

From the Office of the Minister



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Ms Fionnuala Casey  
Assembly Library  
Room 141  
Parliament Buildings  
Belfast  
BT4 3XX

19 December 2016

Dear Ms Casey

Please find attached copies of documentation for depositing in the Northern Ireland Assembly Library.

Yours sincerely

A handwritten signature in black ink that reads "Simon Hamilton". The signature is written in a cursive style.

**SIMON HAMILTON MLA**



**From:** Chris Stewart

**Tel No:** 29203

**Date:** 4 February 2016

**To:** 1. Timothy Cairns  
 2. Jonathan Bell MLA

**Copy Distribution List below**

**CLOSURE OF RHI – URGENT PROCEDURES**

<b>Issue:</b>	Closure of the Northern Ireland Renewable Heat Incentive schemes (RHI).
<b>Timing:</b>	<b>DESK IMMEDIATE:</b> Clearance immediately to enable letter to OFMDFM to issue tomorrow – Thursday 4 February 2016.
<b>Executive Committee Referral:</b>	Urgent Procedures are necessary to secure Executive approval before announcing decision to close RHI Schemes
<b>PFG Implications:</b>	The PfG targets for renewable heat are 4% by 2015 and 10% by 2020.
<b>Presentational Issues:</b>	Not publicly consulting will attract criticism.
<b>FOI Implications:</b>	FOIA exempt under sections 35 (formulation or development of government policy)
<b>Financial Implications:</b>	Potential impact on DEL of £95m over 5 years.
<b>Legislation Implications:</b>	Legislative changes to the RHI require draft affirmative resolution Regulations. Not consulting may provide grounds for subsequent legal challenge on decision to close schemes.
<b>Statutory Equality Obligations:</b>	Screened out.
<b>Recommendation:</b>	That you issue: <ul style="list-style-type: none"> <li>- the attached letter to OFMDFM seeking urgent Executive approval (<b>Annex A</b>); and</li> <li>- <u>subject to OFMDFM approval</u>, issue the attached letter to the Chair of the ETI Committee (<b>Annex B</b>) and a press release (<b>Annex C</b>).</li> </ul>

## **Background**

1. Further to the submissions of 29 January 2016 from John Mills, you had agreed to close the RHI schemes to new applications, subject to public consultation. Following further consideration, you have decided to proceed with legislation to close the schemes without public consultation. You have consulted the Finance Minister on these issues and he concurs with your concerns and desire to minimise the exposure of the NI Block DEL. This submission invites you to approve the immediate steps needed to obtain Executive approval.

## **Budget Deficit**

2. To meet RHI commitments for existing installations, around £95m of funding will have to be found from Resource DEL (RDEL) for the next 5 years to address the current funding deficit. If both RHI schemes remain open to new applicants, the budget deficit increases to £185m.

## **Executive Referral**

3. The closure/suspension and the budget position could be considered "significant or controversial" and cross cutting. Also any action other than closure would create a significant opportunity cost and, even if this was to be absorbed in the DETI/DfE budget areas, it would have consequences which could only be approved at collective Executive level. To meet the current timetable Executive approval must be secured under urgent procedure. A draft letter to the First Minister and deputy First Minister seeking urgent Executive approval is therefore attached at **Annex A**.

## **ETI Committee**

4. I understand that, in view of the risk to the NI block, you wish to propose that the draft regulations are laid and the motion tabled at the earliest possible juncture, without prior consideration and approval by the ETI Committee. This action is, of course, likely to attract strong criticism from the Committee. I must also point out that, in seeking to reduce one risk (i.e. of increased overspending) by shortening the timescale for legislation, another risk will be increased; i.e. the risk of legal challenge to the shortened period of public notice of closure.
5. Assuming prompt Executive approval, the shortest feasible timescale would involve consideration by the Business Committee next Tuesday (9 February), with a proposal to schedule the debate for Monday 15 February. The scheme would close on 16 February (with less than 2 weeks public notice).

## **Announcement**

6. Subject to Executive approval, the Chair of the ETI Committee should be given advance warning of your proposed announcement. A draft letter is attached (**Annex B**) along with a draft Press Release (**Annex C**).

**Recommendation**

7. That you issue:

- (a) the attached letter to OFMDFM seeking urgent Executive approval (**Annex A**); and
- (b) subject to Executive approval, the attached letter to the Chair of the ETI Committee (**Annex B**) and Press Release (**Annex C**).

*CF Stewart*

**CHRIS STEWART**  
Head of Policy Group

cc: Andrew McCormick  
Eugene Rooney  
John Mills  
Trevor Cooper

[REDACTED]  
[REDACTED]  
[REDACTED]  
Ian McCrea MLA APS

[REDACTED]  
Press Office, DETI

**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 Resource DEL (RDEL) 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.
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 RDEL Block funding. However, when the scheme was first introduced in 2012, HMT confirmed that RHI spending would not be treated as 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. However, it was DETI's understanding that only a very small proportion of any required future savings (likely to be of the order of 5%) would have to be funded direct by NI through RDEL.
10. Also unlike conventional AME, the initial 4 year (2011/12-2014/15) NI allocation of £25m was based on a Barnett formula of circa 3% of the DECC budget (£838m). HMT confirmed that any 20 year commitments entered into during this period would be honoured. 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.

