

Archer, Stephen

From: Henry, Ronan
Sent: 30 January 2017 13:09
To: Patton, Terence
Cc: Scott, Peter (DAERA); O'Neill, Lynne; Ellis, Cathal; McKendry, Martin; Long, Eric; Mathers, George; G_DARD PressOffice.Group, DARD
Subject: FW: RHI & DARD
Attachments: SUB 057 Min Signed.pdf; Response to DETI re Urgent Decision.pdf; SUB 1211 Min Colleagues letter signed.pdf

Thank you, Terence

Ronan

Ronan Henry
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All media queries for DAERA should be sent to pressoffice.group@daera-ni.gov.uk

-----Original Message-----

From: Patton, Terence
Sent: 30 January 2017 12:30
To: Henry, Ronan
Cc: Scott, Peter (DAERA); O'Neill, Lynne
Subject: RE: RHI & DARD

Ronan,

In response to the question from Conor Macauley, please see below. Note I have attached all the documents for your information only.

Minister Bell wrote to all Ministerial colleagues on the 9th November 2015 to inform them he was making changes to the Renewable Heat Incentive (RHI) primarily to provide for new tariffs for the combined heat and power installations and to introduce cost control measures for the biomass including a two tier structure and an annual cap on heat payments.

On the 5th Feb 2016 Mr Minister Bell wrote to his First and Deputy first Minister, copied to all his Ministerial colleagues, seeking agreement to take an urgent decision on the closure of the RHI scheme. In this correspondence Mr Bell mentions affordability and budgetary pressures.

Thanks

Terence

Terence Patton
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Tel: 02890524143 (internal ext 24143) or Mob: Personal Information redacted by the RHI Inquiry

-----Original Message-----

From: Henry, Ronan
Sent: 30 January 2017 10:29
To: McKendry, Martin; Scott, Peter (DAERA); Ellis, Cathal; Mathers, George; Long, Eric
Cc: G_DARD PressOffice.Group, DARD
Subject: FW: RHI & DARD

Colleagues

See query from BBC's Conor Macauley. Are you able to provide a response?

Ronan

Can DAERA tell me when DARD first became aware of the budgetary pressures the non domestic RHI scheme was creating and how it became aware of them?

Ronan Henry
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-----Original Message-----

From: Conor Macauley [<mailto:conor.macauley@bbc.co.uk>]
Sent: 30 January 2017 10:27

To: G_DARD PressOffice.Group, DARD
Subject: RHI & DARD

Good morning,

Can DAERA tell me when DARD first became aware of the budgetary pressures the non domestic RHI scheme was creating and how it became aware of them?

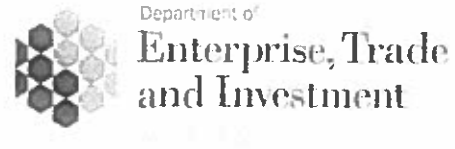
Conor Macauley
BBC News NI

Sent from my iPhone

<http://www.bbc.co.uk>

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From the Office of the Minister



Department of

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and Investment**

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Our Ref: DETI SUB 0057/2016

FROM: JONATHAN BELL MLA

DATE: 5 FEBRUARY 2016

TO: FIRST MINISTER AND DEPUTY FIRST MINISTER

REQUEST FOR A DECISION BY URGENT PROCEDURE – CLOSURE OF THE RENEWABLE HEAT INCENTIVE (RHI) SCHEME

Introduction

1. In accordance with paragraph 2.14 of the Ministerial Code I am seeking agreement to take an urgent decision on the closure of the Northern Ireland Renewable Heat Incentive (RHI) Scheme. The urgent decision is required to minimise significant Resource DEL (RDEL) overspending on the scheme.

