

From: [Archbold, Claire](#)
To: [McRory, Kelley](#)
Subject: HPRM: FW: RHI Oversight Board TOR
Date: 25 January 2017 15:41:45
Attachments: [RHI - Impact Analysis \(2\) \(2\).docx](#)
[RHI Action Plan.docx](#)
[Organisation Chart - Annex A.DOCX](#)

K – Pl start a Trim folder called RHI Oversight Board and pop this into it – thx - C

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From: McMurray, Stephen
Sent: 25 January 2017 14:52
To: Archbold, Claire
Subject: RHI Oversight Board

Claire, as discussed some details on RHI taskforce and Oversight Board.

- 1.0 Background document setting out reasons why new one year regulations were brought in this week
- 2.0 RHI Task force details
- 3.0 Organisation Chart

First meeting will be early February

Many thanks

Stephen

Stephen McMurray

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Background Information to Non- Domestic RHI

Impact of Changes to Small & Medium Biomass Tariffs in Place Prior to Nov 2015

Descriptive Statistics

1. Overall, there were about 2130 applications to the Non Domestic RHI Scheme. The vast majority of these still remain in place and around 330 of these are unaffected by these regulations¹ as they were received after 18 November 2015. The proposed changes are likely to impact on the tariff structure of around 1760 installations receiving RHI payments on the Medium and Small Biomass Tariffs that were in place prior to 18 November 2015.
2. The vast majority of these installations are on the Medium Tariff (Circa 99.5%). The regulations also involve an expansion of the band for the Medium Tariff up to capacities of 200kWth. This band expansion impacts on only one installation.
3. By far the most common installations have a 99kWth capacity – around 1,300 in number. On average, applicants with 99kWth biomass boilers expressed, within their applications, an intention, or expectation that installations would run at around a 55% load factor – with a range from a load factor of 4% to a load factor of 100%.

Proposed Changes

4. These proposed changes involve placing those Small and Medium Biomass installations on the pre November 2015 Tariffs onto a tariff structure that is in line with those applications received on or after 18 November 2015. That tariff structure involves, for small and medium biomass boilers:
 - An annual tiered tariff, in which the first 1,314 operating hours will be paid at the standard rate (currently 6.8p and 6.5p respectively), reducing thereafter to 1.5 p per kWh;
 - The medium biomass band was widened from 20 – 100kW to 20 - 200kW (in line with the re-banding in the UK mainland scheme); and
 - An annual heat cap of 400,000kWh, after which no payments are made.

Over Compensation of Installations

4. While the majority of installations will be affected by these proposals, it must be borne in mind that the original intention of the Scheme was to incentivise commercial investment by offering returns of around 12% on the additional costs of going renewable.
5. For individual installations the potential for material over compensation is linked to their boiler size and load factor compared to what was assumed when the tariff was initially set. Back at the outset the specialist consultants that had been appointed to advise the Department (CEPA)

¹ The Renewable Heat Incentive Scheme (Amendment) Regulations (Northern Ireland) 2017

assumed a typical boiler size of 50kW running 17% of the time, and this drove the setting of the Medium Biomass Tariff. However, while CEPA work assumed a 50kW boiler for the Medium Biomass Tariff, the bulk of boilers that came through the scheme were nearly double this size (most often 99kW boilers) with less than 10% of installations being in and around the assumed typical size (ranging between 40kW to 60kW in size). In addition the actual load factor (circa 42%) of those installations claiming RHI payment is nearly 2.5 times that assumed within the CEPA work. Taken together this means that the actual heat load for the Medium Biomass Tariff is around five times what was envisaged to be typical initially and so the initial Medium Biomass tariff, without any action, will continue to significantly over-reward installations on the pre November 2015 Medium Biomass Tariff – at rates of return that are multiples of the projected typical rate anticipated at the outset.

6. In addition the Medium Biomass part of the scheme has and will continue to be (in the absence of action) delivering levels of compensation, and rates of return, well outside the confines of the State Aid notification for this scheme.
7. The original intention of the Scheme was to incentivise commercial investment by offering returns of around 12% on the additional costs of going renewable. The new tariffs, the tier and the cap are also grounded in the same logic and so the owners of small and medium biomass still retain that ability to earn commercially based returns on their original investment.