### **Implications of Chancellor's Autumn Statement**

11. If RHI funding was conventional AME there would be no impact on NI DEL. However, the Chancellor's Autumn Statement confirmed that the AME cap for Northern Ireland would be set at the Barnett share of circa 3%. 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 position will be that NI will have to cover the full costs of any overspend. This means that the Block RDEL will be penalised for any excess spend for a period of at least the next five years and possibly up to 20 years ahead, depending on the approach taken to RHI in future in GB. The Chief Secretary's wording is set out below:

#### 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.

12. This creates significant budgetary pressures over and above the available AME budget cover for at least the next 5 years and, given the nature of the existing 20 year contracts, could extend far beyond the next budget period even if there are no new applications after the end of this financial year. Forecast costs in 2016/17 would be higher 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 in 2016/17 (latest estimate) to around £11m by 2020/21 (though if there are more applications than currently projected the additional costs could be around £33m in 2016/17). This, of course, all assumes that there are no further application spikes in anticipation of scheme closure.

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 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.

14. DFP and DETI have initiated an investigation into the effectiveness of the control and regulation of the Initiative in light of the significant increase in uptake of the scheme.

## **Consultation**

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

## **Timing**

16. Given the urgency of the situation I propose to close both the RHI schemes as soon as possible, subject to Assembly approval of the legislation. Indeed, the financial risk is such that I am seeking your approval on the basis that there is not sufficient time for the established convention of consideration of the draft legislation by the ETI Committee. I propose to lay the regulations in draft and table the motion for debate at the earliest possible juncture, without seeking prior Committee approval. This would mean asking the Business Committee (at its 9 February meeting) to schedule the motion for debate on 15 February.
17. Subject to your agreement, I will write to the Chair of the Committee, explaining the circumstances and the reasons for urgent action.

## **Recommendation**

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 Schemes (RHI), subject to Assembly approval.
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

Mr Patsy McGlone MLA  
Chair of ETI Committee  
Room 375  
Northern Ireland Assembly  
Parliament Buildings  
Stormont  
BELFAST  
BT4 3XX

February 2016

Dear Patsy

**PUBLIC CONSULTATION ON CLOSURE OF THE RENEWABLE HEAT INCENTIVE SCHEME (RHI)**

I am writing to inform the Committee that today I will be announcing the closure of both RHI schemes to new applicants. A copy of the Press Release is attached.

You will recall that I brought cost control measures for the Non Domestic scheme forward in November 2015. At that time I said that further measures might be necessary. A sustained increase in applications during March/April 2015 was the catalyst for these changes. However, in the run up to the November changes, there was an unprecedented surge in new applications with a further 900 applications received in 6 weeks. This doubled the total number of installations under the non-domestic scheme. It is estimated that over 6% of NI's total heating needs are now provided through renewable technologies. The PfG target of 4% renewable heat by 2015 has been exceeded.

However, this success comes at a price. Both 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, the Chancellor's Autumn Statement confirmed that the AME cap for Northern Ireland would be set at the Barnett share of circa 3%. This means that the Block DEL will be penalised for any excess spend for a period of at least the next five years and possibly up to 20 years ahead, depending on the approach taken to RHI in future in GB.

Total expenditure for RHI 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), forecast expenditure is expected to reach £45m. The increased costs associated with the recent surge in applications together with budget cuts arising from the Spending Review means the available budget for new applications has been exceeded. Meeting existing RHI commitments, let alone any new ones, will have a very significant impact on the NI Executive's budget, possibly as much as £19m p.a., for the next 5 years. 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 further overspend. I will bring forward legislation to the Assembly to close both schemes to new applications.

The urgent need to manage the financial risk means that I must bring forward the legislation at the earliest possible juncture. I have today laid the draft regulations and tabled the motion for debate, and I will be asking the Business Committee to schedule the debate for 15 February.

Regrettably, this timescale does not allow time to follow the established convention of seeking the Committee's approval of the policy and draft legislation. I must emphasise that this is not a decision that I have taken lightly. I recognise the importance of the Committee's role, and I would not contemplate this course of action if it were not for a very serious and urgent risk to the public finances.

My Department will also be carrying out a comprehensive review and audit, to ensure that the operation of the schemes is strictly in compliance with the scheme requirements and the underpinning legislation.

I enclose a copy of the draft regulations. I would be happy to meet you and the Deputy Chair to explain the position more fully if that would be helpful. I have also asked my officials to stand ready to brief the Committee at its convenience.

**JONATHAN BELL MLA**  
Minister of Enterprise, Trade and Investment

**Enterprise, Trade and Investment Minister, Jonathan Bell announces proposals to close of the Northern Ireland Renewable Heat Incentive (RHI).**

Enterprise, Trade and Investment Minister, Jonathan Bell announced his intention to close the domestic and non domestic Renewable Heat Incentive (RHI) schemes. The RHI was launched to the non domestic sector in November 2012 and extended to the domestic sector in December 2014.

Commenting on his decision the Minister said: 'It is with great reluctance today that I have had to announce my intention to close both RHI schemes. Both schemes have been very successful with the non domestic scheme in particular seeing significant uptake during the last 12 months and more so in the run up to the recent scheme changes introduced in November 2015. It is estimated that around 6% of NI's heating needs are now provided through renewable technologies. The Executive's target to achieve 4% renewable heat has been exceeded.

However, this increased demand means the available budget for new applications has been exhausted. To meet RHI commitments for existing installations, significant levels of additional funding will have to be found from within the NI Executive's budget for the next 5 years to address the current deficit. To prevent further overspend, I must bring forward legislation to the Assembly to close both schemes to new applications.