Background

2. The Non Domestic RHI scheme was introduced in November 2012 and the Domestic RHI scheme in December 2014. Both schemes provide payments for people to move from conventional heating (mainly oil) to sustainable heating such as wood pellets (biomass). In light of unprecedented numbers of applications for the Non Domestic Scheme and the outcome of the Government's Spending Review, an urgent decision is now needed on the future of the NI RHI schemes.
3. Successful Domestic RHI applicants receive an upfront payment of up to £3,500 (depending on the technology) along with 7 annual tariff payments based on the heat requirements of the property. Annual payments are typically around £1,200 but are capped at a maximum of £2,500. Uptake of the Domestic RHI scheme has increased steadily (c.700 applications since the scheme was introduced).
4. The Non Domestic RHI Scheme on the other hand involves 20 years of annual tariff payments based on the metered heat usage of the business. Tariffs are dependent on the type and size of technology. To date, average annual payments have been around £24,000. The Non Domestic scheme therefore involves much larger and longer financial commitments than the domestic scheme.

5. After a slow start during the first two years, non domestic scheme uptake increased steadily during 2015. During the Autumn of 2015 there was an unprecedented surge in applications. This increase relates to one particular technology – biomass.
6. A sustained increase in applications during March and April 2015 was the catalyst for the legislative changes I brought through the Assembly in November to, inter-alia, introduce a tiered tariff (reducing after 1,314 hours) and an annual cap (at 400,000 KWh) on RHI payments for biomass. However, in the run up to these legislative changes, the number of installations on the scheme doubled with over 900 applications received in 6 weeks. An increase in applications had been forecast as businesses tried to beat the deadline for tariff changes, but not at the unprecedented numbers received.
7. The increase in applications means that over 6% of NI's total heating needs are estimated to be provided through renewable technologies. The PfG target of 4% renewable heat by 2015 has been exceeded and we would be well on track to reach the 10% target set for 2020. However, this success comes at a price. Total expenditure for both RHI schemes in 2015/16 is now forecast to exceed £30m. Even if no new applications are received in 2016/17 (i.e. both schemes are closed by 31/3/16), forecast RHI expenditure in 2016/17 is expected to be around £45m.

Scheme Approvals

8. When the business case for the non domestic scheme was approved by DFP in 2012, one of the conditions was for re-approval in March 2015. Unfortunately the need for this approval was overlooked by DETI. DETI had no choice but to keep making the payments because the RHI scheme is set out in Statutory Regulations and there are no grounds for DETI to cease making payments to properly made applications. Prospective approval has now been received from DFP for non domestic scheme expenditure from 29 October 2015 through to 31 March 2016. Retrospective approval from 1 April 2015 to 30 September 2015 has however been declined and the NI Audit Office accordingly notified. Approval for the Domestic RHI Scheme is in place up to 31 March 2020.

Affordability

9. The affordability of the NI RHI schemes going forward obviously depends on the budget available. The RHI schemes (non domestic and domestic) are paid out of Annual Managed Expenditure, (AME) which normally would not have an impact on the NI RDEL Block funding. However, when the scheme was first introduced in 2012, HMT confirmed that RHI spending would not be treated as conventional AME, where the Exchequer takes on all risks. Instead, a risk-sharing arrangement was introduced whereby, should RHI spending in one year exceed the allocated budget, NI would need to repay this in future years. However, it was DETI's understanding that only a very small proportion of any required future

savings (likely to be of the order of 5%) would have to be funded direct by NI through RDEL.

10. Also unlike conventional AME, the initial 4 year (2011/12-2014/15) NI allocation of £25m was based on a Barnett formula of circa 3% of the DECC budget (£838m). HMT confirmed that any 20 year commitments entered into during this period would be honoured. This arrangement was rolled forward in 2015/6 though the AME 2015/16 budget has since been raised to £30m in light of increased demand.

Implications of Chancellor's Autumn Statement

11. If RHI funding was conventional AME there would be no impact on NI DEL. However, the Chancellor's Autumn Statement confirmed that the AME cap for Northern Ireland would be set at the Barnett share of circa 3%. DFP officials, after significant engagement with HMT officials in late November/early December in preparation for the finalisation of the Chief Secretary's Settlement Letter, have also advised that HMT's position will be that NI will have to cover the full costs of any overspend. This means that the Block RDEL will be penalised for any excess spend for a period of at least the next five years and possibly up to 20 years ahead, depending on the approach taken to RHI in future in GB. The Chief Secretary's wording is set out below:

Renewable Heat Incentive (RHI)

As in the previous Spending Review period, AME cover based on a population-proportionate share of the budget which has been set for the Renewable Heat Incentive in Great Britain will continue to be made available to the Northern Ireland Executive. The level of cover available is therefore £18.3, £22.3, £25.7 and £28.9 million from 2016-17 to 2019-20. Any spending on RHI above this level will need to be funded from the Executive's DEL budgets or other sources of income.

