

Tom Scholar  
Permanent Secretary  
Her Majesty's Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

By post and email: [tom.scholar@hmtreasury.gsi.gov.uk](mailto:tom.scholar@hmtreasury.gsi.gov.uk)

11 July 2017

Dear Sir

**Re: The Independent Public Inquiry into the Non Domestic Renewable Heat Incentive (RHI) Scheme**  
**Request for a Written Statement and Documents from the Department**

I am writing to you in my capacity as Solicitor to the Independent Public Inquiry into the Northern Ireland Non Domestic Renewable Heat Incentive (RHI) Scheme (known as 'the RHI Inquiry') which has been set up under the Inquiries Act 2005 to consider matters related to Northern Ireland's Renewable Heat Incentive Scheme created pursuant to the Renewable Heat Incentive Scheme Regulations (Northern Ireland) 2012.

I enclose a copy of the RHI Inquiry's Terms of Reference for your information. Further information regarding the Inquiry can be accessed on its website: <https://www.rhiinquiry.org/>.

You may be aware that the RHI Inquiry is currently investigating the matters set out in its Terms of Reference. This involves the Inquiry obtaining relevant documentation, and witness statements, from various individuals, organisations, and government departments.

As part of this exercise, the Inquiry is investigating the creation and operation of the Non Domestic Renewable Heat Incentive Scheme ('the NI RHI Scheme'). The Inquiry's work in this regard involves a consideration of various aspects of the NI RHI Scheme including its funding, the tariffs payable under it, the costs controls (if any) within it, its administration by GEMA / OFGEM, the potential for over-compensation (and related State Aid issues), and the potential for abuse of the Scheme.

This work also requires the Inquiry to examine the analogous RHI Scheme in Great Britain ('the GB RHI Scheme'), the salient differences between the NI and GB RHI Schemes, the level of communication between those government officials with responsibility for the GB RHI Scheme and their counterparts in Northern Ireland, and the lessons that were, or ought to have been, learned from the creation and operation of the GB RHI Scheme (which, as you may know, was operational approximately 1 year prior to the NI RHI Scheme). The Inquiry has turned to the Department for Business, Energy, and Industrial Strategy for assistance in this regard.

However, the Inquiry's work also requires it to examine how the NI RHI Scheme was funded: including the nature of the funding, where it came from, in what circumstances, what caveats were applied to it, the communication mechanisms that were in place in respect of the funding to address any matters that arose, and so on.

In the circumstances, the Inquiry believes that it would be of considerable assistance to it if Her Majesty's Treasury ('the Department') could provide:

1. a written statement addressing the issues set out in the Schedule enclosed with this letter;
2. copies of any documents that are relevant to those issues.

Given the tight time-frame within which the RHI Inquiry must operate, the Chairman of the Inquiry would be grateful if you would provide the information sought as soon as ever possible.

Finally, I would be grateful if you could acknowledge receipt of this correspondence and the enclosed notice by email to [Patrick.Butler@rhiinquiry.org](mailto:Patrick.Butler@rhiinquiry.org).

Please do not hesitate to contact me to discuss any matter arising.

Yours faithfully

A handwritten signature in black ink that reads "Patrick Butler". The signature is written in a cursive style with a long horizontal stroke at the end.

**Patrick Butler**

Solicitor to the RHI Inquiry

02890408928

**SCHEDULE**

*The Department*

1. Please provide, for the period 2010 to the present, a summary of:
  - a. the background and functions of Her Majesty's Treasury ('the Department');
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  - d. the role the Department plays in the provision of finance to the devolved administration in Northern Ireland and to Northern Ireland departments;
  - e. the different types of funding that are provided, and the mechanisms through which they are provided;
  - f. how the amounts of the different types of funding are determined, and the mechanisms through which they are determined ;
  - g. the organisational structure within the Department dealing with funding relating to Northern Ireland;
  - h. the communication mechanisms between the Department and Northern Ireland departments in respect of funding.

*Renewable Energy Policy*

2. Please provide an explanation of:
  - a. the role of the Department in respect of renewable energy policy in the

United Kingdom;

- b. the role of the Department in respect of renewable heat policy in the United Kingdom.

