

From: [McCormick, Andrew \(DETI\)](#)
To: [Stewart, Chris \(DFE\)](#)
Cc: [Mills, John \(DETI\)](#); [McIlwrath, Linda](#); [Hill, Janice](#); [McCoy, Laura](#); [Wightman, Stuart](#); [Rooney, Eugene](#); [Cooper, Trevor](#)
Subject: FW: RHI ETI Committee speaking note (2)
Date: 08 February 2016 18:04:37
Attachments: [RHI ETI Committee speaking note \(2\).docx](#)

Please see my suggestions (in some cases reverting to earlier version).

Copying in Eugene and Trevor as time is short and they will have a perspective to offer.

Many thanks.

From: Mills, John (DETI)
Sent: 08 February 2016 17:41
To: Stewart, Chris (DETI)
Cc: McCormick, Andrew (DETI); McIlwrath, Linda; Hill, Janice; McCoy, Laura; Wightman, Stuart
Subject: RHI ETI Committee speaking note (2)
Chris,
Suggestions in tracks

RENEWABLE HEAT INCENTIVE - DRAFT SPEAKING NOTE

Introduction

Will cover 4 things:

- Background to RHI schemes;
- Progress of schemes and pattern of rising demand;
- Reason for suspension – significant overspend and risk to the NI block; and
- Whistle blowing allegation of fraud.

Background

1. The RHI schemes are central to the action to meet an Executive target (PFG) of having 4% of Northern Ireland's heating needs met from renewable sources by 2015, and a further target in the Strategic Energy Framework of achieving 10% renewable heat consumption by 2020. This is NI's contribution to a binding UK target on renewable energy.
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).
3. Successful Domestic RHI applicants receive an upfront payment of up to £3,500 along with 7 annual tariff payments - typically around £1,200; capped at a maximum of £2,500.
4. The Non Domestic RHI scheme involves 20 years of tariff payments, averaging around £24,000 a year per installation. The Non Domestic scheme therefore involves much larger and longer financial commitments than the domestic scheme.

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Progress of schemes

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. In response, the Minister brought demand management measures for the Non Domestic scheme forward in November 2015. However, in the run up to the November changes, the surge gathered pace, with 900 applications received in 6 weeks. This doubled the total number of installations under the non-domestic scheme.

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Reason for suspension

7. The PfG target of 4% renewable heat by 2015 has been exceeded. However, this success comes at a price. The schemes are normally funded through Annually Managed Expenditure, reflecting their demand-led nature. However, there is an expenditure cap, set at 3% of the equivalent DECC budget. In the November Spending Review, and as confirmed in formal correspondence from the Chief Secretary to the Finance Minister, Treasury decided that any expenditure in excess of this cap must be met from the NI block.

8. This means that the Block DEL will have to meet expenditure above a 3% allocation of RHI GB spend. As a percentage, of GB renewable heat, NI is now running at closer to 6%. This, together with the fact that GB expenditure was significantly reduced in the Spending Review has placed significant pressure on NI's allocation for RHI.

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9. Total expenditure for both RHI schemes in 2015/16 is now forecast to exceed **£30m**. Even when the schemes are closed next week (subject to Assembly approval), DN "by April" was not "if" but "when" and is no longer the planned date – so no longer relevant, forecast RHI expenditure in 2016/17 is expected to be around **£45m**, DN is that the projected figure based on closure next week? – if not what is the best estimate?.

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10. The cost that NI will have to make up is estimated to be around £27m in 2016/17 falling to around **£11m** by 2020/21, because the budget that Treasury will provide will grow gradually over the next few years. These are estimates, and depend on the final level

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of expenditure that is eligible before closure – the figure for 2016-17 could be £33m if a higher projection of take up is used.

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11. In these circumstances the Minister considers it necessary to suspend the schemes immediately to prevent further overspend.

12. Draft regulations were laid yesterday, and the motion for debate was tabled.

13. The Minister has asked the Business Committee to schedule the debate for 15 February. **[DN outcome may be known before Committee].**

14. Regrettably, this timescale does not allow time to follow the established convention of seeking the Committee's approval of the policy and draft legislation. This is not a decision that the Minister would have taken if it were not for a very serious and urgent risk to the public finances.

15. This has been a very unfortunate development and we will need to assess what has gone wrong and whether it was preventable. This includes questions such as:

- whether the scheme was adequately designed to cope in the unprecedented increase in demand;
- whether administrative errors, which included overlooking a deadline to seek re-approval of the business case for the non-domestic scheme from DFP, could have been avoided; and
- whether the budget situation could have been clarified at an earlier stage.

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Whistle blowing allegation of fraud

16. The unprecedented increase in the non-domestic scheme demand clearly requires scrutiny beyond the normal arrangements that are in place through the scheme administrator, OFGEM. In response, DETI is arranging for additional auditing and checks, through our own internal audit team, OFGEM, and a contracted independent body. It is planned that around 200 audits (1 in 10) will be undertaken per annum under both schemes, (400 total).

17. DETI has also received correspondence to the First Minister, alleging abuse of the scheme. This has been brought to the attention of Ofgem, and a formal investigation is being commissioned.

17.

Moved up [1]: This has been a very unfortunate development and we will need to assess what has gone wrong and whether it was preventable. This includes questions such as: ¶ whether the scheme was adequately designed to cope in the unprecedented increase in demand; ¶ whether administrative errors, which included overlooking a deadline to seek re-approval of the business case for the non-domestic scheme from DFP, could have been avoided; and ¶ whether the budget situation could have been clarified at an earlier stage.

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18. I have arranged for DETI Internal Audit to review the situation and to report to me in due course.

Conclusion

19. However, at this time the immediate priority is to close the scheme to prevent further financial pressure. The Minister is very sympathetic to those who hoped to avail of the RHI scheme. He also appreciates that it is unfortunate that the convention of seeking the Committee's approval for the draft regulations cannot be followed in this case. However, the overriding priority is to prevent further financial pressures. [Once this is achieved he is prepared to consider wider proposals on the scheme's long term future.]

From: [Rooney, Eugene](#)
To: [McCormick, Andrew \(DFE\)](#); [Stewart, Chris \(DFE\)](#)
Cc: [Mills, John \(DETI\)](#); [McIlwrath, Linda](#); [Hill, Janice](#); [McCoy, Laura](#); [Wightman, Stuart](#); [Cooper, Trevor](#)
Subject: RE: RHi ETI Committee speaking note (2)
Date: 08 February 2016 18:30:29

Para 8 says that GB has cut expenditure on the scheme in the coming years but para 10 indicates it has increased expenditure in the Spending Review. It is the latter.

Should it say in the opening remarks Whistleblowing allegations of “abuse of the scheme” rather than “fraud” – based on info available currently allegations of the abuse of the scheme gives rise to *suspicions* of fraud which is what is signalled in our fraud notification .

From: McCormick, Andrew (DETI)
Sent: 08 February 2016 18:05
To: Stewart, Chris (DETI)
Cc: Mills, John (DETI); McIlwrath, Linda; Hill, Janice; McCoy, Laura; Wightman, Stuart; Rooney, Eugene; Cooper, Trevor
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