Impact of Perverse Incentives & Abuse

8. The current tariff structure attracts a flat 6.5 p/kWh tariff on all heat output and as a result there is a direct relationship between load factor and rate of return. In addition the incremental payment is also above the incremental fuel cost of attaining that payment. As a result there are perverse financial incentives within the current tariff structure to produce heat that is not needed and in doing so abuse, if not defraud, the scheme and the public purse.
9. The proposed changes to the tariff structure, in particular the introduction of the tier, will tackle the perverse incentive to continue to produce heat, beyond the amount truly needed, simply in order to increase payments. The introduction of the tariff structure will see impacts in terms of reduced abuse and tackling the production of unnecessary heat, and the negative impacts on the public purse of such abuse and behaviours.

Distributional Effects

10. Maintaining the existing tariff structure would see all of the participants who are being over-compensated continuing to benefit disproportionately from the scheme and public purse. Indeed others may recognise the possibility of gaming the system and could potentially adopt malpractice with regard to excess heating in order to further their own personal financial gain. The significant impact on the public purse would remain and, within the distributional impact, the key loser within this option is ultimately the public purse and those public services that would otherwise have utilised the funding over and above the AME allocation. In effect,

maintaining the existing tariff structure involves a continued transfer of resources from the DEL (the block) towards scheme participants in the form of continued over-compensation.

11. The proposed approach will result in tackling over-compensation in future RHI payments to installations. The returns inherent in future RHI payment will now be much more in line with those initially envisaged and intended when the scheme was established. The approach is also projected to (largely) discontinue the transfer of resources from the NI DEL (the block) towards scheme participants. Those operating at or below 1314 hours should not be impacted at all by the changed regulations.

Geographic Distribution

12. Installations benefiting from RHI can be found all across Northern Ireland.

Industry Breakdown

13. These are Non-Domestic RHI Tariffs and as a result the focus of this policy and action is on businesses and commercial enterprises. Thus the impact of the proposed action will be directly felt, primarily, by business and commercial entities rather than individuals.
14. Annex B provides a broad industry breakdown for all applications to the Non-Domestic RHI Scheme.

Section 75 Groups

15. Again these are Non-Domestic RHI Tariffs, and as a result the focus of this policy and action is on businesses and commercial enterprises. Thus the impact of the proposed action will be directly felt, primarily, by business and commercial entities rather than individuals.
16. As a result there are no means to readily identify indirect impacts on individuals as our information sources relate to business and commercial entities – primarily private sector. However, some wider information does exist, through fair employment monitoring, on the composition of individuals working within private sector businesses – albeit with this data source there is no means to identify those with and without an interest in the Non-Domestic RHI Scheme.

Community Background data on those employed in Private Sector Businesses

Figure B: Profile of the Monitored Northern Ireland Workforce [%] by Community Background, 2013