My Department will also be carrying out a comprehensive review and audit, to ensure that the operation of the schemes is strictly in compliance with the scheme requirements and the underpinning legislation.'

Notes to Editors

For press enquiries please contact DETI Press Office on tel 028 9052 9604. Out of hours please contact the Duty Press Officer via pager number 07699 715 440 and your call will be returned.

*Content in line with what was agreed at 11/1/15 meeting Tim 2/9*

**Submission**

**From:** [Redacted] Energy Division

**Telex No:** Ext 29425

**Date:** 8 July 2015

**cc:** Copy distribution list below

**To:** 1. Timothy Cairns  
2. Jonathan Bell MLA

**RENEWABLE HEAT INCENTIVE (RHI) – INTRODUCTION OF COST CONTROL MEASURES AND ENSURING EFFECTIVE ADMINISTRATION OF DOMESTIC SCHEME**

**Issue:** Introduction of cost control measures to manage RHI expenditure and ensuring effective administration of domestic scheme

**Timing:** Urgent

**Executive Committee Referral:** N/A

**PFG Implications:** The PSA targets for renewable heat are 4% by end of 2015 and 10% by 2020.

**Presentational Issues:** Likely to be significant interest from key stakeholders and the media on proposed cost control measures. Lines to Take are included at Annex C.

**FOI Implications:** Likely to be exempt under s.35 – formulation of government policy.

**Financial Implications:** We are currently seeking extra funding as forecast scheme expenditure is exceeds previous funding allocations.

**Legislation Implications:** Subordinate legislation will be required to implement changes.

**Statutory Equality Obligations:** Equality screening for RHI completed and no equality implications identified.

**Recommendation:** That you agree:  
a) to proceed with legislation to make changes to the non-domestic biomass RHI tariff and introduce a new CHP RHI tariff (like GB) from ~~1-4 October~~ November 2015;  
b) that officials continue to develop proposals for future tariff digression/ reduction for both RHI schemes (similar to that in GB) to be introduced at a later date;  
c) to issue the attached final policy paper (Annex A), SL 1 letter to the ETI Committee (Annex B) and make use of the attached Lines to Take (Annex C) as necessary;

*and  
d) to delay processing of new Domestic RHI applications  
to assist with current resource pressures and make use  
of the attached lines (Annex D) as necessary.*

## **BACKGROUND**

1. The Strategic Energy Framework (SEF) includes a target to achieve 10% of heat from renewable sources by 2020. The Programme for Government (PfG) includes an interim renewable heat target of 4% by 2015. The Renewable Heat Incentive (RHI) was introduced in pursuit of these targets in November 2012. It provides an ongoing financial incentive for non-domestic generators of renewable heat for 20 years. A similar scheme applies in Great Britain albeit with different tariff levels. The Scheme is administered on DETI's behalf by the Gas and Electricity Markets Authority (Ofgem). Eligible technologies currently include biomass, ground/water source heat pumps and solar thermal (for hot water not electricity).
2. In October 2013, your predecessor consulted on proposals for Phase 2 of the NI RHI. This included extending the RHI scheme to the domestic sector, increasing the list of eligible non-domestic technologies, introducing biomass sustainability and emissions standards and introducing a system of cost control. The full Domestic RHI Scheme was introduced in December 2014 but the other RHI Phase 2 proposals have yet to be finalised and implemented.
3. Prior to the Domestic RHI Scheme, DETI operated the Renewable Heat Premium Payment Scheme (RHPP) for the domestic market which provided upfront incentive payments for accredited renewable heating systems. Unlike the Non-domestic Scheme, the domestic scheme is administered in house by DETI Energy Division.

## **SCHEME PERFORMANCE**

4. Both RHI schemes are demand led and difficult to predict future uptake / spend. Unlike the NI Renewables Obligation (NIRO), the RHI is funded by direct taxation rather than through electricity customer charges. RHI funding is provided from the Treasury via Annual Managed Expenditure (AME) so does not impact directly on NI Departmental budgets. Up until late last year, uptake of the RHI schemes had been low and the RHI AME allocations from Treasury were not spent. The RHI funding can only be used to incentivise renewable heat, so the NI economy was therefore missing out on a considerable amount of potential investment. Our focus over the past 12 months has therefore been on improving the performance of the NI RHI to achieve our PfG target and ensure the RHI allocations are spent (and invested in NI) and not returned to Treasury. This included introducing the Domestic RHI Scheme in December 2014 and completing an extensive advertising campaign to promote both schemes.
5. Despite the drop in oil prices over the winter months (making the RHI tariffs less attractive), uptake of the Non-domestic RHI scheme has significantly increased 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 4% renewable heat target before the end of the year.

## NEED TO SECURE ADDITIONAL FUNDING AND DFP APPROVAL

6. This recent success however has put pressure on the NI RHI budget with committed monthly payments (for the next 20 years) rising from £430k to over £1.4m-5m over the past 12 months. Officials are currently working with DFP to try and secure additional funding as forecast scheme expenditure now exceeds previous funding allocations. This increase has been driven by a move in the poultry sector away from LPG heating systems to biomass heating systems in broiler houses. Biomass heating systems account for nearly 99% of non-domestic RHI applications.
7. Officials are also working with DFP to ensure appropriate scheme approvals are in place. Regrettably the necessary DFP approval for additional commitments under the Non-Domestic Scheme beyond 31 March 2015 had not been sought. This concerns committed expenditure for new applications approved from 1 April. Committed expenditure (over 20 years) for applications approved prior to 1 April 2015 is covered by the Business Case approval. Officials are urgently taking forward work to provide supplementary information to DFP in support of the original business case that will seek to regularise the position in relation to the scheme expenditure. This will include an assessment of the scheme's continuous and continuing provision of value for money in achieving the Executive's sustainable energy objectives.

