

# Rural Needs Impact Assessment (RNIA)

## **SECTION 1 - Defining the activity subject to Section 1(1) of the Rural Needs Act (NI) 2016**

### **1A. Name of Public Authority.**

Department for the Economy

### **1B. Please provide a short title which describes the activity being undertaken by the Public Authority that is subject to Section 1(1) of the Rural Needs Act (NI) 2016.**

Potential revision to the Northern Ireland Non-Domestic Renewable Heat Incentive (RHI) Scheme, including possible closure. The Department for the Economy is consulting on the options for the future of the Scheme.

### **1C. Please indicate which category the activity specified in Section 1B above relates to.**

The activity specified in Section 1B above relates to revising a policy.

### **1D. Please provide the official title (if any) of the Policy, Strategy, Plan or Public Service document or initiative relating to the category indicated in Section 1C above.**

Future of the Northern Ireland Non-Domestic Renewable Heat Incentive (RHI) Scheme.

### **1E. Please provide details of the aims and/or objectives of the Policy, Strategy, Plan or Public Service.**

#### **Background**

The Northern Ireland Non Domestic Renewable Heat Incentive (RHI) Scheme was designed to provide participants with financial assistance, in the form of tariff payments, to switch from the use of heat generated from fossil fuel sources to renewable heat technologies, with the ultimate aim of reducing the level of carbon emissions.

Installations accredited to the Scheme receive periodic payments for eligible heat generated from renewable sources, calculated based on tariffs which are dependent upon the renewable technology being used to generate heat and the size of the installation. Participation on the Scheme was to last for a period of 20 years from the initial date of an installation's accreditation.

Critical flaws in the Scheme's original design, including incorrect assumptions underpinning the tariffs for small and medium biomass and the absence of cost control measures such as tariff tiering and degression, resulted in a financial incentive for operators to produce excess heat. This led to higher than expected uptake by participants, expenditure in excess of the Scheme's annual AME budget allocation with long term budgetary concerns, and overcompensation of many participants when compared with the internal rate of return agreed in the Scheme's 2012 State aid approval. The failings led to the establishment of the Public Inquiry which reported in March 2020. Subsequent legislative amendments to the tariff structure have brought the Scheme within its budgetary envelope and realigned it with State aid approvals, however, the tariff changes to date have adversely impacted on participants and the Scheme's environmental benefits are questionable.

The Scheme was suspended to new applicants with effect from 29 February 2016. It remains operational for accredited installations, with regulations providing for tariff payments for generation of eligible heat for a period of 20 years from the date of accreditation. The final payments under the Scheme would be expected in 2036.

In January 2020, publication of the New Decade, New Approach document provided the basis for restoration of devolution and the formation of a new Northern Ireland Executive. Annex 1 of New Decade, New Approach, in relation to proposed Programme for Government actions on climate change, stated the following on RHI: *"RHI will be closed down and replaced by a scheme that effectively cuts carbon emissions."*

## **Objectives**

The future of the Scheme is under consideration in light of the New Decade, New Approach commitment. It is the view of the Department for the Economy that the final policy progressed should be guided by the following objectives:

- be consistent with the political agreement of the main political parties in Northern Ireland, as expressed within the New Decade, New Approach document;
- be fair to legitimate participants of the Scheme who entered and participated in good faith;
- consider the findings of the 'Buglass report'<sup>1</sup> on hardship, and the outworking of the public consultation on Cornwall Insight's recommended medium biomass tariffs<sup>2</sup>;
- be fair to wider taxpayers, delivering value for money and being affordable within existing budgets;

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<sup>1</sup> [NI Non-Domestic RHI - Buglass Energy Advisory - Research into Hardship - Report of Findings](#)

<sup>2</sup> [NI Renewable Heat Incentive Scheme – 2020 Tariff Review](#)

- address the systemic weakness in the design and operation of the Scheme, including long term financial uncertainty for both participants and taxpayers arising from the necessary tariff changes to the Scheme to date; the likelihood of future tariff reviews should the Scheme remain open, and ongoing risk of associated legal challenges; and
- facilitate the most efficient use of available resources to achieve the strategic environmental objectives of cutting carbon emissions and addressing the challenges of climate change.

The following four options are the subject of a public consultation exercise from 11 February 2021 to 9 April 2021:

- Option 1: Scheme remains operational for current participants with present tariffs for all technologies (status quo);
- Option 2: Scheme remains operational for current participants with all tariffs subject to review and adjustment as necessary;
- Option 3: Scheme closure with no further payments made to participants; and
- Option 4: Scheme closure with compensation paid to legitimate current participants.

Option 4 is the Executive's preferred option.

**1F. What definition of 'rural' is the Public Authority using in respect of the Policy, Strategy, Plan or Public Service?**

Population Settlements of less than 5,000 (Default definition)

## **Plan or Public Service**

### **2A. Is the Policy, Strategy, Plan or Public Service likely to impact on people in rural areas?**

Yes.