*GB RHI Scheme funding*

3. Please provide an explanation of the role of the Department in the development and funding of the GB RHI Scheme including:
  - a. whether funding was only available for a scheme of a particular type (for instance, an ongoing financial support scheme rather than a capital grant or challenge fund scheme);
  - b. how the amount of funding was determined;
  - c. how it was allocated;
  - d. the form of the funding;
  - e. the period for which the funding was provided (and, in light of the fact that the Scheme was intended to run for a number of decades beyond 2011, what guarantee [if any] there was of funding, whether generally or at certain specified levels, continuing for the anticipated lifetime of the Scheme, and, if there was no such guarantee, how the issue of Scheme lifetime vs. funding period was addressed by the Department);
  - f. the conditions or caveats that applied to the funding;
  - g. how any overspends, underspends, or inter year transfers were to be dealt with (if the policy around these issues changed over time, then please set out how the policy changed and when);

- h. the annual amounts of the funding from the inception of the GB RHI Scheme;
- i. how the issue of inflation was catered for including whether the RHI annual budgets rose with inflation (and if not, why not);
- j. the communication mechanisms that operated between the Department and the United Kingdom department administering the GB RHI Scheme;
- k. anything else about the GB RHI Scheme which the Department considers relevant to the RHI Inquiry's Terms of Reference.

*NI RHI Scheme funding*

- 4. Please provide an explanation of the role of the Department in the development and funding of the NI RHI Scheme including:
  - a. Who determined (HMT, DECC or otherwise) what funding Northern Ireland would receive in respect of renewable heat, and who determined the mechanism through which the funding would be provided;
  - b. whether funding was only available for a scheme of a particular type (for instance, an ongoing financial support scheme rather than a capital grant or challenge fund scheme);
  - c. how the amount of funding was determined;
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  - e. the form of the funding;
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at certain specified levels, continuing for the anticipated lifetime of the Scheme, and, if there was no such guarantee, how the issue of Scheme lifetime vs. funding period was addressed by the Department);

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- k. the communication mechanisms that operated between the Department and the Northern Ireland department administering the NI RHI Scheme;
- l. anything else about the NI RHI Scheme which the Department considers relevant to the RHI Inquiry's Terms of Reference.

#### *GB RHI Scheme Funding and NI RHI Scheme Funding*

- 5. Identify, and explain the rationale for, any significant differences between the funding provided for each of the GB and NI RHI Schemes.

#### *AME and DEL*

- 6. Please summarise the nature and form of AME and DEL funding, and the differences between them.
- 7. Please explain (including by way of examples) how common it is to have AME funding with a potential DEL effect.

8. Please explain how the Department expects and/or requires departments receiving funding that is in the form of AME but with a potential DEL effect to record and manage that funding and any risks associated with it.
9. Please explain how, when, and in what precise terms the Department communicated to any Northern Ireland department its expectations and/or requirements regarding the management and recording of the funding provided in respect of the NI RHI Scheme and the risks associated with it.
10. Please explain how and when the Department monitored and/or controlled any Northern Ireland department's management and recording of the funding provided in respect of the NI RHI Scheme, and the risks associated with it, as well as details of the outcome of such monitoring and/or control.

#### *RHI Funding – Other Issues*

11. Please explain (if necessary with reference to the history of the development of the particular type of funding in question) why the funding for RHI Schemes, and the NI RHI Scheme in particular, was in the form of AME but with a potential DEL effect.
12. Without prejudice to the generality of the foregoing, please explain why the funding for RHI Schemes, and the NI RHI Scheme in particular, was not wholly or partially derived from a levy upon energy consumers and/or commercial entities in the energy sector, and, if applicable, summarise the consideration given by the Department to the levy issue (including details of when it was considered and why a levy model was not adopted).

#### *State Aid Approval for the GB RHI Scheme and the NI RHI Scheme*

13. Please explain the role played by the Department in State Aid approvals for incentive schemes operated by government.



14. Please explain in particular the nature of any involvement of the Department in the:

- a. State Aid approval process for the GB RHI Scheme;
- b. State Aid approval process for the NI RHI Scheme.

15. Explain, in the context of state aid approvals and potential over-compensation:

- a. how this was to be avoided, and any role HMT had in devising how it was to be avoided;
- b. if over compensation were to occur, the mechanism by which it would be dealt with, and any role HMT would have in that process.