12. This creates significant budgetary pressures over and above the available AME budget cover for at least the next 5 years and, given the nature of the existing 20 year contracts, could extend far beyond the next budget period even if there are no new applications after the end of this financial year. Forecast costs in 2016/17 would be higher but would diminish over time i.e. if the scheme is closed to new applications the forecast costs would remain static but the HMT budget would rise therefore reducing the scheme overspend from around £27m in 2016/17 (latest estimate) to around £11m by 2020/21 (though if there are more applications than currently projected the additional costs could be around £33m in 2016/17). This, of course, all assumes that there are no further application spikes in anticipation of scheme closure.

13. In light of the HMT Settlement Letter I must therefore proceed on the basis that the major overspend that has now arisen will now impact upon the NI Block. DETI does not have the funding to meet this overspend. In the circumstances I have no choice but to propose immediate closure of the scheme to prevent the overspend from increasing further.
14. DFP and DETI have initiated an investigation into the effectiveness of the control and regulation of the Initiative in light of the significant increase in uptake of the scheme.

Consultation

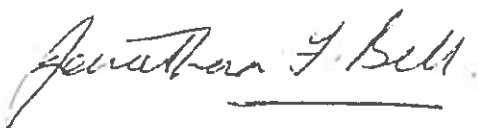
15. I have consulted the Finance Minister on these issues and he concurs with my concerns and desire to minimise the exposure of the NI Block DEL.

Timing

16. Given the urgency of the situation I propose to close both the RHI schemes as soon as possible, subject to Assembly approval of the legislation. Indeed, the financial risk is such that I am seeking your approval on the basis that there is not sufficient time for the established convention of consideration of the draft legislation by the ETI Committee. I propose to lay the regulations in draft and table the motion for debate at the earliest possible juncture, without seeking prior Committee approval. This would mean asking the Business Committee (at its 9 February meeting) to schedule the motion for debate on 15 February.
17. Subject to your agreement, I will write to the Chair of the Committee, explaining the circumstances and the reasons for urgent action.

Recommendation

18. I therefore request your immediate agreement, in accordance with paragraph 2.14 of the Ministerial Code, to take an urgent decision to agree to the closure of the Northern Ireland Renewable Heat Incentive Schemes (RHI), subject to Assembly approval.
19. This letter is copied to all Executive Ministers, the Attorney General, the Departmental Solicitor, Office of Legislative Counsel and Executive Secretariat.



JONATHAN BELL MLA
Minister of Enterprise, Trade and Investment



Office of the
First Minister and
Deputy First Minister

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FROM: FIRST MINISTER & DEPUTY FIRST MINISTER E (UP)(16) 06
DATE: 9 FEBRUARY 2016 OUR REF: EXEC 0021-16
TO: MR JONATHAN BELL MLA
MINISTER OF ENTERPRISE, TRADE AND INVESTMENT

DETI URGENT DECISION REQUEST: CLOSURE OF THE RENEWABLE HEAT INCENTIVE SCHEME (RHI)

You wrote to us on 5 February 2016, to request agreement, in accordance with paragraph 2.14 of the Ministerial Code, that you take an urgent decision in relation to closure of the Renewable Heat Incentive Scheme (RHI), subject to Assembly approval of the required legislation, in order to minimise significant Resource DEL overspending on the scheme.

We have considered your request, and in the circumstances you describe, we are content to agree that you take this urgent decision.

A copy of this memo has been sent to all Executive Ministers, to the Attorney General, the Departmental Solicitor, First Legislative Counsel and Executive Secretariat for information.

ARLENE FOSTER MLA
First Minister

MARTIN McGUINNESS MLA
deputy First Minister