

**Department of Enterprise, Trade and Investment****ASSEMBLY QUESTIONS ORAL (AQO)**

**Due for answer on:**            **Tuesday 9 February 2016**

**AQO No:**                            **9603/11-16**

**Put Down By:**                    **Mr T Clarke**  
**Political Party:**                 **DUP**  
**Constituency:**                 **South Antrim**

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**Question:**

To ask the Minister of Enterprise, Trade and Investment for an update on the Renewable Heat Incentive.

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**Answer:**

The Renewable Heat Incentive, (RHI), introduced in November 2012 to the non-domestic sector and in December 2014 to the domestic sector has been taken up very successfully.

With over 3,500 renewable heating installations incentivised to date, uptake has been higher than GB. We've exceeded the Executive's 2015 target of 4% with around 6% of Northern Ireland's heating needs now 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. Over 900 of these applications were received in the run up to the scheme changes I introduced on 18 November 2015. However, this, together with reductions in available funding means we now face significant budgetary pressures.

In the circumstances I have no choice but to propose immediate closure of the scheme to prevent further overspend. The urgent need to manage the financial risk means that I must bring forward the legislation at the earliest possible juncture.

I have 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.

**Jonathan Bell MLA**  
**Minister of Enterprise, Trade and Investment**

**Date:**

**Why the need to close the RHI?**

- The Renewable Heat Incentive, (RHI), introduced in November 2012 to the non-domestic sector and in December 2014 to the domestic sector has been taken up very successfully.
- With over 3,500 renewable heating installations incentivised to date, uptake has been higher than GB. We have exceeded the Executive's 2015 target of 4% with around 6% of Northern Ireland's heating needs now 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. Over 900 of these applications were received in the run up to the scheme changes of 18 November 2015. However, this, together with reductions in available funding means we now face significant budgetary pressures.
- In the circumstances I have no choice but to propose immediate closure of the scheme to prevent further overspend. The urgent need to manage the financial risk means that legislation must be brought forward at the earliest possible juncture. The draft regulations have been laid and a motion tabled for debate for 15 February.

**Why not just close the Scheme?**

- The scheme is set out in legislation and can only be changed through legislation.

**Not Consulting on the Decision**

- With the RHI budget exhausted, closure of both RHI schemes is the only viable option. Given the urgency of the situation both RHI schemes must close as soon as possible, subject to Assembly approval of the legislation.

**Not seeking ETI Committee Approval**

- Given the urgency of the situation both RHI schemes must be closed as soon as possible, subject to Assembly approval of the legislation.
- Regrettably, the timescale does not allow time to follow the established convention of seeking the Committee's approval of the policy and draft legislation.
- I recognise the importance of the Committee's role but I must take the course of action which addresses the risk to the public finances as soon as possible.
- The regulations have already been laid in draft and hopefully this will lead to a debate next week (Monday 15 February 2016).

**DETI Mismanagement of Scheme**

- Low levels of uptake initially, created a £15m under-spend in the first 3 years. Uptake improved in 2015 following promotional campaigns and the introduction of the Domestic scheme in December 2014.
- A sustained increase in applications in the Spring was the catalyst for the demand control measures brought forward for the Non Domestic scheme in November 2015.
- However, in the run up to these changes, there was an unprecedented surge in applications with over 900 applications received in 6 weeks. This doubled the number of installations on the non-domestic scheme.
- The increased costs associated with this surge in applications together with budget reductions arising from the November 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, so both schemes must be closed as soon as possible.

**Managing Fraud Risk**

- The unprecedented increase in demand requires special scrutiny. My Department has initiated procurement of additional auditing and checks to supplement the programme of audits already completed by Ofgem – who administer the non domestic scheme.
- Measures will be taken to ensure that the operation of the schemes is in compliance with the scheme requirements and the underpinning legislation.

**Allegations of Fraud**

- There has been anonymous correspondence, alleging abuse of the non domestic scheme. I can confirm this has been brought to the attention of the scheme administrator - Ofgem.

**Independent Investigation**

- Measures will be taken to ensure that the operation of the schemes is in compliance with the scheme requirements and the underpinning legislation.