### **2B. Please explain how the Policy, Strategy, Plan or Public Service is likely to impact on people in rural areas.**

Research previously undertaken by the Department has indicated that approximately 88% of accredited installations are located in rural areas. Revisions to the Scheme are therefore likely to have a greater impact on rural communities than on urban communities, although the proposals are not likely to impact on people in rural areas differently from people in urban areas, i.e. the effect on participants will be the same regardless of the area in which they live.

The options considered in the 2021 consultation exercise comprise two under which the Non-Domestic RHI Scheme would remain operational for its present participants, and two under which it would be closed.

Option 1 represents the status quo. Under this option there would be no change to the Scheme's present operation, including its tariffs. The Cornwall Insight tariff review, and responses to the 2020 consultation on its implementation, have confirmed that the appropriate tariffs for medium biomass installations to incentivise generation of heat from renewable sources in line with the Scheme's objectives are likely to be higher than those presently in place. Additionally, the Buglass report on hardship report concluded that many of those who engaged with Mr Buglass had suffered one or more forms of economic hardship as a result of the reduced cash flow following the changes in tariffs to date. The nature of the impacts varied significantly, depending on the individual circumstances of each business. Continuation of the status quo would fail to recognise that in present economic conditions it is likely that a higher tariff for medium biomass installations would be appropriate to incentivise generation of renewable heat. This may also lead to an increase in generation of heat from fossil fuels rather than from renewables.

Under Option 2 medium biomass tariffs would be increased to take account of changes in the variable costs associated with generation of heat, in line with the outworking of the public consultation on Cornwall Insight's tariff review. Payments received by participants under the Scheme are dependent upon the level of eligible heat generated by accredited installations. Under this option, typical levels of heat production would result in annual payments in respect of a 99kW installation increasing from c.£2,210 under present tariffs to c.£5,100, while for a 199kW installation payments would increase from £3,140 to c.£5,800. All Scheme tariffs would be subject to future review, and could increase upwards or downwards dependent upon changes in the costs associated with generation of heat.

Under Option 3 the Scheme would be closed to all participants, removing the tariff support for generation of eligible heat anticipated by participating business for approximately a further 12-15 years subject to the date of

accreditation of their installations. This would have a detrimental economic impact on participating businesses. It may also result in operators ceasing to use accredited boilers, with the possibility of reversion to fossil fuel based heat sources.

Under Option 4 the Scheme would be closed with no further tariff-based payments. Compensation for its early closure would be paid to legitimate current participants as detailed within the Department's consultation document. The Buglass report described the impact on some participating businesses of the changes to the Scheme's tariffs to date. While the reported impacts were varied and dependent upon individual business circumstances, the key driver was the reduction in cash flow. Option 4 intends to compensate for the early closure of the Scheme and removal of anticipated tariff income, and through upfront payment to address present economic challenges associated with the reductions in cash flow.

Further evidence on the position in rural areas, and any impact of the proposals on people and businesses in rural areas, will be gathered through the public consultation exercise.

**2C. If the Policy, Strategy, Plan or Public Service is likely to impact on people in rural areas differently from people in urban areas, please explain how it is likely to impact on people in rural areas differently.**

The proposals are not likely to impact on people in rural areas differently from people in urban areas, i.e., the effect on participants will be the same regardless of the area they live in.

**2D. Please indicate which of the following rural policy areas the Policy, Strategy, Plan or Public Service is likely to primarily impact on.**

Rural businesses.

**2E. Please explain why the Policy, Strategy, Plan or Public Service is NOT likely to impact on people in rural areas.**

Not applicable.

## **Persons in Rural Areas**

**3A. Has the Public Authority taken steps to identify the social and economic needs of people in rural areas that are relevant to the Policy, Strategy, Plan or Public Service? If the response is NO go to Section 3E.**

Yes.

**3B. Please indicate which of the following methods or information sources were used by the Public Authority to identify the social and economic needs of people in rural areas.**

Consultation with Rural Stakeholders

Consultation with Other Organisations

Published Statistics

Other Publications

**3C. Please provide details of the methods and information sources used to identify the social and economic needs of people in rural areas including relevant dates, names of organisations, titles of publications, website references, details of surveys or consultations undertaken etc.**

In addition to previous research carried out prior to Scheme creation, the Department has taken account of independent tariff review reports produced by Ricardo Energy and Environment (2018) and Cornwall Insight (2020) and an independent report on hardship experienced by participants as a consequence of changes to the Scheme, prepared by independent energy expert Andrew Buglass (2020) based on direct engagement with Scheme participants.

