

Title: The Renewable Heat Incentive Schemes (Amendment) Regulations 2016	Regulatory Impact Assessment (RIA)	
	Date: 5 February 2016	
	Type of measure: Secondary Legislation	
Lead department or agency: Department of Enterprise, Trade and Investment	Stage: Final	
	Source of intervention:	
Other departments or agencies: N/A	Contact details: Stuart Wightman	
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Summary Intervention and Options

What is the problem under consideration? Why is government intervention necessary? (7 lines maximum)

The RHI schemes have been very successful. Over 3,500 renewable heating installations have been incentivised to date and the Executive's 2015 target of 4% renewable heat has been met and exceeded (currently 6%). Over the last 18 months the number of non-domestic RHI applications in particular has grown from around 200 to over 1,800. This increase in committed RHI payments coupled with recent changes to the arrangement for budget allocations means that the NI's available (Annual Managed Expenditure) AME funding allocations from 2016/17 onwards will be exceeded. The budget issue must be addressed and the proposed legislation establishes a mechanism under which the RHI schemes can be suspended in the absence of available funding.

What are the policy objectives and the intended effects? (7 lines maximum)

Keeping the RHI in its present form open is not possible as the available AME budget from 2016/17 onwards has already been exceeded with existing RHI commitments. Around £95m may have to be found from the NI Block (on top of AME budget) to meet existing RHI commitments (up to 31/1/16) over the next 5 years. The objective of the Regulations is to establish a mechanism for suspension of the RHI schemes. Suspension leaves open the possibility of reintroduction relatively quickly if the budget position changes. However, leaving the scheme open would provide no control of the budgetary pressure.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) (10 lines maximum)

The budgetary position means suspension is the only option, this RIA examines the impact different suspension dates will have in terms of public expenditure costs (from more RHI commitments) and benefits from future jobs for the renewable heating sector and environmental benefits. Four suspension dates were considered: (1) 17 February 2016; (2) 29 February 2016; (3) 31 March 2016; and (4) 31 March 2020. Closure on the 29 February 2016 (option 2) has been chosen because it provides a balance between further additional costs (for new RHI commitments) and potential loss of benefits such as jobs. A summary of the analysis is provided in the Background section below.

Will the policy be reviewed? Yes

If applicable, set review date: N/A

Cost of Preferred (or more likely) Option

Total outlay cost for business £m	Total net cost to business per year £m	Annual cost for implementation by Regulator £m
The policy does not impose direct costs on businesses.	The policy does not impose direct costs on businesses.	Contained within administrative budgets.

Does Implementation go beyond minimum EU requirements?

NO

YES

Are any of these organisations in scope?

Micro
Yes No

Small
Yes No

Medium
Yes No

Large
Yes No

The final RIA supporting legislation must be attached to the Explanatory Memorandum and published with it.

Approved by:

Date:

Summary: Analysis and Evidence

Description: Make Regulations to establish suspension mechanism and suspend both schemes after Regulations come into operation

ECONOMIC ASSESSMENT (Net benefit £45.7m NPV)

Costs (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Cost (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate	0		£2.0m (npc)	£39.9m

Description and scale of key monetised costs by 'main affected groups' Maximum 5 lines

Around £95m may have to be found from the NI Block (on top of the AME budget) to meet existing RHI commitments up to 31 January 2016 over the next 5 years. Under option 2 (Closure on 29/2/16), a further £13.5m will have to be found to fund further commitments entered into up to 29/2/16.

Other key non-monetised costs by 'main affected groups' Maximum 5 lines

Closure of the RHI schemes will have a detrimental impact on both the industry (installers/suppliers) and customers who have entered into contracts which aren't completed before closure. Option 2 (closure on 29/2/16) should however provide some time for live jobs to be completed before closure without encouraging completely new projects to be started. With over 1,000 non domestic applications received in the run up to tariff changes in November 2015, current non domestic demand is comparatively low so another large spike is not anticipated under option 2.

Benefits (£m)	Total Transitional (Policy) (constant price)	Years	Average Annual (recurring) (excl. transitional) (constant price)	Total Benefit (Present Value)
Low	Optional		Optional	Optional
High	Optional		Optional	Optional
Best Estimate			£4.3m (npv)	£85.7m

Description and scale of key monetised benefits by 'main affected groups' Maximum 5 lines

The installations completed up to 29 February 2016 in option (2) will deliver an additional 16MW of renewable heat capacity which could support 109 new jobs per annum. This translates into £2.9m per year of benefits in terms of GVA per employment and £1.3m per year in CO₂ benefits (All figures npv).

Other key non-monetised benefits by 'main affected groups' Maximum 5 lines

Suspension of the scheme avoids further risk to budgets and enables additional review to be undertaken.

