

From: [Wightman, Stuart](#)
To: [Brankin, Bernie](#)
Cc: [Partridge, Jeff](#); [Thompson, Sandra](#)
Subject: FW: Future DETI RHI Budgets
Date: 02 June 2015 17:13:15
Attachments: [AME Commissioning Letter Summer Budget 2015.docx](#)
[RHI AME Forecast - Tariff Tier in Oct 2015.xlsx](#)
[Energy - AME Allocations - 2015-21.XLSX](#)

Bernie, I tried to return your call.

I attach an amended email (see highlighted text).

I'll speak to you tomorrow.

Thanks, Stuart

Trevor,

Further to our discussion on Friday, can I please ask for Finance Division to engage with DFP/HMT to get clarity around our current and future RHI Budgets?

I attach our most recent RHI AME forecast which shows an estimated expenditure of £23.2m in 2015/16 against our previous forecast of £11.6m which was made in November 2014. I understand you have already submitted this revised forecast to DFP as part of the recent AME exercise to inform the Chancellor's July Budget. The second spreadsheet provides the basis for this forecast. I also include some background on the NI RHI scheme(s) including the basis for our forecasts.

I'm keen to understand from DFP/HMT:

(1) How future NI RHI AME allocations (2016 onwards) will be determined?

As the NI RHI is a demand led scheme (like the NI free prescriptions scheme & concessionary fares scheme), will future AME allocations not be based on our forecasts? If so, do we not just provide our revised forecast along with an explanation of why/how we under forecasted and move forward on the basis of our revised figures? If future NI RHI funding on the other hand is going to ultimately be determined by what DECC is allocated, we need to be making the case for NI to receive a much larger percentage of the DECC budget (possibly 5-6% to reflect current uptake levels) than the 2.98% under Barnett's.

(2) What options are available for securing additional AME Funding for 2015/16?

Will DfP/HMT honour our revised AME forecast of £23.2m submitted as part of the recent exercise? If not, can we spend any of our previous RHI AME underspends (£14m) in 2015/16 or is there other surplus AME across NI which we can use for the NI RHI?

Background

The Domestic Renewable Heat Premium Payment (RHPP) and Non-domestic RHI schemes were introduced in 2012 in pursuit of the PfG objective to achieve 4% renewable heat by 2015.

Both schemes are demand led. It is therefore difficult to predict future uptake / spend. For this reason HMT agreed to fund the RHI through AME. £25m of AME was initially allocated to the NI RHI for the 4 year 2011-15 period. In the absence of any robust evidence on likely uptake/spend, this initial allocation was based on 2.98% of the DECC allocation. However the scheme underperformed in terms of achieving our renewable heat target with an underspend of around £14m over the first 4 years.

Our focus over the past 12 months has therefore been on improving the performance of the RHI to achieve our PfG target and address this underspend. This included introducing the full Domestic RHI Scheme in December 2014 and completing an extensive advertising campaign. Despite the drop in oil prices over the winter months, we have successfully increased uptake of the Non-domestic RHI scheme over the last 12 months. Total non-domestic RHI applications have increased from 200 to 700 during this period and we're now on course to meet the PfG target of 4% renewable heat during 2015. However this increase in uptake has seen committed monthly non-domestic payments rise from £430k to over £1.3m over the same period. Forecast expenditure in 2015/16 is now twice our previous AME 2015/16 forecast (made in November 2014) although total expenditure during the 2011/12 - 2015/16 period is still expected to be within the allocated NI budget of £37.8m (£25m + £12.8m).

We are planning to introduce a tiered tariff for the most popular non-domestic biomass tariff from 1 October 2015. New applicants will only receive the current 6.4p tariff for their first 1,314 hours after which a reduced 1.5p tariff applies. This change requires legislation and cannot be introduced without appropriate consultation/notification.

RHI Forecasts

The table below shows how monthly non-domestic application numbers and committed monthly payments have increased since Jan 2013.

RHI Non Domestic

Period	No of Applications	Ave per month	£ - ave money at	Committed Monthly Payments
Jan - Mar 13	9	3.0	£6,204.00	£18,612.00
Apr - Jun 13	17	5.7	£11,718.67	£53,768.00
Jul - Sep 13	23	7.7	£15,854.67	£101,332.00
Oct - Dec 13	36	12.0	£24,816.00	£175,780.00
Jan - Mar 14	43	14.3	£29,641.33	£264,704.00
Apr - Jun 14	80	26.7	£55,146.67	£430,144.00
Jul - Sep 14	86	28.7	£59,282.67	£607,992.00
Oct - Dec 14	116	38.7	£79,962.67	£847,880.00
Jan - Mar 15	153	51.0	£105,468.00	£1,164,284.00
Apr - Jun 15 (to 21 May)	87	51.9	£107,284.44	£1,486,137.31

Previous RHI budgets had been underspent so there was nothing to suggest there would be such a large increase in uptake over such a short time. Estimated monthly

increases in committed payments are around £110k. The last AME 2015/16 forecast (made in Nov 2014) for the Non-domestic which was based on a smaller sample of 300 applications had assumed an average monthly increase in payments of £60k. This had been the average increase in the 6 months previous as highlighted in the table above. A £60k increase would have left committed RHI expenditure within profile.

There was nothing to suggest that the increase in non-domestic application numbers during the last quarter of 2014 would be sustained through to 2015, so no action was taken. However, following a further increase in application numbers during the first quarter of 2015 which seen the average monthly increase rise to £105k, we have been reviewing how we forecast future non-domestic RHI payments. This review is what has led to our revised forecast for 2015/16 and the late accrual and overspend in 2014/15.