## NEED TO IMPLEMENT PHASE 2 COST CONTROL MEASURES

8. Given these budget pressures, we need to urgently implement cost control measures to manage future RHI expenditure. Changes to the NI RHI scheme(s), however will require legislation. There are a number of potential cost control options with varying degrees of complexity. These are:
  - 1) **Do-Nothing** and assume that the current increase in uptake is temporary and that application numbers / costs will reduce to previous levels. This is not an option as indications from Moy Park are that it will take another 12-18 months to convert all its poultry producers' broiler houses to biomass heating.
  - 2) **Reduce incentives for Biomass Tariff from ~~4 November~~ 1 October 2015.**
    - (i) In the GB RHI scheme, biomass installations (up to 1MW in size) are incentivised by tiered tariffs where higher tariffs are paid for the first 1,314 operating hours and reduced tariffs applied thereafter. There are currently no tariff tiers in the NI RHI scheme. Introducing tariff tiers for biomass on the NI RHI scheme would see the tariff for the most popular size of biomass installation reducing from 6.4 p/kwh to 1.5p/kwh after 1,314 hours (or equivalent kwh) for all new installations (post ~~4 Oct~~ Nov).
    - (ii) In the GB RHI, the most popular biomass tariff applies to installations up to 199kw in size. However, the equivalent NI biomass tariff (6.4p/kwh) currently only applies to installations up to and including 99 kw in size. A flat tariff of 1.5p/kwh applies to larger installations. This current NI tariff banding has encouraged applications for multiple 99kw boilers rather than for single larger installations. Extending the existing 6.4p biomass tariff (20-99kw) to installations up to and including 199kw in size (like GB) and introducing the tariff tier in (i) above will help reduce future application numbers and payments.

~~The legislation for these changes can be prepared relatively quickly during the summer and introduced to the Assembly in September to enable the changes to be effective from 1 October 2015.~~ Legislation is needed in any case to meet a previous commitment to introduce a new RHI tariff for Combined Heat and Power (CHP) by 1 October 2015 so the Biomass tariff changes can be made at the same time.

**3) Introduce future tariff reductions and/or a system of automatic tariff digression for both RHI Schemes.**

- (i) A number of future tariff reductions could be introduced at planned intervals throughout the scheme life. These reductions would have to be determined now and legislated for.
- (ii) Alternatively, an annual system of automatic tariff digression could be introduced where individual tariffs would be reduced if certain budgetary triggers or thresholds are breached. A similar system has been introduced in the GB RHI schemes. This approach will provide the control necessary to react quickly in-year and change tariffs to help manage expenditure.

Option 3(i) will require a detailed economic assessment along with legislation and could take 6 months or more to complete. Similarly, the complexity of the legislative changes for option 3(ii) together with the additional resource implications of running such a system means that it is also unlikely that such a system could be introduced within the next 6 months.

9. It is recommended that you proceed with Option 2 and make changes to the non-domestic biomass tariffs now. In the longer term, tariff digression/reduction is also needed to avoid the need for legislation each time tariffs need changed. It is therefore recommended that officials also develop tariff digression/reduction proposals to be introduced at a later date, possibly along with biomass sustainability and emissions requirements. To have these changes in place by 4 November, the draft legislation needs to be cleared by DSO and the ETI Committee (SL1) in September and laid before the Assembly in early October. This will enable an Assembly Motion Debate to affirm the draft legislation to be scheduled for 3 November 2015. The legislation will come into force on 4 November 2015.
10. A Final Policy document on these proposals is attached at **Annex A** for your approval. This will be published on the DETI website. A SL1 letter to the ETI Committee (**Annex B**) is also attached for your approval. It is expected that there may be some criticism to the proposed changes so Lines to Take are also included at **Annex C**.

## **ADMINISTRATION OF DOMESTIC RHI SCHEME**

11. The Business Case for the Domestic RHI showed that inhouse administration of the scheme within DETI was more cost effective than outsourcing to Ofgem or another external organisation. Inhouse administration was predicated on recruiting 3 additional staff. This hasn't been possible in the current economic climate with the need for the Department to reduce resource costs and headcount. This has impacted on our ability to effectively administer the scheme. Our priority to date has been on processing new applications but work to develop the IT system for annual payments and to process over 1000 legacy applications (RHPP) has had to

be suspended. Most importantly, it hasn't been possible to complete the requisite number of site inspections in line with the audit requirements. With another member of staff likely to go under the Voluntary Exit Scheme in the autumn, resource pressures will continue to worsen.

12. To help relieve these pressures and enable the backlog of site inspections to be completed along with work to process legacy applications from the RHPP scheme, it is recommended that you agree to delay the processing of new applications. It is expected that there may be some criticism to the proposed delays so Lines to Take are included at **Annex D**.
13. To manage expectations and try to minimise telephone queries, an acknowledgement letter will be issued on receipt of an application that will explain that applications are currently taking between 10 and 12 weeks due to high volumes of applications. We will also explore the possibility of putting a notification on the NI Direct Website and recorded message on the telephone lines. We plan to introduce this approach as soon as possible to allow for staff leave during the next 6-8 weeks and will continue until such time as the backlog of work has been completed.