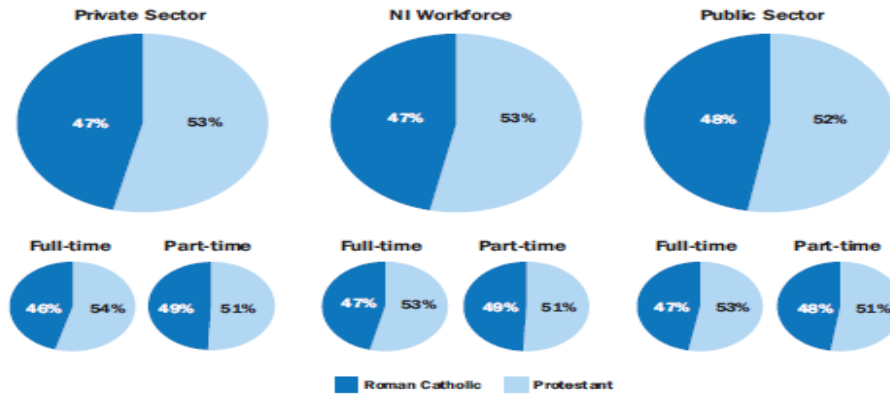
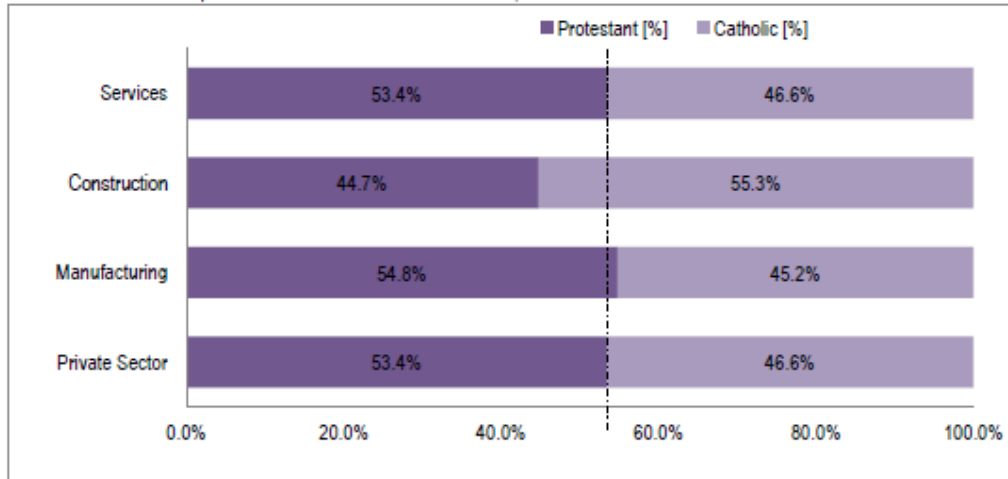


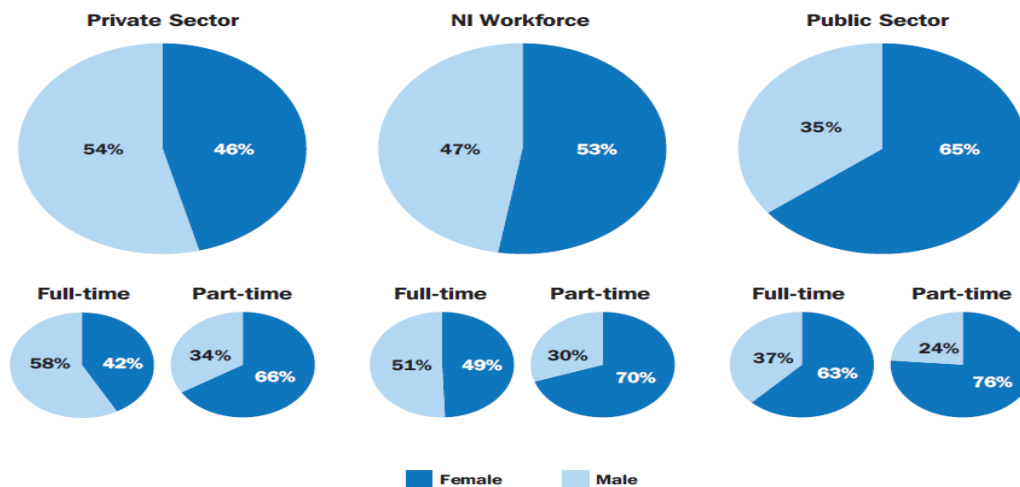
Chart 3.5: Sectoral Components of the Private Sector Workforce, 2013



- The data for the private sector, on religious composition, indicates that 53.4% of the (monitored) private sector workforce are from a Protestant background and 46.6% from a Catholic background.

Gender data on those employed in Private Sector Businesses

Figure C: Profile of the Monitored Northern Ireland Workforce (%) by Sex, 2013



18. While the overall NI workforce has a majority of females (53%) there are differences between the public and private sector. The public sector has large majority of females within its composition (65%) where as just under half (46%) of the private sector workforce is female.

Age Distribution Data on the NI Workforce

19. No specific age related data is available for the workforces within businesses and commercial entities involved in the Non Domestic RHI Scheme. However, there is information available on the overall age profile of those in work from the Labour Force Survey (see below).
20. As would be expected, the age distribution of the Northern Ireland workforce is very much concentrated within the bounds of the working age population (in the 16 to 64 range), although it does extend beyond this into the 65+ age range.

