAERA’s capabilities to undertake and procure high-quality research. The anticipated capital expenditure for 2022-31 is £68m and the Department did not provide specific figures for the multi-year budget period. However, DAERA did apply for £5.4m additional revenue funding to support the initiative of which £0.5m was allocated.

This underinvestment is likely to delay the enabling work required to introduce key workstreams such as the development of a Laboratory Information Management System and a new Animal Health Sciences Building.

Summary

The AERA Committee has identified a number of concerns regarding DAERA’s proposals for the 2022-25 Draft Budget including:

- ***Significant Under Allocations in Respect of Revenue and Capital Funding which will likely hamper implementation of key initiatives such as:***
 - The development of projects and policies to support the cross-cutting Green Growth Strategy

 - Policy implementation in respect of Climate Change and environmental health

- Continuation of projects to mitigate poverty and social isolation in rural areas
- Modernisation of DAERA's Scientific and Research Infrastructure
- ***Inability to Meet Legislative and Regulatory Requirements:*** DAERA has projected significant cost pressures in respect of the resource needed to deliver on its responsibilities in terms of EU Exit and to enact projects that will be necessitated by a Climate Change Act
- ***Uncertainty about replacement of EU Funding:*** there is a lack of clarity about how projects/schemes that were previously enabled by EU finance will be supported in the medium to long-term, particularly those schemes related to Rural Development and direct farm payments. There is anticipated to be a significant drop-off in available funding by Year 3 of the Draft Budget period, when DAERA will no longer be able to claim match funding for EU-backed initiatives
- ***Allocation of Green Growth Funding to enable the continuation of the Farm Business Improvement Scheme:*** The Committee questions whether this is an appropriate use of a sizeable proportion of the £175m capital funding for the draft Green Growth Strategy