*The Department's interactions over the NI RHI Scheme*

16. In respect of the NI RHI Scheme please set out a chronology of the dealings the Department had (including details of the names and roles of all relevant persons) with:

- a. the Northern Ireland Department for Enterprise, Trade and Investment (later the Department for the Economy);
- b. the Northern Ireland Department of Finance and Personnel (later the Department of Finance);
- c. the Department of Energy and Climate Change (later the Department for Business, Energy and Industrial Strategy).

17. On the 15 April, 2011 Jon Parker (Joint Head of HMT Energy Branch) sent an email to Alison Clydesdale (DETI Sustainable Energy). That email has the RHI Inquiry reference WIT 00843 and is served herewith. As to the contents of that email:

- a. Jon Parker indicated at point i) of his email that HMT had agreed with DECC that they could make commitments to RHI spending in future years (up to 20 years) for installations that were installed within the SR (which is assumed by the Inquiry to be an abbreviation for 'Spending Review') period (which is assumed by the Inquiry to be the period from 6 April, 2011 to 5 April, 2015). The same position was said to apply to Northern Ireland. In relation to that point:
  - i. did the HMT policy change at some point so as to permit commitments in respect of RHI installations installed after the 5 April, 2015?
  - ii. If so, when was this policy change made?
  - iii. How was that change communicated, when and to whom?
- b. Jon Parker also indicated, in the penultimate paragraph of his email, that RHI spending was not being treated as standard AME, but instead there was a risk sharing arrangement in respect of any overspend. As to that:
  - i. Please explain how the mechanism Jon Parker was describing was to work;
  - ii. Was he indicating that even if changes were made to the RHI Scheme in future years so as to recoup any overspend from a particular year, in addition there was a requirement for 5% of any savings necessary to be funded directly from DECC's DEL (ie. any overspend was always going to have some effect on the departmental DEL budget). (The Inquiry would be grateful if HMT could explain exactly what was meant by this passage).
- c. The penultimate paragraph of Jon Parker's email also indicated that the actual position over the effect on DEL (which was said to be likely to be

in the order of 5%) was still to be determined. As to that:

- i. When was the final position determined?
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*Investigations or Reviews relating to the NI RHI Scheme or the GB RHI Scheme*

18. Please identify any investigations, reviews, analyses, audits, appraisals, evaluations, studies, or other similar exercises commissioned and/or conducted in respect of the operation of each of the GB and NI RHI Schemes including, in respect of each such exercise, the following details:

- a. the person or body that commissioned it;
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*Future Funding of the NI RHI Scheme*

19. The NI RHI Scheme was intended to remain open to new applicants until 2020 and for installations to receive tariff payments for up to 20 years from accreditation. Please explain:

- a. the funding mechanisms that were in place to support the NI RHI Scheme over the period up to 2040, including the amounts of funding to be provided;
- b. if these funding mechanisms have changed at any material time, the date of each such change, the nature of it, and the reasons for it.

*Incentive Schemes*

20. Please set out any experience the Department has of difficulties with controlling expenditure on incentive schemes (including, but not limited to, the GB and NI RHI Schemes) including:

- a. what known (inherent or other) difficulties there have been;
- b. when those (inherent or other) difficulties first became known;
- c. where incentive schemes sit in the Department's assessment of risks to public expenditure;
- d. what guidance, if any, has issued in respect of controlling expenditure on incentive schemes.

21. In particular, without prejudice to the generality of the foregoing paragraph but addressing the specific issues identified in sub-paragraphs a to d thereof, please set out the Department's experience of the difficulties associated with 'demand led' incentive schemes.

*General*

22. Provide any further evidence within your knowledge or belief that is relevant to the matters which the RHI Inquiry is investigating as set out its Terms of Reference.

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*General*

22. Provide any further evidence within your knowledge or belief that is relevant to the matters which the RHI Inquiry is investigating as set out its Terms of Reference.