## RECOMMENDATION

14. I recommend that you agree:

- to proceed with legislation to make changes to the non-domestic biomass RHI tariff and introduce a new CHP RHI tariff from ~~1-4 October~~ November 2015;
- that officials continue to develop proposals for future tariff digression/reduction (similar to that in GB) for both RHI schemes to be introduced at a later date;
- to issue the attached final policy paper (**Annex A**), SL 1 letter to the ETI Committee (**Annex B**); and make use of the attached Lines to Take (**Annex C**) as necessary; and
- to delay processing of new Domestic RHI applications to assist with current resource pressures and make use of the attached lines (**Annex D**) as necessary.

## Distribution List:

[REDACTED]  
Timothy Cairns, SPAD  
Ian McCrea MLA, Assembly Private Secretary  
Andrew McCormick  
Chris Stewart  
Eugene Rooney  
John Mills  
Trevor Cooper

[REDACTED]  
Press Office

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry should be supported by a valid receipt or invoice. This ensures transparency and allows for easy verification of the data.

In addition, the document outlines the procedures for handling discrepancies. If there is a difference between the recorded amount and the actual amount, it is crucial to investigate the cause immediately. This could be due to a clerical error, a missing receipt, or a change in the terms of the agreement.

The final section of the document provides a summary of the key points discussed. It reiterates the need for diligence and accuracy in all financial reporting. The document concludes with a statement of intent to continue to improve the reporting process and ensure the highest level of integrity.

The second part of the document details the specific steps involved in the reporting process. It begins with the collection of all relevant documents, including receipts, invoices, and contracts. These documents are then reviewed to ensure that all necessary information is captured and that the amounts are correctly transcribed.

Once the data has been collected, the next step is to enter it into the accounting system. This process must be done carefully to avoid any errors. It is also important to double-check the entries to ensure that they are accurate and complete.

The document also discusses the importance of regular reconciliation. This involves comparing the accounting records with the actual bank statements and other external records. This helps to identify any errors or discrepancies as soon as possible and allows them to be corrected.

Finally, the document emphasizes the need for proper archiving of all records. This ensures that the data is preserved for future reference and that it can be accessed when needed. The document concludes with a reminder to always follow the established procedures and to maintain the highest standards of accuracy.

The third part of the document provides a detailed overview of the financial performance over the reporting period. It includes a summary of the total revenue generated, the total expenses incurred, and the resulting net profit. This information is presented in a clear and concise manner, making it easy to understand.

The document also includes a breakdown of the revenue by product line and by region. This allows for a more detailed analysis of the company's performance and helps to identify areas of strength and weakness.

In addition, the document provides a comparison of the current period's performance with the same period in the previous year. This helps to track progress and identify trends over time.

The document concludes with a series of recommendations for future action. These include suggestions for improving operational efficiency, reducing costs, and increasing revenue. The document also includes a statement of appreciation for the hard work and dedication of all employees.



**From:** John Mills

**Date:** 19 January 2016

**To:** 1. Timothy Cairns  
2. Jonathan Bell MLA

**Copy Distribution List below**

**OPTIONS ON THE FUTURE OF RENEWABLE HEAT INCENTIVE SCHEMES**

**Issue:** The future of the Northern Ireland Renewable Heat Incentive schemes (RHI).

**Timing:** **DESK IMMEDIATE:** Clearance by **20 January 2016** to enable public and Executive consultation to begin.

**Executive Committee Referral:** **Executive Paper needs to be agreed at Executive Meeting on 25 February 2016.**

**PFG Implications:** The PfG targets for renewable heat are 4% by 2015 and 10% by 2020. The 4% target has been met.

**Presentational Issues:** The closure/suspension of the scheme will be unwelcome for the RHI industry. The expenditure situation will attract criticism.

**FOI Implications:** FOIA exempt under sections 35 (formulation or development of government policy)

**Financial Implications:** Potential impact on DEL of £75 over 5 years.

**Legislation Implications:** Legislative changes to the RHI require draft affirmative resolution Regulations.

**Statutory Equality Obligations:** Screened out.

**Recommendation:** That you approve the issue, on 20 January 2016 of the attached:  
(a) a consultation on closure of the RHI scheme (**Annex A**) for a 3 week period;  
(b) letter to the Chair of the ETI Committee (**Annex B**); and  
(c) version1 of the draft Executive paper (**Annex C**).

## BACKGROUND

1. Further to my submission of 31 December 2015 (SUB 1/2016 refers) you have agreed that it appears necessary to close the RHI schemes to new applications (we await written confirmation). The final decision is subject to consultation. This submission invites you to approve the immediate steps needed to move towards final decisions on this issue, which requires Executive approval and public consultation.

## BUDGET DEFICIT

2. To meet RHI commitments for existing installations, around £75m of funding will have to be found from DEL for the next 5 years to address the current funding deficit. If both RHI schemes remain open to new applicants, the budget deficit increases to £165m.

## PUBLIC CONSULTATION

3. To give stakeholders advance notice of closure while moving to prevent further overspend as swiftly as possible. Given that the consultation is on a single issue (the steps for budgetary control of RHI) and there was a more substantial consultation in 2013, the reduced 3 week period is not considered unreasonable and is the maximum possible, given the timescales. A copy of the draft Consultation Document is attached at **Annex A**. A draft letter to the ETI Committee Chair is also attached at **Annex B**.