Key Assumptions, Sensitivities, Risks Maximum 5 lines

Assumptions on forecast applicants and existing RHI commitments (over 800 applications not yet accredited). Net job years per MW from report on cost of 40% renewable target. Average NI GVA from 2014 NI Annual business Inquiry.

BUSINESS ASSESSMENT (Option)

Direct Impact on business (Equivalent Annual) £m		
Costs: N/A	Benefits: N/A	Net: N/A

Cross Border Issues (Option)

How does this option compare to other UK regions and to other EU Member States (particularly Republic of Ireland) Maximum 3 lines

As noted above, the much larger GB RHI remains open. Any future support/incentives to encourage businesses to switch to renewable heating technologies will be the subject to policy consultation and funding availability.

Evidence Base

There is discretion for departments and organisations as to how to set out the evidence base. It is however desirable that the following points are covered:

- Problem under consideration;
- Rationale for intervention;
- Policy objective;
- Description of options considered (including do nothing), with reference to the evidence base to support the option selection;
- Monetised and non-monetised costs and benefits of each option (including administrative burden);
- Rationale and evidence that justify the level of analysis used in the RIA (proportionality approach);
- Risks and assumptions;
- Direct costs and benefits to business;
- Wider impacts (in the context of other Impact Assessments in Policy Toolkit Workbook 4, economic assessment and NIGEAE).

Inserting text for this section:

Text can be pasted from other documents as appropriate.

Background

In September 2010, the Executive adopted a target to secure a level of 10% renewable heat in Northern Ireland by 2020 and an interim target of 4% by 2015. The target is in line with obligations under the EU Renewable Energy Directive (RED) that each Member State had to secure certain levels of renewable energy by 2020. The Renewable Heat Incentive Schemes were introduced in pursuit of these targets.

The RHI schemes have been very successful. Over 3,500 renewable heating installations have been incentivised to date under the NI RHI schemes and the Executive's 2015 target of 4% renewable heat has been exceeded. It is currently estimated that around 6% of Northern Ireland's heating needs are provided through renewable heating technologies.

Over the last 18 months the number of non-domestic RHI applications has grown from around 200 to over 1,800. Nearly 1,000 of these applications were received in the run up to the cost control measures introduced on 18 November 2015. This success has placed significant pressures on the available budget.

Funding for the NI RHI is provided through Annual Managed Expenditure (AME) by Treasury, and is additional to the NI Block Grant. However, from 2016/17, it has been confirmed that any NI RHI expenditure in excess of 3% of GB funding must be met from NI DEL. The increase in committed RHI payments associated with the recent influx in non domestic applications means that the NI AME allocations from 2016/17 onwards will be exceeded. This situation is exacerbated by the UK Government's November Spending Review which included a significant cut in future RHI funding.

To meet RHI commitments (@31/1/16) for existing installations, around £95m of funding may have to be found from within the NI Executive's budget for the next 5 years. To prevent further pressure, immediate legislation is needed to suspend both schemes to new applications.

Rationale for Intervention/Policy Objective

The policy objective of these Regulations is to establish a mechanism to suspend the scheme.

Description of options considered

The only viable option is suspension of the RHI schemes. Keeping the RHI open is not possible as the available AME budget from 2016/17 onwards has already been exceeded with existing RHI commitments. Around £95m may have to be found from the NI Block (on top of the AME budget) to meet existing RHI commitments over the next 5 years. Legislation is necessary to establish the mechanism for suspension. Given the budgetary position the Minister, with agreement of the First and Deputy Ministers, has agreed that the legislation should be progressed without the usual policy consultation.

Because the budgetary position means suspension is the only option, this RIA examines the differential impact between closure dates. This will have different outcomes in terms of public expenditure costs (from more RHI commitments) and future jobs for the renewable heating sector. Four suspension date options were considered:

- (1) 17 February 2016 - immediate closure as soon as legislation can be passed;
- (2) 29 February 2016;
- (3) 31 March 2016; and
- (4) 31 March 2020 – both schemes remain open.

Closure on the 29 February 2016 (option 2) has been chosen because it provides a balance between further additional costs (for new RHI commitments) and providing some notice of closure to potential applicants and installers to enable them to take decisions on whether they proceed. A summary of the analysis is provided in the following sections.

Rationale and evidence that justify level of analysis

Besides fulfilling its intended function of reducing CO₂ emissions renewable energy has the potential to generate employment opportunities. Renewable energy production can be more labour intensive than conventional energy production in delivering the same amount of energy output. Renewable energy can also use less imported goods and services, particularly during operation, since renewable energy sources are more likely to be local. Job gains are likely to be greatest in the rural economy and manufacturing industrial sectors. Biomass technologies in particular stimulate employment both in the biomass energy industry and in fuel supply, including planting, harvesting, transport etc. While biomass fuel can be produced locally thereby stimulating employment, imports of fuel would suggest this sector has not matured fully in NI. Opportunities for employment are provided in a range of sectors, including manufacturing, project development, construction and installation, operation and maintenance.