Detailed relevant responses were received to the following consultation and call for evidence exercises:

- 2018 public consultation on options for the future of the Scheme, taking account of Ricardo's review of the biomass tariff structure
- 2019 call for evidence on hardship
- 2020 public consultation on implementation of revised medium biomass tariffs based on Cornwall Insight's tariff review

In respect of the specific present proposals under consideration, the Department is consulting on four options for the future of the Scheme over an eight week period from 11 February 2021 to 9 April 2021 to inform the NI Executive's final decision on the Scheme's future. The Department will notify all participants of the consultation exercise to ensure that all individuals and businesses directly affected by the proposed options have the opportunity to identify any rural specific barriers or issues. If specific rural issues are identified, the Department will consider how these issues may be mitigated.

**3D. Please provide details of the social and economic needs of people in rural areas which have been identified by the Public Authority?**

The Department has not identified any needs that are specific to rural stakeholders.

**3E. Please explain why no steps were taken by the Public Authority to identify the social and economic needs of people in rural areas?**

Not applicable

## **SECTION 4 - Considering the Social and Economic Needs of Persons in Rural Areas**

### **4A Please provide details of the issues considered in relation to the social and economic needs of people in rural areas.**

The NIRHI Scheme was open to both urban and rural applicants. Any option taken forward when considering the future of the Scheme will therefore affect urban and rural participants equally.

The Scheme was introduced to incentivise generation of heat from renewable sources rather than fossil fuels with the objective of reducing carbon emissions. Its tariffs are intended to compensate for the additional costs of renewable heat compared to a fossil fuel alternative, aiming to contribute towards any difference in fuel and maintenance costs, and additional administrative “hassle” associated with the renewable technology. It was also intended that the tariffs would provide a typical installation on the Scheme with a specified annual internal rate of return, over 20 years, on the additional capital investment in the renewable technology in comparison with the costs of an equivalent oil boiler. These internal rates of return were approved by the European Commission in the context of State aid.

Issues considered therefore include the appropriate level of tariffs required to incentivise generation of heat from renewable sources by participating businesses. The best available evidence in respect of medium biomass (which accounts for 98% of accredited installations on the Scheme) is the 2020 Cornwall Insight tariff review, along with the responses received to the 2020 public consultation on its implementation and updated data on movements in fuel prices.

The impact on participants of the previous changes to the Scheme’s small and medium biomass tariffs has been considered, taking account of the findings of the Buglass report on hardship. The further potential economic impact on participating businesses of Scheme closure has also been considered.

The Scheme’s environmental impact is a further issue that has been considered. There is no current means by which to verify the extent to which the Scheme has contributed to the substitution of heat produced by fossil fuels with heat produced from renewable sources. Data within applications for accreditation to the Scheme suggested that a significant proportion of new installations were in furtherance of new heat requirements as opposed to replacing existing fossil fuel based heating installations. Whilst it may have been the case that renewable heat installations were being used as part of a new economic activity, where it was being used instead of a fossil fuel boiler rather than as a replacement, there is no available or reliable evidence of the extent to which this was the case. The potential cannot therefore be excluded that the Scheme may have actually led to an increase in the amount of heat generated in NI, over and above that which would have been generated in its absence, potentially increasing the net level of carbon emissions. The available evidence on this issue is ultimately incomplete and inconclusive. There is no clear evidence that the operation of the Scheme has resulted in a meaningful shift away from fossil fuel based heat production and replacement with renewable fuels.



The Scheme's environmental benefits are at best uncertain, and greater environmental benefits and greater value for money may be achieved through an alternative policy approach and alternative means of support for decarbonisation of heat to assist in achieving the binding UK Government's objective of a net zero carbon economy by 2050.

## **SECTION 5 - Influencing the Policy, Strategy, Plan or Public Service**

**5A. Has the development, adoption, implementation or revising of the Policy, Strategy or Plan, or the design or delivery of the Public Service, been influenced by the rural needs identified? If the response is NO, go to Section 5C.**

No.

**5B. Please explain how the development, adoption, implementation or revising of the Policy, Strategy or Plan, or the design or delivery of the Public Service, has been influenced by the rural needs identified.**

**5C. Please explain why the development, adoption, implementation or revising of the Policy, Strategy or Plan, or the design or the delivery of the Public Service, has NOT been influenced by the rural needs identified.**

The proposals set out in the current consultation will impact upon all existing Scheme participants. No specific rural needs have been identified.

**SECTION 6 - Documenting and Recording**

**6A. Please tick below to confirm that the RNIA Template will be retained by the Public Authority and relevant information on the Section 1 activity compiled in accordance with paragraph 6.7 of the guidance.**

I confirm that the RNIA Template will be retained and relevant information compiled.

<b>Rural Needs Impact Assessment undertaken by:</b>	
<b>Position/Grade:</b>	
<b>Division/Branch</b>	
<b>Signature:</b>	
<b>Date:</b>	
<b>Rural Needs Impact Assessment approved by:</b>	
<b>Position/Grade:</b>	
<b>Division/Branch:</b>	
<b>Signature:</b>	
<b>Date:</b>	