## EXECUTIVE REFERRAL

4. In the absence of additional funding being allocated to the RHI by the Executive it must close or be suspended. There are implications for the PfG (10% target not being reached if RHI closes). The closure/suspension and the budget position could be considered "significant or controversial" and cross cutting. Also any action other than closure would create a significant opportunity cost, and even if this was to be absorbed in the DETI/DfE budget areas, it would have consequences which could only be approved at collective Executive level. A Draft Executive Paper is therefore attached at **Annex C**.

## NEXT STEPS

5. Closure of the RHI requires subordinate legislation subject to the draft affirmative process. Bearing in mind the fact that the Assembly rises at the end of March, the suggested process and timings for progressing this issue is set out below :

Action	Date
Subject to your clearance of this submission: a) publication of consultation paper ( <b>Annex A</b> ) for a reduced period of 3 weeks; b) issue of draft letter to ETI Committee ( <b>Annex B</b> ); and c) issue of version 1 of an Executive paper ( <b>Annex C</b> )	<u>Wed 20 Jan</u>
Consultation closes/comments back on version 1 of Executive paper	<u>Wed 10 Feb</u>

Further submission to you on outcome of consultation with: a) Final version of Executive paper for clearance; b) SL1 to ETI Committee for closure/suspension - legislation subject to Executive consideration; and c) Motion to be signed for Assembly Debate.	<b><u>Monday 15 Feb - requires clearance by Wed 17 Feb</u></b>
ETI Committee meeting (SL1 clearance, subject to Executive clearance)	<b><u>Tues 23 Feb</u></b>
Executive clearance of Final Paper either at a meeting or by urgent procedure.	<b><u>Not later than 25 Feb</u></b>
Lay Regulations/ ETI Committee meeting (clear draft Regs)	<b><u>End Feb/early Mar</u></b>
Debate on Regulations/ Regulations come into operation	<b><u>Early/mid Mar</u></b>

6. Your urgent clearance will be required at 2 key stages under the process –
- (i) to agree consultation, 1<sup>st</sup> version of Executive paper and correspondence to ETI Committee **by 20 January**; and
  - (ii) following consultation, **by 17 February** clear SL1 (final policy) to ETI Committee; clear final Executive paper and sign motion for Assembly Debate.

#### **RECOMMENDATION**

7. That you approve the issue, on 20 January 2016, of:
- (a) a consultation on the closure of the RHI (**Annex A**) for a 3 week period;
  - (b) the attached letter to the Chair of the ETI Committee, (along with a copy of the consultation document ), which advises of the launch of the consultation (**Annex B**); and
  - (c) version1 of the attached Executive paper which notifies Executive Colleagues of the launch of the consultation (**Annex C**).

  
**JOHN MILLS**  
Energy Division  
Ext. 29215

cc: Andrew McCormick  
Chris Stewart  
Eugene Rooney  
  
Trevor Cooper  
  
Ian McCrea MLA APS  
  
Press Office

## **Annex B - Letter to the ETI Committee**

Mr Patsy McGlone MLA  
Chair of ETI Committee  
Room 375  
Northern Ireland Assembly  
Parliament Buildings  
Stormont  
BELFAST  
BT4 3XX

XX January 2016

Dear Patsy

### **CONSULTATION ON CLOSURE OF THE RENEWABLE HEAT INCENTIVE SCHEME (RHI)**

I am writing to inform the Committee of a consultation on the closure of the RHI. A copy of the consultation document is attached.

You will recall that I brought cost control measures for the Non Domestic scheme forward in November 2013. At that time I said that further measures might be necessary. A sustained increase in applications during March/April 2015 was the catalyst for these changes. However, in the run up to these legislative changes, there was an unprecedented surge in new applications with a further 900 applications received in 6 weeks. This doubled the total number of installations under the non-domestic scheme.

The increase in demand equates to around 7% of total installed heat capacity under the GB non domestic scheme. It is estimated that over 6% of NI's total heating needs are now provided through renewable technologies. The PfG target of 4% renewable heat by 2015 has been exceeded. However, this success comes at a price. Total expenditure for RHI in 2015/16 is now forecast to exceed £30m. Even if no new applications are received in 2016/17 (i.e. both schemes are suspended/closed), forecast RHI expenditure in 2016/17 is expected to be around £42m.

The affordability of the NI RHI going forward obviously depends on the budget available. The RHI is paid out of Annual Managed Expenditure (AME), which normally wouldn't have an impact on the NI Block funding. However, when the scheme was first introduced in 2012, HMT confirmed that RHI spending would not be treated as standard AME, where the Exchequer takes on all risks. Instead, a budget of 3% of GB spending was applied to NI with 5% of any overspend to be funded by NI through DEL.

The effect of the Chancellor's Autumn Statement has been to reduce the NI RHI budget further. The NI allocation will continue to be based on 3% of a reduced DECC budget. This is despite the NI non domestic scheme delivering 7% of the installed capacity under the GB scheme. DFP officials have also advised that HMT's position will be that NI will have to cover the full costs (not 5%) of any overspend. This creates significant budgetary pressures with additional costs of up to £75m over the next 5 years even if no new applications are received after the end of this financial year.

Discussions between DFP and HMT are ongoing but I must proceed on the basis that the overspend which has now arisen will not be covered by HMT. I will seek the views my Executive colleagues and will write to the Committee again following consultation and Executive consideration.