Belfast, BT4 2JP  
Tel: 028 9052 9417 (ext: 29417)  
Textphone: 028 9052 9304  
Web: [www.detini.gov.uk](http://www.detini.gov.uk)

**Please consider the environment - do you really need to print this e-mail?**

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**From:** Clydesdale, Alison  
**Sent:** 15 April 2011 12:25  
**To:** Hepper, Fiona; Brankin, Bernie  
**Cc:** Hutchinson, Peter  
**Subject:** FW: [RESTRICED] RE: RHI NI  
**Importance:** High

Fiona - for info .

Bernie - see below regarding reporting against the £25m that we have been allocated for RHI - can you advise how this will work in practice for us - I am presuming that DFP will work through your side on this ?

Can you also advise if this years' allocation of £1.7 m will show in Energy's budget line ?

Happy to discuss.

Alison

**Alison Clydesdale**  
Sustainable Energy  
Department of Enterprise, Trade & Investment  
Netherleigh  
Massey Avenue  
Belfast, BT4 2JP  
Tel: 028 9052 9248 (ext: 29248)  
Mob: Personal information redacted by the RHI Inquiry  
Textphone: 028 9052 9304  
Web: [www.detini.gov.uk](http://www.detini.gov.uk)

**Please consider the environment - do you really need to print this e-mail?**

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**From:** Parker, Jon - HMT [<mailto:Jon.Parker@hmtreasury.gsi.gov.uk>]  
**Sent:** 15 April 2011 12:13  
**To:** Clydesdale, Alison  
**Cc:** Hutchinson, Peter; Garcia, Nicolas - HMT; Parkinson, Mark - HMT; [Mike.brennan@dfpni.gsi.gov.uk](mailto:Mike.brennan@dfpni.gsi.gov.uk)  
**Subject:** [RESTRICED] RE: RHI NI

Alison,

Sorry for the delay in coming back to you. Taking your points in turn:

- i) With DECC, we have agreed that they can make commitments to spending in future years (up to 20 years) for installations that are installed within the SR period (i.e. the initial payments have to be affordable within the SR profile), and providing that the policy is set up so that payments should be basically flat over the 20 year period in real terms (i.e. no backloading to ease short-term affordability pressures). This same agreement would apply to any NI scheme.
- ii) DECC's GB RHI profile is £56m/133m/251m/424m. NI's share of this is 2.98%, so £1.7m/4.0m/7.5m/12.6m. The NI scheme would need to follow this profile as much as possible – on which further below. We will need you to feed into us forecasts of NI RHI spending for the Office of Budget Responsibility's bi-annual forecasts – this can be fed through me or Mark Parkinson (in the Devolved Countries Unit within Treasury).
- iii) This funding does have to be used for renewable heat, but if NIE decide you would like to use it for a grant scheme or some such then this would be permissible as long as the cost of NIE spending is constrained to the AME consequential.

The other key point it is necessary to let you know about is that the DECC RHI spending is not being treated as standard AME, where the Exchequer takes on all risks of overspend. Instead, there is a risk-sharing arrangement whereby should RHI spending in one year exceed the SR profile, then DECC would need to repay this in future years. They can do this through announcing changes to the SR that will bring cost savings relative to the SR profile in future years. However, a small proportion of any required future savings (still to be determined, but likely to be of the order of 5%) will have to be funded through contributions from DECC's DEL. Again, these rules would be applied in equivalent fashion to NI.

Happy to discuss any of these issues in more detail.

Jon

**Jon Parker** | Joint Head, Energy Branch | Energy, Environment and Agriculture  
HM Treasury, 1/N2, 1 Horse Guards Road, SW1A 2HQ | 020 7270 5641

 Please consider the environment before printing this email.

[www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

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**From:** Clydesdale, Alison [<mailto:Alison.Clydesdale@detjni.gsi.gov.uk>]

**Sent:** 11 April 2011 13:00

**To:** Parker, Jon - HMT

**Cc:** Hutchinson, Peter

**Subject:** RHI NI

Jon

We spoke briefly the other day about the £25m allocation to NI for an RHI.

Can I ask you to clarify for me :-

- (i) The position with the commitment to 20 year payments within NI.
- (ii) The process for advising on the spending profile of the £25m AME that we have been allocated.
- (iii) If the £25m can solely be used for an RHI - or we can use it to incentivise in a different way e.g grant ?

Happy to discuss.

