
Emer Morelli
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Supply

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Trevor Cooper
Finance Director
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21 December 2015

Dear Trevor

NON-DOMESTIC RENEWABLE HEAT INCENTIVE- ADDENDUM

Thank you for your letter of 7 December regarding the retrospective element of the Non-domestic Renewable Heat Incentive (RHI).

As you are aware, the DFP approval for the non-domestic RHI scheme expired on 31 March 2015. Therefore, the addendum submitted to DFP in October 2015 sought both prospective approval for the amended scheme going forward and retrospective approval for the operation of scheme during the first seven months of 2015-16.

DETI requested urgent DFP consideration of the addendum given the intention to introduce legislative changes in early November. Therefore, DFP focused on the prospective element of addendum with the intention of returning to the retrospective request in due course.

Retrospective Approval

DFP will only grant retrospective approval within very limited circumstances. MPMNI states that DFP may consider granting retrospective approval if it is satisfied that:

- (a) it would have granted approval had it been approached properly in the first place; and

(b) the Department is taking steps to ensure that there is no recurrence.

DFP approval for the non-domestic RHI scheme was only granted until 31 March 2015 to reflect the period for which HMT funding had been secured. DFP should have been approached well in advance of this date, at which time both affordability and value for money would have been considered. At that stage there would also have been an opportunity for an open dialogue between the departments on the outcome of DETI's 2013 consultation and the subsequent decision by DETI not to introduce annual cost control measures.

DFP was not afforded the opportunity to review or influence the policy decisions being taken at that time, and I cannot conclude that we would have been content with the decision not to amend the scheme. Therefore, the first condition has not been satisfied and retrospective approval cannot be granted.

In the absence of DFP approval for this expenditure all commitments entered into between 1 April 2015 and 28 October 2015 will result in irregular expenditure. You have quantified this expenditure at £17.74m in 2015-16, and £355m across the 20 year life of the non-domestic RHI agreements.

This level of annual expenditure is around £10m per annum higher than the costs reported in the October addendum. Looking at the detail of this cost escalation, your letter indicates that 441 applications were received in October alone, almost double the amount of applications received in the first twenty months of the scheme. This clearly warrants further investigation to test both the origin and authenticity of the additional applications, and I welcome your commitment to bring forward the audit of the scheme. I would be grateful if you could keep Supply informed of the outcome of this audit and any implications for the projected scheme costs.

Supply will now write to the Audit Office to notify them of our decision in relation to this retrospective approval request. DETI's management of this scheme has raised a number of concerns, both in relation to adherence to DFP approval and DETI's operation of tariff based schemes. It will be important to establish how irregular expenditure of this magnitude was incurred and what process can be put in place to ensure there is no reoccurrence of this situation.

Affordability

While the level of irregular expenditure reported is a considerable concern for DFP, these concerns are dwarfed by the very immediate and long term budgetary implications.

As you are aware, HMT has provided a RHI AME profile for the SR period which is significantly lower than the level of expenditure now committed to. DFP has engaged with HMT on this profile and highlighted the specific local issues which have resulted in the higher spend levels. However, while HMT are still considering

the funding issue, we must be aware that a possible, and indeed probable, outcome is that the NI Executive will have to fund all costs above the AME profile from the Executive's DEL allocation. I should therefore be grateful if you would advise as a matter of urgency, on the options available to DETI for the future operation of this scheme in the context of a considerably more constrained DETI/DfE budget.

It would be useful to discuss the affordability concerns in more detail. My office will be in contact to arrange a suitable time to discuss both the budgetary and value for money implications of the operation of the non-domestic RHI scheme.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Emer Morelli', is written on a light-colored rectangular background.

EMER MORELLI

**cc Mike Brennan
Eugene Rooney
Michelle Scott
Noel McNally**