

Chapter 33 – The October 2015 Business Case Addendum

- 33.1 The Inquiry has previously mentioned Mr Wightman’s 20 July 2015 email¹⁸⁸¹ updating Mr Stewart on progress with RHI. In that communication Mr Wightman stated that he was just starting work on what he then called “a Supplementary Business Case”. By the time it was lodged with DFP in October 2015 it was called the “Business Case Addendum for the NI Renewable Heat Incentive”.
- 33.2 The Business Case Addendum was required to seek to secure reapproval of the scheme by DFP both retrospectively and prospectively. Retrospectively for expenditure incurred between 1 April 2015, when the previous approval lapsed, and the date when approval was next granted. Prospectively for the scheme from the point of the new approval and into the future. The prospective aspect would see the proposed introduction of tiering and other amendments.
- 33.3 Mr Wightman told the Inquiry that he understood that this was to be an addendum to justify the “preferred option”. Despite the lack of DFP approval from March 2015, the excessive expenditure, the suggestions of over-incentivisation/abuse and the need for tariff changes, it was not to be a ‘fresh look’ at the whole non-domestic RHI scheme from first principles, but simply an exercise to justify the existing, and proposed amended, scheme as being value for money (VFM).¹⁸⁸²
- 33.4 Mr Wightman was the main author of the Business Case Addendum but some of the work on the VFM aspect of it was carried out by Alan Smith, the Energy Division economist, with advice from Mr Cooper and Mr Murphy.¹⁸⁸³ Their approach was explained by Mr Murphy to DFP at a meeting of 12 August, when it was agreed that a draft would be shared for discussion.¹⁸⁸⁴
- 33.5 The Inquiry was presented with multiple versions of what ultimately became the “Business Case Addendum for the NI Renewable Heat Incentive”:
- A document entitled ‘Business Case – ND RHI Extension (230715)’ of 27 July 2015;¹⁸⁸⁵
 - A TRIM document entitled ‘DT1/15/0125105 – RHI Business Case – Version 1 (270715)’. This document had 23 drafts or revisions between 29 July 2015 and 17 September 2015;
 - A TRIM document entitled ‘DT1/15/0154562 – RHI Business Case – Version 2 (300915)’. This document had 7 drafts of revisions between 30 September 2015 and 2 October 2015;
 - A TRIM document entitled ‘DT1/15/0159903 – RHI Business Case Addendum (Version 3) (091015)’. This document had 12 drafts or revisions between 9 October 2015 and 19 October 2015. A draft of this version was shared with DFP on 13 October 2015 and used at the Casework Committee meeting on 16 October 2015;

1881 IND-05707

1882 TRA-10803

1883 TRA-10846 to TRA-10848

1884 DFE-278972

1885 DFE-147524 to DFE-147549

- A TRIM document entitled ‘DT1/15/0166478 – RHI Business Case Addendum (Version 4) – 221015’. This document had 8 drafts or revisions between 22 October 2015 and 26 October 2015;
- A TRIM document entitled ‘DT1/15/0168359 – RHI Business Case Addendum (V4) – Final’. This document had 3 drafts or revisions during 27 October 2015. A draft of this version was filed with DFP as the Business Case Addendum on which approval was sought; and
- A TRIM document entitled ‘DT1/15/0168363 – RHI Business Case Addendum (V4) Tracked Changes’. This document had 1 version of 27 October 2015.

33.6 The Inquiry had the opportunity to consider the development of the Business Case Addendum across the many thousands of pages that encompass the many drafts referred to above. For the purposes of this Report the Inquiry only refers to some key aspects.

33.7 A draft of Version 3 of the document was circulated to the Casework Committee on 16 October 2015¹⁸⁸⁶ for use at the DETI RHI Casework Committee meeting which was held on 21 October 2015. Evidence was presented to the Inquiry showing that there were a number of errors, inaccuracies, omissions, and/or potentially misleading or confusing statements (particularly when compared against the original 2012 RHI business case for the non-domestic scheme for consistency) which were contained within the document, including those listed below:

- (i) As discussed in the last chapter, the document at paragraph 2.8 incorrectly implied that a review of the non-domestic scheme had been carried out.¹⁸⁸⁷ Mr Wightman accepted that was not a correct statement and did not conform to the undertaking given in the original 2012 business case to begin a review in 2014, the primary focus of which was to be a review of the level of tariffs and the appropriate banding.¹⁸⁸⁸
- (ii) The document included, in paragraph 2.9, the statement that “the Minister prioritised introduction of the full domestic scheme over Phase 2 non-domestic RHI proposals.”¹⁸⁸⁹ Mr Wightman accepted that this was also inaccurate, based upon an incorrect assumption.¹⁸⁹⁰
- (iii) The document recorded, in paragraph 2.12, that the Department was seeking retrospective DFP approval from 1 April 2015 and prospective approval to December 2016.¹⁸⁹¹ It stated, in paragraph 3.1, that: “Both RHI schemes are demand led. It is therefore difficult to predict and manage future uptake and expenditure. For this reason, HMT agreed to fund the RHI through Annual Managed Expenditure (AME).”¹⁸⁹² This was an incomplete description of the funding position. By contrast, there was also a reference, in paragraph 3.14, to the 2012 correspondence with HMT officials indicating that the RHI funding might not be treated as normal AME and that there might be NI DEL consequences/penalties of “overspending”. That paragraph continued:

1886 DFE-284293 to DFE-284762

1887 DFE-284296

1888 TRA-10862 to TRA-10864

1889 DFE-284296

1890 TRA-10864 to TRA-10865

1891 DFE-284297

1892 DFE-284298

“In regard to the longer-term operation of the Scheme, clarification is needed from DFP/HMT on future funding and whether there could be any NI DEL consequences of ongoing provision of an RHI scheme. If there are penalties or consequences for the NI Block of spending more than the ‘Barnett’ allocation, both schemes may need to be closed in 2016.”¹⁸⁹³

- (iv) The document wrongly stated, in paragraph 3.8, that expenditure was within the five-year AME allocation – this incorrectly assumed that under and over-spends can be carried over, and there had not been a five-year AME allocation.¹⁸⁹⁴ There was no mention of the risk of overcompensation referred to in Mr Cooper’s email of 12 June 2015 and discussed at the meeting with Dr McCormick, Mr Rooney, Mr Mills and Mr Wightman on 17 June 2015 referred to earlier in this Report.
- (v) The introduction of employment benefits transformed the business case and reversed the economics from being a net cost to being a significant net benefit.¹⁸⁹⁵ Mr Wightman accepted that this was not comparable with the original scheme business case, in which the employment benefit was not quantified in calculating whether the original scheme represented value for money.¹⁸⁹⁶
- (vi) The net employment benefits resulted from a high estimate of the number and value of jobs created, as well as from a low allowance being made for jobs displaced in the LPG and oil sectors. Mr Wightman had “lifted” the estimates for new jobs from a study Alan Smith, Energy Division’s economist, had commissioned from Ricardo for biomass use in renewable *electricity* (the Inquiry’s emphasis).¹⁸⁹⁷ Mr Wightman accepted that electricity projects were very different in that they took some two years to design and construct, as compared to a few weeks for a biomass heating installation.¹⁸⁹⁸ He also admitted that he had removed the very clear warnings about these figures that had been provided to him as caveats to the input from Mr Smith.¹⁸⁹⁹ These very clearly stated:

“The estimate of employment benefits is very much reliant on assumptions taken with regard to the Northern Ireland electricity sector and further analysis would be needed to confirm these assumptions for the heat sector. Care should therefore be taken in quantifying the employment benefits however because of this degree of uncertainty and whether additionality of jobs has been fully tested.”¹⁹⁰⁰

33.8 It seems that the focus was very much upon achieving approval of the existing scheme rather than looking again to see if approval could be justified.¹⁹⁰¹ To use Mr Wightman’s own words to the Inquiry:

“I was under pressure to get a Business Case Addendum done in a relatively short space of time, along with other priorities. I was asked to do a Business Case

1893 DFE-284302

1894 DFE-284300 to DFE-284301

1895 DFE-284305 to DFE-284307

1896 TRA-10804

1897 TRA-10887

1898 TRA-10887 to TRA-10892

1899 WIT-17912

1900 DFE-278673

1901 TRA-10890

Addendum to demonstrate continuous and ongoing value for money. That was my brief...”.¹⁹⁰²

- 33.9 During the course of drafting the Business Case Addendum Mr Wightman was also required to be involved in another, even more complex, business case known as ‘EnergyWise’. This does not appear to have been a sensible use of already stretched resources in the circumstances.¹⁹⁰³

1902 TRA-10873

1903 WIT-17045

Findings

191. The Business Case Addendum contained numerous errors, inaccuracies, material omissions and potentially misleading or confusing statements.
192. There was an inadequate evidence base for the numerical assessments and for some of the claims made in the document, especially that the scheme represented “continuous and continuing value for money.”¹⁹⁰⁴
193. Little real attempt was made, as it should have been, to reconcile this business case with the work previously carried out by CEPA and DETI in 2011 and 2012.
194. The Inquiry finds that without legislative change the scheme would continue to run out of control, but legislative change was not possible without DFP approval of the new business case. DFP, in turn, would not give approval without DETI demonstrating value for money for something that, by that stage, did not appear to be value for money or, at least, would not have so appeared upon careful and objective evaluation. The Inquiry finds that, in the circumstances, DETI officials seem to have considered that they had little choice but to present material selectively and/or defensively in order to gain the necessary approval. Examples of such an approach included portraying the 2013 Phase 2 public consultation as constituting the review of the non-domestic scheme promised to the 2012 Casework Committee and required by the condition subsequently attached by DFP to the business case approval; and reliance upon the introduction of benefits to employment to support the proposition that the non-domestic scheme constituted value for money without including the clear warnings and caveats to such input provided by Alan Smith. The general attitude of DETI officials appears to have been to present the situation as positively as possible rather than to set out and analyse the unvarnished facts.