Alison

**Alison Clydesdale**  
Sustainable Energy

OFFICIAL



HM Treasury

Jean-Christophe Gray  
Director Public Services  
1 Horse Guards Road  
London  
SW1A 2HQ

Patrick Butler  
Solicitor to the RHI Inquiry  
RHI Inquiry  
1<sup>st</sup> Floor  
Waterfront Plaza  
8 Laganbank Road  
Belfast  
BT1 3LY

T 020 7270 4561  
E Jean.Christophe.Gray@hmtreasury.gsi.gov.uk

[www.gov.uk/hm-treasury](http://www.gov.uk/hm-treasury)

8 September 2017

Dear Mr Butler

THE INDEPENDENT PUBLIC INQUIRY INTO THE NON DOMESTIC RENEWABLE HEAT INCENTIVE (RHI) SCHEME - REQUEST FOR A WRITTEN STATEMENT AND DOCUMENTS FROM THE DEPARTMENT

Thank you for your letter of 11 July, addressed to Tom Scholar, Permanent Secretary to HM Treasury. I am replying as Director of HM Treasury's Public Services Group, which includes responsibility for the Treasury's relationship with the Northern Ireland Executive.

I attach a written statement addressing the issues raised in your letter.

Yours sincerely,

JEAN-CHRISTOPHE GRAY

*P.S. Please do not hesitate to let me know if we can be of further assistance.*

OFFICIAL



### HM Treasury's role

HM Treasury (HMT) is the government's economic and finance ministry, maintaining control over public spending, setting the direction of the UK's economic policy and working to achieve strong and sustainable economic growth.

HMT sets out spending plans for UK government departments and the devolved administrations (DAs) at Spending Reviews. The most recent took place in 2015. A Spending Review sets multi-year budgets for resource (RDEL) and capital (CDEL) spending. Outside of Spending Reviews, these multi-year budgets can be adjusted by funding allocations decisions taken at annual fiscal events such as the Budget.

The most recent Spending Review was published in 2015. Further information about Spending Review 2015 can be found in Annex A.

### Funding devolved administrations

The Statement of Funding Policy (SFP) sets out how the UK Government determines funding for the DAs, the elements of that funding, and the interactions with the resources that the DAs can raise themselves. The SFP was revised and published alongside Spending Reviews in 2010 and 2015 and a copy is located at Annex A.

Once DA budgets have been determined at Spending Reviews, the DAs have freedom to make their own spending decisions in terms of allocating budgets to individual departments, functions or programmes within their devolved responsibilities.

Within HMT, the Devolution team within the Public Services Group manages the majority of interactions with the DAs, working closely with the General Expenditure Policy team who have oversight of aggregate levels of public spending. Further information on HMT's organisation structure is at Annex A.

### Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME)

The total amount that the government spends is also known as Total Managed Expenditure (TME). This is split up in to:

- i. departmental budgets – the amount that government departments have been allocated to spend; this is known as **Departmental Expenditure Limits, or DEL**.
- ii. money spent in areas outside budgetary control – this is all spending that is not controlled by a government department and includes welfare, pensions and things such as debt interest payments.; this known as **Annually Managed Expenditure, or AME**.

Within DEL budgets, departments or DAs have the capacity to move funding around to deal with increases or decreases in demand or as a result of Ministerial decisions.

Several characteristics of a spending programme can make it AME. Generally, programmes are funded in AME if they are demand-led and/or volatile in a way that could not adequately be controlled by the DA/UK Department; and/or are so large that the DA/UK Department could not be expected to absorb the effects of volatility within DEL – pensions expenditure falls into this category.

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Departments and DAs are expected to forecast and manage AME spending. HMT reviews spending on AME by monitoring spending against the budget, forecasts or targets for a given AME programme.

The 2010 Statement of Funding Policy stated that:

“Increases in Annually Managed Expenditure programme spending, which arise from policy decisions taken by the respective devolved administrations, will be met from their respective budgets.”

The 2015 Statement of Funding Policy states that:

“Where a devolved administration wishes to offer more generous terms for an AME programme, then the excess over that implied by adopting broadly similar criteria to the relevant UK government department or body (and therefore broadly comparable costs) for that programme must be met from within their DEL budgets.”