However, while jobs may be created in the renewable heat sector, jobs may also be displaced in conventional energy technologies. In Northern Ireland the heating oil sector in particular will be negatively exposed to job pressures.

Options

An analysis has been completed for each option to compare the additional funding costs to the Department (further RHI commitments) against the benefits in terms of job potential and CO₂ reduction.

Costs

Around £95m of additional funding is already needed to meet existing commitments up to 31 January 2016. The Table below provides a summary of the estimated additional costs associated with further new installations (in terms of additional RHI commitments up to closure). This is expenditure over and above the £95m it will cost if the scheme had been closed on 31 January 2016.

Table - Estimated Costs of Further RHI Commitments Up to Closure

	20 Year Net Present Cost (£m)
Op1 (17 Feb 16)	19.98
Op2 (29 Feb 16)	39.96
Op3 (31 Mar 16)	107.94
Op4 (31 Mar 20)	333.84

Note that existing AME budgets are only confirmed to 2020/21 and are assumed to remain flat thereafter at the 2020/21 level.

The Non Domestic RHI helps businesses with the cost of an alternative to traditional heating systems by incentivising renewable heating. Assessment of data relating to the Non Domestic RHI suggests that uptake of the scheme has been high in rural areas for agricultural related enterprises. However, with over 1,000 non domestic applications received in the run up to tariff changes in November 2015, current non domestic demand is comparatively low so impact on potential non domestic applicants should also be low.

The main group of businesses affected by the suspension of both schemes is installers and suppliers of renewable heating technologies. Suspension is likely to have a financial impact on this group. However, the much larger GB RHI schemes will remain open and continues to offer opportunities. Analysis undertaken by Ricardo AEA into the costs and benefits of the NI Executive's 40% renewable electricity target suggests that 74.5 job years are created per MW of Biomass, AD, Biogas & landfill gas installed. This has been used to estimate the annual jobs associated with RHI installations. The job potential in terms of additional salaries / profitability and CO₂ benefits for each of the options is summarised in the table below. GVA has been estimated using a NI average from the 2014 annual Business Inquiry. Environmental benefits are based on DECC's carbon pricing forecasts.

Table - Potential Additional Job Benefits in terms of Salaries

	20 Year Net Present Benefit (£m)		
	Increased employment	Environmental benefits	Total
Op1 (17 Feb 16)	29.39	18.77	48.16
Op2 (29 Feb 16)	58.78	26.88	85.66
Op3 (31 Mar 16)	117.56	43.11	160.67
Op4 (31 Mar 20)	381.42	117.33	498.75

Option Selection

The Table below summarises the NPV for the 4 options taking the additional costs (on top of the existing deficit of £95m over 5 years) of keeping the scheme open away from the benefits in terms of potential jobs (salaries) and profits in the renewables sector and environmental benefits created through installing additional renewable heating capacity.

Year	Overall NPV (£m)
Op1 (17 Feb 16)	28.18
Op2 (29 Feb 16)	45.70
Op3 (31 Mar 16)	52.73
Op4 (31 Mar 20)	164.92

Based on economic analysis alone option 4 (keeping the scheme open) provides the highest NPV for NI. Though, option 1 has the best benefit to cost ratio. Option 2 has a similar benefit to cost ratio as option 1 but does not have as adverse an impact on existing jobs as option 1. This impact is not factored in to the overall figures which would reduce the difference between options 1 and 2.

Although the priority is to suspend both schemes as soon as possible to minimise additional public expenditure costs, immediate closure (option 1) will have a greater detrimental impact on both the industry (installers/suppliers) and customers who have entered into contracts which aren't completed before suspension. It is difficult to estimate the numbers involved since exact information does not exist on individual company investment decisions. Conversely, option 3 provides up to 7 weeks notice which will not only enable live projects to be completed but will also provide enough time for new orders to be taken and completed before closure triggering another spike in demand.

Option 2 has therefore been selected over the other options. This will enable decisions to be taken on whether to proceed with installations before scheme suspension.

Impact on existing jobs

Options 1, 2 & 3 all involve closing the schemes to new applications and will clearly impact on existing jobs. However, this does not automatically mean that all jobs currently in the RHI sector are at risk. Schemes already supported will continue to be supported for the next 20 years. Supply chain jobs for these schemes will be needed as will O&M jobs servicing existing boilers. Many installers and suppliers cover both renewable and traditional heating systems. Finally the implications on wider NI job impacts must be considered. Following the decision from the Chancellor of the Exchequer in his autumn statement, if the scheme were to continue the cost of funding it would have to be taken from the NI budget. The necessary diversion of expenditure from other NI expenditure areas may have the effect of reducing employment in these areas. Overall, the effect on NI jobs therefore may be neutral.