Age distribution of those in employment, 16+

	Male (%)	Female (%)	All persons (%)
16-19	2.6	2.9	2.7
20-24	9.4	10.2	9.8
25-29	11.2	12.1	11.6
30-34	12.3	12.1	12.2
35-39	11.7	10.2	11.0
40-44	10.9	12.3	11.5
45-49	11.6	13.1	12.3
50-54	11.0	12.9	11.9
55-59	8.8	8.7	8.7
60-64	5.6	4.1	4.9
65+	4.9	*	3.3
All 16+	446,000	388,000	834,000

Source: Labour Force Survey, April - June 2016

Disability Data on the NI Workforce

21. No specific disability related data is available for the workforces within businesses and commercial entities involved in the Non Domestic RHI Scheme. However, there is information available on disability within the overall workforce from the Labour Force Survey (see below)

Economic activity of persons with or without a disability, 16-64

	Without a disability (%)	With a disability (%)
In employment	77.3	32.8
ILO unemployed	4.4	4.4
Inactive	18.3	62.7

Source: Labour Force Survey, April - June 2016

Notes:

The table shows the number of people with (without) a disability who are unemployed expressed as a percentage of the total number of people of working age with (without) a disability. The percentages displayed in the table are not equivalent to the unemployment rates which are calculated as the proportion of the economically active population

22. People without a disability were more than twice as likely to be in employment (78%) than those with a disability (33%). People with a disability were much more likely to be outside the available workforce and within the Economic Inactive.

Ethnic Minorities

23. No specific ethnic minority related data is available for the workforces within businesses and commercial entities involved in the Non Domestic RHI Scheme. However, there is information available for industry overall from the Census and this is set out at Annex A.

Annex A

INDUSTRY BY ETHNIC GROUP

	All usual residents aged 16 to 74 in employment	Asian						Black				Mixed	Other
		Total	Chinese	Indian	Pakistani	Bangladeshi	Other Asian	Total	Caribbean	African	Other		
All usual residents aged 16 to 74 in employment	795,263	9,527	2,856	3,368	456	203	2,644	1,615	222	1,019	374	1,648	1,143
Agriculture, forestry and fishing	17,822	37	14	9	0	0	14	12	4	2	6	4	17
Mining and quarrying	1,972	5	3	2	0	0	0	1	0	1	0	0	2
Manufacturing	77,072	534	121	203	27	5	178	250	19	118	113	129	169
Electricity, gas, steam and air conditioning supply	3,508	20	4	9	1	0	6	2	0	2	0	4	3
Water supply; sewerage, waste management and remediation activities	5,792	18	4	6	0	0	8	31	0	29	2	8	5
Construction	65,059	143	58	48	10	4	23	44	8	15	21	43	51
Wholesale and retail trade; repair of motor vehicles and motor cycles	139,384	803	277	248	71	19	188	186	24	110	52	294	158
Transport and storage	32,006	121	29	38	20	5	29	33	7	20	6	37	27
Accommodation and food service activities	42,703	2,404	1,430	343	98	125	408	105	14	66	25	169	115
Information and communication	20,267	570	83	419	19	3	46	56	9	39	8	71	48
Financial and insurance activities	25,993	306	57	198	10	4	37	42	4	32	6	51	20
Real estate activities	7,504	31	12	8	2	0	9	8	1	5	2	17	12
Professional, scientific and technical activities	36,277	311	117	117	16	3	58	60	7	46	7	86	54
Administrative and support service activities	32,447	204	49	93	8	3	51	137	21	84	32	78	49
Public administration and defence; compulsory social security	63,422	212	71	68	15	5	53	160	38	80	42	92	76
Education	74,569	526	178	162	47	10	129	93	19	59	15	157	138
Human health and social work activities	112,995	3,097	291	1,338	100	15	1,353	340	36	279	25	311	141
Other	36,471	185	58	59	12	2	54	55	11	32	12	97	58