### Funding the Renewable Heat Incentive Scheme in Great Britain

The GB Renewable Heat Incentive (GB RHI) is a Department for Business, Energy and Industrial Strategy (BEIS) scheme to develop the supply chain for, and increase deployment of, renewable and low carbon heating. It provides a financial incentive to both domestic and non-domestic installers of low carbon heat sources and supports the contribution of heat towards the UK's target for renewable energy under the Renewable Energy Strategy (RES) and carbon towards the UK's carbon reduction plan. The RES set out an expectation that, by 2020, around 12% of UK heat demand (72TWh) could come from renewable sources.

When the GB RHI was introduced in 2011, the then Department for Energy and Climate Change (DECC) submitted a business case to HMT for approval. This is in line with normal policy process for HMT to assess departmental policies that have an economic and fiscal impact and to approve expenditure to ensure the proper use of public resources. HMT requires and works with UK government departments to develop a robust set of options for the business case, in line with HMT Green Book guidance, in order to assess the risks and trade-offs of alternative policy approaches. A levy option for funding the RHI scheme was proposed through the business case and later discounted due to design complexity and the additional burdens this would impose.

The level of funding for GB RHI was made on the basis of DECC's best evaluation of the evidence to ensure that the UK had a credible approach to meet its targets under the RES. As part of this, HMT agreed that the exchequer would underwrite payments made under the scheme for a 20-year period (7 years for domestic). The initial budget for the GB RHI was set at the 2010 Spending Review covering the years to 2014/15. Following that allocation, ongoing budgets for the scheme were set at the 2013 Spending Round (to cover 2015/16) and the 2015 Spending Review (to cover the period until 2020/21).

HMT agreed a request by DECC for AME treatment of the GB RHI budget at scheme design stage, which was granted to reflect the demand-led nature of the scheme. However, in agreeing AME treatment for RHI, HMT did not take on the risk of overspend.

Instead, HMT required that strong cost controls were in place to safeguard against scheme overspend, against the budget set at spending reviews, and to incentivise robust budget management by the department. Under this arrangement, DECC agreed to repay any RHI AME overspend in one year through savings against its RHI AME allocation in future years. As a further incentive to control costs, DECC were required to fund a proportion of this repayment from their wider DEL budget.

HMT has an ongoing policy to keep the effectiveness of all budgeting arrangements under review and, under this process and in collaboration with DECC/BEIS, cost control for GB RHI has evolved over time with the degression mechanism, tariff reviews, and budget caps. Improved forecasting, enabled by access to deployment data since the inception of the scheme, has also enabled better budget management. At SR15,

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the standard Consolidated Budgeting Guidance rules were applied to the GB scheme, which set out that where the actions/inactions of a department increase AME, they are assumed to fund the increases in AME by reductions in their DEL budgets. Payments made under GB RHI are publicly available and published by Ofgem (as scheme administrator) in their quarterly and annual reports. The GB RHI scheme has never overspent against its allocated AME budget in any year since its inception.

### State Aid

State Aid approvals for GB RHI, and each significant change to the scheme, have been acquired by BEIS (and DECC). These are publicly available and provided in Annex A. The BEIS State Aid team is responsible for State Aid across the whole of government, including local and regional government and the DAs. As such, HMT has had no major role in State Aid notifications for GB (or NI) RHI.

### Funding the Northern Ireland Renewable Heat Incentive

Following the 2010 Spending Review, the then-Chief Secretary to the Treasury wrote to the then-First Minister and deputy First Minister, setting out DEL budgets for the financial years 2011-12, 2012-13, 2013-14 and 2014-15. This letter, known as a 'settlement letter', also set out the level of AME budget available from HMT should the Executive choose to introduce its own renewable heat scheme:

*"If NIE choose to introduce an NI Heat Incentive Scheme then AME funding of £2/4/7/12 million [from 2011-2 to 2014-15] will be available over the SR period based on a population share of the GB scheme. NIE officials should inform my officials of their intentions to feed into AME forecasts."*

HMT determined the quantum of AME funding potentially available to the Northern Ireland Executive (NIE) for renewable heating schemes based on a population-proportionate share of the funding made available to DECC for the GB scheme, and as in GB future spending reviews would ensure that proportionate payments would be covered for a 20-year period, in line with requirements set out in SFP.