**JONATHAN BELL MLA**

Minister of Enterprise, Trade and Investment



**From:** Chris Stewart

**Tel No:** 29203

**Date:** 3 February 2016

**To:** 1. Timothy Cairns  
2. Jonathan Bell MLA

**Copy Distribution List below**

**CLOSURE OF RHI – URGENT PROCEDURES**

<b>Issue:</b>	Closure of the Northern Ireland Renewable Heat Incentive schemes (RHI).
<b>Timing:</b>	<b>DESK IMMEDIATE:</b> Clearance immediately to enable letter to OFMDFM to issue tomorrow – Thursday 4 February 2016.
<b>Executive Committee Referral:</b>	Urgent Procedures are necessary to secure Executive approval before announcing decision to close RHI Schemes
<b>PfG Implications:</b>	The PfG targets for renewable heat are 4% by 2015 and 10% by 2020.
<b>Presentational Issues:</b>	Not publicly consulting will attract criticism.
<b>FOI Implications:</b>	FOIA exempt under sections 35 (formulation or development of government policy)
<b>Financial Implications:</b>	Potential impact on DEL of £95m over 5 years.
<b>Legislation Implications:</b>	Legislative changes to the RHI require draft affirmative resolution Regulations. Not consulting may provide grounds for subsequent legal challenge on decision to close schemes.
<b>Statutory Equality Obligations:</b>	Screened out.
<b>Recommendation:</b>	That you issue: <ul style="list-style-type: none"><li>- the attached letter to OFMDFM seeking urgent Executive approval (<b>Annex A</b>); and</li><li>- <u>subject to OFMDFM approval</u>, issue the attached letter to the Chair of the ETI Committee (<b>Annex B</b>) and a press release (<b>Annex C</b>).</li></ul>

## Background

1. Further to the submissions of 29 January 2016 from John Mills, you had agreed to close the RHI schemes to new applications, subject to public consultation. ~~However, following discussion with DFP and OFMDFM, you have agreed to proceed with legislation to close the schemes without public consultation.~~ Following further consideration, you have decided to proceed with legislation to close the schemes without public consultation. This submission invites you to approve the immediate steps needed to obtain Executive approval.

## Budget Deficit

2. To meet RHI commitments for existing installations, around £95m of funding will have to be found from Resource DEL (RDEL) for the next 5 years to address the current funding deficit. If both RHI schemes remain open to new applicants, the budget deficit increases to £185m.

## Executive Referral

3. The closure/suspension and the budget position could be considered “significant or controversial” and cross cutting. Also any action other than closure would create a significant opportunity cost and, even if this was to be absorbed in the DETI/DfE budget areas, it would have consequences which could only be approved at collective Executive level. To meet the current timetable Executive approval must be secured under urgent procedure. A draft letter to the First Minister and deputy First Minister seeking urgent Executive approval is therefore attached at **Annex A**.

~~3. This is informed by comments received from the Finance Minister.~~

## ETI Committee

4. I understand that, in view of the risk to the NI block, you wish to propose that the draft regulations are laid and the motion tabled at the earliest possible juncture, without prior consideration and approval by the ETI Committee. ~~Informal advice from OFMDFM officials is that this is feasible, but highly unusual. This action~~ is, of course, likely to attract strong criticism from the Committee. I must also point out that, in seeking to reduce one risk (i.e. of increased overspending) by shortening the timescale for legislation, another risk will be increased; i.e. the risk of legal challenge to the shortened period of public notice of closure.
5. Assuming prompt Executive approval, the shortest feasible timescale would involve consideration by the Business Committee next Tuesday (9 February), with a proposal to schedule the debate for Monday 15 February. The scheme would close on 16 February (with less than 2 weeks public notice).

## Announcement

6. Subject to Executive approval, the Chair of the ETI Committee should be given advance warning of your proposed announcement. A draft letter is attached (**Annex B**) along with a draft Press Release (**Annex C**).

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**Recommendation**

7. That you issue:
- (a) the attached letter to OFMDFM seeking urgent Executive approval (**Annex A**); and
  - (b) subject to Executive approval, the attached letter to the Chair of the ETI Committee (**Annex B**) and Press Release (**Annex C**).

*CF Stewart*

**CHRIS STEWART**  
**Head of Policy Group**

cc: Andrew McCormick  
Eugene Rooney  
John Mills  
Trevor Cooper  
[REDACTED]  
[REDACTED])  
Ian McCrea MLA APS  
[REDACTED]  
Press Office

## ANNEX A

**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 Resource DEL (RDEL) 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 NIRHI 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.
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 RDEL Block funding. However, when the scheme was first introduced in 2012, HMT confirmed that RHI spending would not be treated as 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. However, it was DETI's understanding that only a very small proportion of any required future savings (likely to be of the order of 5%) would have to be funded direct by NI through RDEL.
  
10. Also unlike conventional AME, the initial 4 year (2011/12-2014/15) NI allocation of £25m was based on a Barnett formula of circa 3% of the DECC budget (£838m). HMT confirmed that any 20 year commitments entered into during this period would be honoured. 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.