**Success of both Schemes**

- The RHI provides homes, businesses, hotels, leisure centres, churches and schools with the opportunity to receive ongoing financial assistance to cover the costs incurred when switching to renewable heating.
- The RHI has been very successful supporting over 3,500 renewable heating installations.
- The RHI is an innovative scheme that is designed to support the achievement of 10% renewable heat by 2020. This is a challenging target considering a baseline position of 1.7%.
- The PfG interim target of 4% renewable heat by 2015 has been met and exceeded. The current estimate suggests 6% has been achieved.
- By securing increased levels of renewable heating, Northern Ireland becomes more self-sufficient, more energy secure and reduces our carbon footprint.
- The RHI is a positive news story for the Northern Ireland energy market as consumers embrace new technologies, reduce their carbon emissions and help support the development of this new sector.

**How has the RHI been funded to date?**

- 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 Departmental Expenditure Limit (DEL) Block funding.
- Even though total renewable heating capacity through the NI RHI equates to around 6% of total capacity in the GB scheme, 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 have to meet any funding in excess of this.
- Total heating capacity of the NI RHI currently equates to around 7% of total capacity of the GB scheme.
- This means a significant shortfall in funding which has to be met from NI DEL.

## THREE KEY REASONS FOR BUDGETARY PRESSURES

### (1) Spike in Demand

- Unprecedented spike in demand in run up to November tariff changes doubled number of applications and increased RHI expenditure by £19m (£26 - 45m) - this equates to 800% rise in applications.

### (2) AME Cap

- Both RHI schemes are paid out of Annual Managed Expenditure which normally would not have an impact on the NI DEL Block funding. Even though total renewable heating capacity through the NI RHI non domestic scheme equates to around 6% of total capacity in the GB scheme, the Chancellor's Autumn Statement confirmed that the AME cap for Northern Ireland would be set at the Barnett share of circa 3%.

### (3) SR Reductions in RHI Funding

- The Autumn Spending Review increases GB RHI funding from £614m in 2016/17 to £1.152bn in 2020/21. However, this represents a 38% reduction on previous DECC forecasts in Spring 2015.

Before SR (£ms)	2016/17	2017/18	2018/19	2019/20	2020/21
DECC Forecast (Spring 15)	629	867	1146	1469	1842
NI Barnett's Consequential	18.7	25.8	34.2	43.8	54.9
DECC Forecast (Spring 15)	614	748	862	970	1151
NI Barnett's Consequential	18.3	22	26	29	34
Annual Reduction in NI AME allocation	0.4	3.5	8.5	14.9	20.6
	2%	14%	25%	34%	38%

**Department of Enterprise, Trade and Investment****ASSEMBLY QUESTIONS ORAL (AQO)****AQO No: 9603 /11-16****Background**

1. Uptake of the RHI over the past 12 to 18 months has been significant, particularly between July 2014 and October 2015 which has increased forecast expenditure from £11m to £30m for 2015/16.
2. Prospective scheme approval has been obtained from October 2015 through to March 2016. However, scheme approval ended in March 2015 and we are currently working with DFP to secure retrospective approval for this period.
3. Forecast expenditure has now increased with an unprecedented number of applications received, (around 900), during the 6 week period prior to the introduction of tariff changes and cost controls on 18 November 2015. The forecast expenditure for 2015/16 is now likely to be at least £33m. Even if no more new commitments are entered into, (i.e. both schemes closed), annual expenditure of some £45m will be required from 2016/17 and onwards for 20 years.
4. The Chancellors Autumn Statement included what appears to be a positive outlook around RHI, namely government expenditure to increase to £1.15billion by 2020/21. However, with the Barnett principle applied, this translates to a 30% reduction and a capped AME funding profile of £18.3M in 2016-17, £22.3M in 2017-18, £25.7M in 2018-19 and £28.9M in 2019-20. Any difference between actual spend in any of these years and the capped AME amount would fall to NI Block Resource DEL.

**Reply prepared by:           John Mills, Head of Energy Division****Further information available from: Stuart Wightman, Energy Efficiency Branch, Ext: 29425**

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**Question:**

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**Answer:**

The Renewable Heat Incentive, (RHI), introduced in November 2012 to the non-domestic sector and in December 2014 to the domestic sector has been very successful.