As heat is a devolved policy area, the NIE had full autonomy over scheme design. The only specification by HMT, beyond the standard requirements set out in the Statement of Funding Policy, was that the allocation could only be used to support renewable heat projects, as the provision of this additional funding over and above DEL budgets was granted for the sole purpose of establishing an equivalent NI based RHI scheme.

No formal communication was issued to the NIE by HMT in relation to RHI budgets in the single year covered by the 2013 Spending Round (2015-16), but it was assumed that AME cover would continue to be proportionate to the budget assigned to DECC to operate the GB scheme. In January 2014, then-DECC Minister Greg Barker wrote to then-DETI Minister Arlene Foster, confirming that funding for the NIE for 2015/16 would continue to be a population share of the GB RHI scheme.

The then-Chief Secretary to the Treasury wrote to the then-Minister for Finance and Personnel following the 2015 Spending Review, covering the financial years, 2016-17, 2017-18, 2018-19, 2019-20 and 2020-21. In relation to RHI funding, that letter set out that:

*"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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**Correspondence between HMT and Northern Ireland Executive departments on the RHI schemes**

HMT holds no records which suggest detailed discussion or correspondence between HMT and the NIE departments in relation to the design of the NI RHI schemes at their outset, nor is there record of such discussions between HMT and DECC in relation to the NI schemes.

The inquiry has seen email correspondence from 2011 between Jon Parker, Joint Head of HMT's Energy Branch in the Energy, Environment and Agriculture team to Alison Clydesdale in the Sustainable Energy team at DETI.

That email is clear that "the cost of NIE spending is constrained to the AME consequential" – meaning the population-proportionate share of AME funding as set out in the settlement letter following the 2010 Spending Review. The email makes clear that the decision to fund RHI in AME rather than DEL does not imply HMT taking on full risk of overspend, and sets out arrangements which had been put in place in respect of any overspend against AME budgets in the GB schemes. In particular, that DECC would repay any RHI AME overspend in one year through savings against its RHI AME allocation in future years. As a further incentive to control costs, Jon Parker explains that HMT would require a proportion of this repayment to come from DECC's wider DEL budget.

**Engagement between HMT and the Northern Ireland Executive departments when issues around the NI RHI schemes came to light**

HMT was not made aware of any issues in relation to the NI RHI schemes until December 2015. The issue was first raised in the context of a catch-up meeting between the Treasury's Devolution team and their regular counterparts in the Northern Ireland Department of Finance and Personnel, and followed up in subsequent days by the provision of a short paper to HMT.

Following the receipt of that paper, the Treasury's Spending Principal responsible for DA budgets spoke with the DFP Budget Director, and set out clearly in a telephone conversation the HMT view that there was no case for the overspending in 2015-16 or subsequent years to be met by increasing the level of AME budget available to the NIE, on the basis of the arrangements set out in the Statement of Funding Policy, in the 2010 settlement letter, and in the 2011 email from Jon Parker. Our understanding is that this position was accepted.

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**Annex A – Relevant documents****1. UK government spending reviews and devolved administration funding**

2015 Spending Review <https://www.gov.uk/government/topical-events/autumn-statement-and-spending-review-2015>

**2015 Statement of Funding Policy**

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/479717/statement of funding 2015 print.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479717/statement_of_funding_2015_print.pdf)

**2. HMT structure**

HMT organogram <https://data.gov.uk/organogram/hm-treasury>

**3. External research that informed GB scheme design****2008 NERA Phase 1 report – Qualitative Evaluation of Financial Instruments for Renewable Heat**

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/42968/1\\_20090501131446 e\\_NERARenewableHeatPhase1Complete080623.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/42968/1_20090501131446_e_NERARenewableHeatPhase1Complete080623.pdf)

**2008 NERA Phase 2 report – Quantitative Evaluation of Financial Instruments for Renewable Heat**

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/42960/1\\_20090501125320 e\\_NERARenewableHeatPhaseIIReportFinalrev.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/42960/1_20090501125320_e_NERARenewableHeatPhaseIIReportFinalrev.pdf)

**2010 NERA report – Design of the RHI**

[http://www.nera.com/content/dam/nera/publications/archive1/PUB\\_DECC\\_Feb2010.pdf](http://www.nera.com/content/dam/nera/publications/archive1/PUB_DECC_Feb2010.pdf)