## Implications of Chancellor's Autumn Statement

11. If RHI funding was conventional AME there would be no impact on NI DEL. However, the Chancellor's Autumn Statement confirmed that the AME cap for Northern Ireland would be set at the Barnett share of circa 3%. 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 position will be that NI will have to cover the full costs of any overspend. This means that the Block RDEL will be penalised for any excess spend for a period of at least the next five years and possibly up to 20 years ahead, depending on the approach taken to RHI in future in GB. The Chief Secretary's wording is set out below:

### 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.

12. This creates significant budgetary pressures over and above the available AME budget cover for at least the next 5 years and, given the nature of the existing 20 year contracts, could extend far beyond the next budget period even if there are no new applications after the end of this financial year. Forecast costs in 2016/17 would be higher 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 in 2016/17 (latest estimate) to around £11m by 2020/21 (though if there are more applications than currently projected the additional costs could be around £33m in 2016/17). This, of course, all assumes that there are no further application spikes in anticipation of scheme closure.

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 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.

14. DFP and DETI have initiated an investigation into the effectiveness of the control and regulation of the Initiative in light of the significant increase in uptake of the scheme.

### **Consultation**

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

### **Timing**

16. Given the urgency of the situation I propose to close both the RHI schemes as soon as possible, subject to Assembly approval of the legislation. Indeed, the financial risk is such that I am seeking your approval on the basis that there is not sufficient time for the established convention of consideration of the draft legislation by the ETI Committee. I propose to lay the regulations in draft and table the motion for debate at the earliest possible juncture, without seeking prior Committee approval. This would mean asking the Business Committee (at its 9 February meeting) to schedule the motion for debate on 15 February.

17. Subject to your agreement, I will write to the Chair of the Committee, explaining the circumstances and the reasons for urgent action.

**Recommendation**

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 Schemes (RHI), subject to Assembly approval.

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

## ANNEX B

Mr Patsy McGlone MLA  
Chair of ETI Committee  
Room 375  
Northern Ireland Assembly  
Parliament Buildings  
Stormont  
BELFAST  
BT4 3XX

February 2016

Dear Patsy

### **PUBLIC CONSULTATION ON CLOSURE OF THE RENEWABLE HEAT INCENTIVE SCHEME (RHI)**

I am writing to inform the Committee that today I will be announcing the closure of both RHI schemes to new applicants. A copy of the Press Release is attached.

You will recall that I brought cost control measures for the Non Domestic scheme forward in November 2015. At that time I said that further measures might be necessary. A sustained increase in applications during March/April 2015 was the catalyst for these changes. However, in the run up to the November changes, there was an unprecedented surge in new applications with a further 900 applications received in 6 weeks. This doubled the total number of installations under the non-domestic scheme. It is estimated that over 6% of NI's total heating needs are now provided through renewable technologies. The PfG target of 4% renewable heat by 2015 has been exceeded.

However, this success comes at a price. Both 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, the Chancellor's Autumn Statement confirmed that the AME cap for Northern Ireland would be set at the Barnett share of circa 3%. This means that the Block DEL will be penalised for any excess spend for a period of at least the next five years and possibly up to 20 years ahead, depending on the approach taken to RHI in future in GB.

Total expenditure for RHI 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), forecast expenditure is expected to reach £45m. The increased costs associated with the recent surge in applications together with budget cuts arising from the Spending Review means the available budget for new applications has been exceeded. Meeting existing RHI commitments, let alone any new ones, will have a very significant impact on the NI Executive's budget, possibly as much as £19m p.a., for the next 5 years. 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 further overspend. I will bring forward legislation to the Assembly to close both schemes to new applications.

The urgent need to manage the financial risk means that I must bring forward the legislation at the earliest possible juncture. I have today laid the draft regulations and tabled the motion for debate, and I will be asking the Business Committee to schedule the debate for 15 February.

Regrettably, this timescale does not allow time to follow the established convention of seeking the Committee's approval of the policy and draft legislation. I must emphasise that this is not a decision that I have taken lightly. I recognise the importance of the Committee's role, and I would not contemplate this course of action if it were not for a very serious and urgent risk to the public finances.

I am also carrying out a full audit of the scheme to ensure that all money currently being paid out is fully compliant with the legislation as it stands.

I enclose a copy of the draft regulations. I would be happy to meet you and the Deputy Chair to explain the position more fully if that would be helpful. I have also asked my officials to stand ready to brief the Committee at its convenience.

**JONATHAN BELL MLA**

Minister of Enterprise, Trade and Investment

**Enterprise, Trade and Investment Minister, Jonathan Bell announces proposals to close of the Northern Ireland Renewable Heat Incentive (RHI).**

Enterprise, Trade and Investment Minister, Jonathan Bell announced his intention to close the domestic and non domestic Renewable Heat Incentive (RHI) schemes. The RHI was launched to the non domestic sector in November 2012 and extended to the domestic sector in December 2014.

Commenting on his decision the Minister said: **‘It is with great reluctance today that I have had to announce my intention to close both RHI schemes. Both schemes have been very successful with the non domestic scheme in particular seeing significant uptake during the last 12 months and more so in the run up to the recent scheme changes introduced in November 2015. It is estimated that around 6% of NI’s heating needs are now provided through renewable technologies. The Executive’s target to achieve 4% renewable heat has been exceeded.**

However, this increased demand means the available budget for new applications has been exhausted. To meet RHI commitments for existing installations, significant levels of additional funding will have to be found from within the NI Executive’s budget for the next 5 years to address the current deficit. To prevent further overspend, I must bring forward legislation to the Assembly to close both schemes to new applications.

**At the same time as bringing forward legislation a full audit of the scheme is being carried out to ensure that money currently being paid out is fully compliant with legislation.’**

Notes to Editors

For press enquiries please contact DETI Press Office on tel 028 9052 9604. Out of hours please contact the Duty Press Officer via pager number 07699 715 440 and your call will be returned.