Source: Census 2011

Annex B: Industry Breakdown – All Applications

Aggregated SIC 07 Section		Applications Received
A+B	Agriculture, Forestry and Fishing Mining and Quarrying	1236
C	Manufacturing	283
D+E+F	Electricity, Gas, Steam and Air Conditioning Supply Water Supply, Sewerage, Waste Management and Remediation Activities Construction	55
G+H	Wholesale and Retail Trade; Repair of Motor vehicles and motorcycles Transportation and Storage	150
I	Accommodation and Food Service Activities	123
J+K+L+M	Information and Communication Financial and Insurance Activities Real Estate Activities Professional, Scientific and Technical Activities	32
N	Administrative and Support Service Activities	100
O+P+Q	Public Administration and Defence; Compulsory Social Security Education Human Health and Social Work Activities	69
R+S+T	Arts, Entertainment And Recreation Other Service Activities Activities of Households as Employers; Undifferentiated Goods and Services Producing Activities of Households for Own Use	80
	Total	2128

RHI Action Plan - January 2017

Key Actions to address RHI Issues:

- 1.0** A new RHI Taskforce has been formed which started work in December 2016. This is a team of 16 staff made up of economists, legal advisers, contract management experts, finance staff, governance and policy staff.
- 2.0** The purpose of this team is to bring the non domestic RHI Scheme back in line with the initial policy intention within a framework of effective and robust financial, governance and regulatory controls.
- 3.0** All of the RHI Taskforce work will be completed in line with Prince Project methodology.
- 4.0** **Above the RHI Taskforce will be an oversight board with Andrew McCormick as chair and four other Senior Civil Servants from outside of DfE. The purpose of this board is to provide advice to the chair on how the Taskforce is delivering against purpose, targets and objectives.**
- 5.0** The Taskforce arrangement will be in place until 30 June 2017 after which a re-constituted RHI team will be established to take forward the RHI in a robust way within an effective policy, financial, governance and regulatory framework.
- 6.0** The key tasks and dates for the team are:
- 1.0 Production of a robust and evidence based Business Case for the first stage of addressing the deficiencies in the non domestic RHI scheme.
- Target Date: January 2017 Status: Complete**
- 2.0 Production of clear and concise draft regulations for consideration by Assembly/Executive.
- Target Date: January 2017 Status: Complete**
- 3.0 Completion of a business case and procurement (under EU requirements) to allow for a tender process to begin for 100% Inspection Process.
- Target Date: January 2017 Status: On track**
- 4.0 Prepare and complete Fact Finding Review.
- Target Date: March 2017 Status: On track**

- 5.0 Refine and enhance financial model for RHI financial forecasting.
Target Date: February 2017 **Status: On track**
- 6.0 Put in place robust and rigorous monitoring of Ofgem activities and performance in respect to enforcement activities.
Target Date: February 2017 **Status: On track**
- 7.0 Consider options for proper “enforcement” delivery.
Target Date: January 2017 **Status: On track**
- 8.0 Commencement of a full consultation exercise to inform stage 2 process for addressing deficiencies in RHI scheme.
Target Date: April 2017 **Status: On track**
- 9.0 Develop Business Plan for stage 2 solution.
Target Date: June 2017 **Status: On track**
- 10.0 Introduce clear and concise Regulations for consideration by Assembly/Executive following full discussion with all Stakeholders and Departmental Committee.
Target Date: October 2017 **Status: On track**
- 11.0 Address all issues raised by Internal Audit Service.
Target Date: June 2017 **Status: On track**
- 12.0 Address all issues raised by NI Audit Office.
Target Date: June 2017 **Status: On track**
- 13.0 Address all recommendations raised by PwC in the Inspection Report.
Target Date: June 2017 **Status: On track**
- 14.0 Publication of recipient names
Target Date: January 2017 **Status: Delayed**

Other Areas (to be fully completed by June 2017)

- 1.0 Ensure all lessons learned from RHI are communicated and understood by DfE and other NICS Departments.
- 2.0 Constant liaison with DoF to make sure proper understanding of the issues and progress being made and that proper approvals are in place.
- 3.0 Provide support to all investigatory/scrutiny work (including PAC and Inquiry)
- 4.0 Handle all external queries including AQ's and Press enquiries.

15.0 Keys Risks\Possible Barriers to progression

- 1.0 Judicial Review going against Department
- 2.0 Not having adequate staff resources
- 3.0 Assembly collapse
- 4.0 Inadequate enforcement

Team Structure chart attached (Annex A)