Rather than simply including fixed increases of £60k/month, **forecast increases in future RHI payments are now based on historic payment data (i.e. average hours x tariff x installation capacity) and recent application numbers (i.e. 50/month).** Previously, there wasn't enough payment history to use for forecasting. The majority of the applications are from the poultry industry for 99kw biomass boilers so we're now also seeing much more consistent operating hours and monthly payments. We will continue to refine our forecasting system as information improves. However, there will always be an element of unpredictability about future RHI payments. Estimated quarterly payments must be accrued for all accredited systems until such time as the individual businesses submit their meter readings online to Ofgem. This can take many months. There can also be quite a variation on payment depending on the type of business and of course the weather. Uptake will also vary from month to month. This is why DECC produce 3 different forecasts (low/medium/high).

The Domestic RHI scheme on the other hand is much easier to predict with fixed upfront payments and annual payments determined by the EPC for the property. However, the Domestic RHI Scheme currently only accounts for 13% of total RHI expenditure.

Central Expenditure Division

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FROM: AGNES LENNON
CENTRAL EXPENDITURE DIVISION

TO: GRADE 7s IN FINANCE BRANCHES

DATE: 19 May 2015

Issue: To commission AME forecast for Chancellor's Summer Budget 2015.

Timescale: To DFP by Noon 26 May 2015.

1. CED is required to provide details of AME forecasts on behalf of the Northern Ireland Executive to the Office for Budget Responsibility (OBR). Usually these are twice yearly. However the Chancellor has announced a Summer Budget on 8 July:
<https://www.gov.uk/government/news/chancellor-announces-summer-budget-date> and OBR have commissioned a flash AME Forecast.
2. This note sets out the requirement for departmental input into the Summer Budget 2015 exercise. To be clear, this is not a full re-run of the forecast, with every assumption being tested again, but for any large changes that you are currently aware of to be flagged and sent to us in the form of an updated return, within this short timeframe.
3. Please find attached a copy of your last Department's template return for the AME Budget 2015 forecast. Due to the nature of this forecast it is not critical if some Department's AME lines have been omitted due to timing differences. Any critical changes for omitted lines should be included in the body of your e-mail return. You are asked to highlight in yellow any forecasting changes / amendments.
4. **Forecasting Requirement**
 - a) Provisional Outturn 2014-15.
The 2014-15 year on your template is for information only and does not require updating. CED will update 2014-15 using your Department's latest 2014-15 Provisional Outturn data supplied.
 - b) Current year 2015-16
The 2015-16 year again is for your information only and does not require updating. CED will update 2015-16 using your Department's latest April 2015-16 Forecast Outturn return.

- c) Future years 2016-17 to 2020-21
Non Pension Templates should only be updated to account for material changes from 2016-17 to 2020-21. Material change is regarded as +/-£1m per year by AME Programme Type, (AME Programme type is listed and summarised at the bottom of each template i.e. Depreciation, Impairment etc).
- d) DSD Benefit lines
Material change is regarded as +/-£50m per year across all benefit lines. DWP have had prior notice of this exercise and should provide revised forecast figures for 22 May 2015 enabling your Department to achieve the same departmental deadline of noon 26 May 2015.
- e) Pension Scheme contacts (DoJ, DHSSPS, DE and DFP)
OBR will adjust centrally for new CPI assumptions. Pension return templates supplied separately should only be updated to account for material changes per year from 2016-17 to 2020-21. Material change for lines on the Pension template is regarded as +/- £12m total per year across all pension lines.
- f) Please do not attempt to change the template or recreate it in any way. The template includes hidden formula to assist CED with the collation of all Departments' returns. If you have any difficulty with completing the template, please contact Mark Cuthbertson on ext 68084 or Mark Millican on ext 68129.
- g) Release of provisions will continue to be treated as an in year issue, therefore the relevant lines have been removed from the templates.

Explanation of changes since the last Budget Forecast

- h) As OBR have responsibility for public expenditure forecasts, they undertake significant scrutiny of the inputs that they receive. It is critical that your assumptions, methodology and forecasts stand up to this scrutiny. OBR regard the reasons for adjustments to be as important as the adjustment itself and it is important that they understand your assumptions, methodology and profile. We must, therefore, emphasise the importance of ensuring that all information provided is accurate and quality assured within the limited timeframe available at a senior level as we may be asked to fully explain and defend the forecasts to OBR.
- i) Departments are therefore asked to provide robust explanations of **any** material changes to their revised forecasts.
- j) If this request for information causes any difficulties for Departments please contact CED Mark Cuthbertson on Ext 68084 or Mark Millican on Ext 68129 immediately to discuss.

Keying information to RBM Database

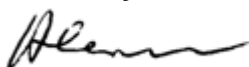
- k) Due to the short notice and timeframe of this exercise a spreadsheet return is only required at this stage.

Summary of Requirements for AME Forecast

You are now asked to:-

- a. **Complete the AME Forecast Template / Templates;**
- b. **Provide robust explanations for any material changes to the forecast in Annex A; and**

Return to Mark Millican and your Supply team by **noon Tuesday 26 May 2015; any sooner would be greatly appreciated.**



AGNES LENNON

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CED Grade 7s & DPs
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Department DPs
Mark Millican
Mark Cuthbertson

**Annex A – Explanations of Material Changes since your AME Budget 2015
Return**