**2013 Sweett Group report – Research on the costs and performance of heating and cooling technologies**

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/204275/Research on the costs and performance of heating and cooling technologies Sweett Group .pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/204275/Research_on_the_costs_and_performance_of_heating_and_cooling_technologies_Sweett_Group.pdf)

**4. DECC Annual reports and accounts**

<https://www.gov.uk/government/collections/decc-annual-reports-and-accounts>

**5. Consultations and Government Responses on the GB RHI scheme****2010 – Renewable Heat Incentive: Consultation on the proposed RHI financial support scheme**

<https://www.gov.uk/government/collections/decc-annual-reports-and-accounts>

**2011 – Renewable Heat Incentive policy statement**

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/48041/1387-renewable-heat-incentive.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48041/1387-renewable-heat-incentive.pdf)

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2012 – Consultation and Government Response on RHI: Proposals for a Domestic Scheme

<https://www.gov.uk/government/consultations/renewable-heat-incentive-proposals-for-a-domestic-scheme>

2012 – Consultation and Government Response on RHI: expanding the Non-Domestic Scheme

<https://www.gov.uk/government/consultations/renewable-heat-incentive-expanding-the-non-domestic-scheme>

2012 – Consultation and Government Response on RHI: air to water heat pumps and energy from waste

<https://www.gov.uk/government/consultations/renewable-heat-incentive-air-to-water-heat-pumps-and-energy-from-waste--2>

2012 – Consultation and Government Response on RHI: Providing Certainty, Improving Performance

<https://www.gov.uk/government/consultations/renewable-heat-incentive-providing-certainty-and-improving-performance>

2013 – Non-Domestic RHI early tariff review

<https://www.gov.uk/government/consultations/non-domestic-rhi-early-tariff-review>

2014 – RHI biomethane injection to grid tariff review

<https://www.gov.uk/government/consultations/rhi-biomethane-injection-to-grid-tariff-review>

2016 – Consultation and Government Response on RHI: A reformed and refocused scheme

<https://www.gov.uk/government/consultations/the-renewable-heat-incentive-a-reformed-and-refocused-scheme>

2017 – Consultation on RHI: support for biomass-Combined Heat and Power

<https://www.gov.uk/government/consultations/renewable-heat-incentive-support-for-biomass-combined-heat-and-power>

## 6. GB RHI statistics

Domestic RHI monthly and quarterly forecasts for estimated committed expenditure

<https://www.gov.uk/government/publications/domestic-rhi-mechanism-for-budget-management-estimated-commitments>

Non-Domestic RHI monthly and quarterly forecasts for estimated committed expenditure

<https://www.gov.uk/government/publications/rhi-mechanism-for-budget-management-estimated-commitments>

RHI statistics

<https://www.gov.uk/government/collections/renewable-heat-incentive-statistics>

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**7. GB RHI evaluations**

<https://www.gov.uk/government/collections/renewable-heat-incentive-evaluation>

**8. State Aid Approvals**

2011 – State Aid case SA.32125 (RHI)

[http://ec.europa.eu/competition/elojade/isef/case\\_details.cfm?proc\\_code=3 SA 32125](http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3 SA 32125)

2013 – State Aid case SA.37562 (Amendments to Non-Domestic scheme)

[http://ec.europa.eu/competition/elojade/isef/case\\_details.cfm?proc\\_code=3 SA 37562](http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3 SA 37562)

2013 – State Aid case SA.35766 (Extension of RHI to the Domestic sector)

[http://ec.europa.eu/competition/elojade/isef/case\\_details.cfm?proc\\_code=3 SA 35766](http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3 SA 35766)

2013 – State Aid case SA.36345 (RHI – Air Quality requirements)

[http://ec.europa.eu/competition/elojade/isef/case\\_details.cfm?proc\\_code=3 SA 36345](http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3 SA 36345)

2016 – State Aid case SA.44622 (Modification of the RHI scheme)

[http://ec.europa.eu/competition/elojade/isef/case\\_details.cfm?proc\\_code=3 SA 44622](http://ec.europa.eu/competition/elojade/isef/case_details.cfm?proc_code=3 SA 44622)

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