

From: Aiken, Glynis
Sent: 01 February 2016 15:37
To: DoF Private Office
Subject: FW: RHI

Brian
Please save onto KN case
Thanks
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From: Brennan, Mike
Sent: 01 February 2016 15:30
To: Crawford, Andrew; Aiken, Glynis
Cc: Sterling, David; Morelli, Emer; Scott, Michelle; McBurney, Joanne
Subject: RHI

Minister / Andrew

RHI Urgent Procedure paper revised as discussed

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From the Office of the Minister



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**FROM: JONATHAN BELL MLA
MINISTER OF ENTERPRISE, TRADE AND INVESTMENT**

DATE: FEBRUARY 2016

TO: FIRST MINISTER AND DEPUTY FIRST MINISTER

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

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 Scheme (RHI). The urgent decision is required to minimise [significant DEL](#) 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-biomass](#) and has been attributed to one particular industry's wholesale uptake of the scheme. [This is the poultry industry's use of RHI for broiler houses.](#)



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 [DEL](#) Block funding. However, when the scheme was first introduced in 2012, HMT confirmed that RHI spending would not be treated as [standard,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. This could be achieved through scheme changes. However, [it was DETI's understanding that](#) the rules provided that a small proportion of any required future savings (likely to be of the order of 5%) would have to be funded directed by NI through DEL.

~~10. Also, [unlike traditional,unlike conventional](#) AME, the initial 4 year (2011/12-2014/15) NI allocation of £25m was based on a Barnett formula of [c.irca](#)3% of the DECC budget (£838m). HMT confirmed that any 20 year commitments entered into during this period would be honored. 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. [Northern Ireland is however now producing approximately \[8\] per cent of the DECC budget.](#)~~

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Change in HMT policy

11. If RHI funding was ~~“pure”conventional~~ AME there would be no impact on NI DEL. ~~If the Barnett formula + 5% penalties approach was carried forward the effect on NI DEL would be relatively small—generally less than £1m p.a. over the 2016/17–20/21 period (this assumes scheme closure in March 2016).~~ However, ~~the effect of~~ the Chancellor’s Autumn Statement confirmed that the AME cap for Northern Ireland would be set at the Barnett share of circa 3%. was to reduce the NI RHI budget. 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 likely position will be that NI will have to cover the full costs ~~(not 5%)~~ of any overspends. This means that the Block DEL will be penalised for the excess spend in each of the next 20 years. The Chief Secretary’s wording is set out below:

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Renewable Heat Incentive (RHI)

13. 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.

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12. This ~~could~~ creates significant budgetary pressures over and above the available AME budget cover for the next ~~55-years and, given the nature of the existing 20 year contracts, could extend far beyond the next budget period~~ 20-years over and above the available AME budget cover with forecast additional average annual costs of around £40m even if there are no new applications after the end of this financial year. Forecast costs in 2016/17 would be higher ~~if~~ 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-33m~~ in 2016/17 (latest estimate) to around £11m by 2020/21. This, of course, all assumes that there are no further application spikes in anticipation of scheme closure.

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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 ~~not be covered by HMT~~ 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.

13-14. Given the cost escalation associated with the application spike I understand that DFP has now initiated an investigation into the control mechanisms in place and to seek ways to reduce the cost escalations.

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Consultation

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

15.16. I plan to launch a short public consultation on the decision to close both schemes and will update you on the outcome of this.

Timing

16.17. Given the urgency of the situation I propose to close both the RHI schemes as soon as possible, subject to public consultation and Assembly approval of the legislation.

Recommendation

17.18. 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 Scheme (RHI), subject to the outcome of the public consultation and Assembly approval.

18.19. 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