–With over 3,500 renewable heating installations incentivised to date, uptake has been higher than GB. We’ve exceeded the Executive’s 2015 target of 4% with around 6% of Northern Ireland’s heating needs now provided through renewable heating technologies. It is fair

~~to say that NI has taken full advantage of the support on offer. Over 3,500 renewable heating installations have been incentivised to date under the two RHI schemes and we have met and exceeded the Executive's 2015 target of 4% renewable heat. 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. Over 900 of these applications were received in the run up to the scheme changes and cost control measures I introduced on 18 November 2015. However, ~~T~~this, together with reductions in UK funding ~~and changes in how Treasury allocate funding,~~ means we now face significant budgetary pressures.

In the circumstances I have no choice but to propose immediate closure of the scheme to prevent further overspend. 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.

~~I have made a preliminary decision that the scheme must be suspended and I have launched a short consultation on this.~~

**Jonathan Bell MLA**  
**Minister of Enterprise, Trade and Investment**

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**TOPIC: RENEWABLE HEAT INCENTIVE (GENERAL)****Positive Lines**

- The RHI provides homes, businesses, hotels, leisure centres, churches and schools with the opportunity to receive ongoing financial assistance to cover the costs incurred when switching to renewable heating. The RHI has been very successful supporting over 3,500 renewable heating installations.
- The RHI is an innovative scheme that is designed to support the achievement of 10% renewable heat by 2020. This is a challenging target considering a baseline position of 1.7%.
- The PfG interim target of 4% renewable heat by the end of 2015 has been met and exceeded. The current estimate suggests 6% has been achieved.
- By securing increased levels of renewable heating, Northern Ireland becomes more self-sufficient, more energy secure and reduces our carbon footprint.
- The RHI is a positive news story for the Northern Ireland energy market as consumers embrace new technologies, reduce their carbon emissions and help support the development of this new sector.

## **Defensive Lines**

- The success of RHI has come at a price and although total renewable heating capacity through the NI RHI equates to around 7% of total capacity in the GB scheme Northern Ireland only received below 3% of the GB RHI allocation.
- The available RHI budget has therefore been exhausted.

**TOPIC: ACHIEVEMENT OF 10% RENEWABLE HEAT  
TARGET**

- The RHI is a key mechanism for Northern Ireland to achieve the Executive's target of 10% renewable heat by 2020 and to feed into the legally binding UK targets set by the EU.
- Good progress has been made through the RHI with nearly 3,500 new renewable heat technologies in place.
- The PfG interim target of 4% renewable heat by the end of 2015 has been met and exceeded. The current estimate suggests 6% has been achieved.

## TOPIC: IMPACT OF CLOSURE ON EXISTING ACCREDITED INSTALLATIONS

- Existing accredited installations under either the non domestic or domestic schemes will be unaffected by the proposed closure and will continue to receive their RHI payments.

### How has the RHI been funded to date?

- ~~Funding to date for the NI RHI has been provided through Annual Managed Expenditure (AME) from Treasury, and has been additional to the NI Block Grant.~~
- 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.
- ~~However, the increase in committed RHI payments arising from the recent influx in non domestic applications, together with changes in Treasury funding, means that the NI funding allocations from 2016/17 onwards will be exceeded even if both schemes are closed to new applications.~~

## What are the Treasury Changes?

- 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.
- ~~The UK Government's November Spending Review included a significant reduction in future RHI funding and moved responsibility for supporting anything in excess of existing allocations to the NI Block.~~
- ~~Despite total renewable heating capacity installed through the NI Non-Domestic RHI Scheme currently equating to around 7% of total installed capacity in the GB scheme, NI receives below 3% of the GB RHI allocation.~~

## What is the impact?

- Significant levels of funding will now have to be found from within the NI Executive's budget for the next 5 years to meet RHI commitments for existing installations.
- I must therefore act now to address the budget issue.
- I have launched a short public consultation on options around closing the RHI schemes to new applications.

- Given the budget position and subject to the public consultation outcome, I will propose to move to close the scheme as soon as possible during this Assembly.

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