

DEPARTMENTAL AUDIT COMMITTEE

AGENDA FOR MEETING ON 6 JUNE 2016 AT 3.00pm IN CONFERENCE ROOM C, NETHERLEIGH

Standing Opening Items

1. Chairman's introduction (Chairman).
2. Declaration of any issues that might give rise to a real or perceived conflict of interest (Chairman).

Items for Discussion

3. Renewable Heat Incentive:
 - (a) Non-Domestic RHI Update (Paper Attached – Alison Clydesdale);
 - (b) Update on NIAO report (draft report attached – Stephen McMurray);
 - (c) Update on IAS reviews of Non-Domestic and Domestic RHI Schemes (verbal report from Michael Woods);
 - (d) Future Actions (draft Terms of Reference for Steering Group and draft minutes of Steering Group meeting on 31 May 2016 attached – Heather Cousins).
4. Any Other Business

DEPARTMENTAL AUDIT COMMITTEE: 6 JUNE 2016

TITLE OF PAPER: UPDATE ON NON DOMESTIC RENEWABLE HEAT INCENTIVE

Paper presented by: Alison Clydesdale

This paper addresses the two action points from the Departmental Audit Committee held on 2 March 2016.

Action 1: Energy Division to confirm the updated forecast cost position in relation to the RHI scheme.

Action 2: Energy Division to provide written updates to the Committee on the actions taken and planned (including timelines) to conclude matters already identified and other matters that may be identified following the reviews.

UPDATE

The Department has now established an oversight group for RHI, which is chaired by the Permanent Secretary (or the Deputy Secretary responsible for finance and governance issues) and has representation from Internal Audit, Energy Renewables and Finance Branch. The first meeting of the group was held on 24 May and focused on identifying a number of key pieces of work to address emerging NIAO and IA concerns. These are set out below in the response to the Audit Committee's query in relation to actions taken and planned.

KEY ISSUES

1. Updated Forecast cost position in relation to the RHI scheme

Background

- Total number of non domestic RHI installations at scheme closure is 2128.
- Over 40% of the 2,000+ non domestic applications still have not received any payment and a further approximately 30% have payment data for only 3-9 months.
- Total number of domestic applications at scheme closure is 2,128. With a backlog of around 900 applications still to be processed, it is likely that some of these applications will be refused so the final number of accredited installations should be lower.

Current Estimates 2015-16 & 2016-17 – total RHI spend (domestic and non domestic)

The total spend for 2015-16 is estimated as £35.1 million – of which £30.5 million is non domestic RHI.

The estimates for 2016-17 and 20 year forecasts are being prepared and will be provided to the Audit Committee and NIAO as soon as possible.

Funding Position

- DFP confirmed to DETI on 22 December (Chief Secretary confirmation mid January) that any expenditure above the “Barnett consequential” of 3% of GB RHI budget to be met by NI DEL. Additional pressure created by 30% reduction in GB funding as part of Spending Review.
- The current 2015-16 AME budget for both RHI schemes has been increased to £35.1m to reflect this increase in demand. Current information on applications received means that we are now forecasting 2016-17 expenditure of over £50.7m.
- The AME caps create pressures of around £140m over next five years as shown below with largest shortfalls in year 1.

	16-17	17-18	18-19	19-20	20-21	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Total cost	50,700	51,700	54,800	55,700	56,600	269,500
AME allocation	18,300	22,300	25,700	28,900	34,300	129,500
Deficit	(32,400)	(29,400)	(29,100)	(26,800)	(22,300)	(140,000)

Approvals / Irregular Expenditure

- DFP have granted prospective approval for the period 29 October 2015 to 31 March 2016. However, retrospective approval for the period 1 April to 28 October 2015 has been refused.
- For 2015-16, £11.9m of irregular expenditure is forecast for the 788 installations made between 1/4/15 and 28/10/15. In 2016-17, £19.4m of irregular expenditure is forecast for these installations.

2. Updates to the Committee on the actions taken and planned (including timelines) to conclude matters already identified and other matters that may be identified following the reviews

Actions Taken

Action Taken	Description	Timeframe	Status
Scheme Closure	RHI Closure Legislation made.	Scheme closed on 29 February 2016	Complete
Review by Internal Audit	Internal Audit is currently undertaking a review of the RHI Non-Domestic scheme to examine the effectiveness of internal controls from the initiation of the scheme and the action taken to address concerns which arose over regularity, affordability and value for money of the scheme.	Report issued 19 May.	Energy Renewables considering report.
Deloitte Report on investigation of anonymous allegations	<p>The Department and OFGEM have jointly commissioned an investigation of the allegations.</p> <p><u>Phase 1</u> - Phase 1 of the review looked at Ofgem's systems of assurance and controls to ensure they are appropriate for the NI scheme has already been completed.</p> <p><u>Phase 2</u> - The scope for phase 2 which will include site visits is currently been developed with a view to having investigations completed and report covering both phases issued.</p>	Report covering Phase 1 and 2 to issue by end June.	Oversight group agreed to write to Ofgem setting out explicitly what is required, with a view to potentially securing a new provider if Ofgem are unable to provide adequate levels of assurance.
Review of State Aid position	Discussions underway with European Support Unit in relation to EU notification.	June/July	Ongoing
Establish a DfE oversight group	SMT chaired group that provides oversight on the handling of RHI issues going forward.	May	1 st meeting held 24/5.

Actions Planned

<i>Actions Planned</i>	<i>Description</i>	<i>Timeframe</i>	<i>Status</i>
Development of an Action Plan	Develop an action plan to address key compliance issues	Immediate	Ongoing
Programme of additional site visits	<p>DfE and Ofgem are working together to develop a programme of additional site visit audits for both the domestic and non domestic scheme.</p> <p>Meantime Ofgem intend to undertake 12 in depth audit visits.</p> <p>The intention is to procure an independent assurance provider to complete site audits with a view to establishing an acceptable level of statistical confidence.</p> <p>A business case is currently being developed.</p> <p>Budget cover of £150K is in place for 16/17.</p>	<p>Clearance for the business case will be sought in June.</p> <p>Procurement exercise will be needed over the summer .</p> <p>Oct/Nov to have assurance provider in place.</p>	Ongoing
Value for Money study / scheme evaluation	<p>Terms of reference are being drawn up to evaluate the effectiveness and value for money of the scheme.</p> <p>It is planned to use inhouse resource (energy economist) to do this as this would be quicker than a procurement exercise.</p>	June-September 16	Ongoing
Work with DOF to seek possible agreement on how to regularise expenditure	Develop a set of cost controls that will assure DOF going forward.	July – October 16	Commencing Q2 2016/17.

for future years.			
Develop policy proposals / consult on further cost control proposals.	Consultation on the potential for further cost controls can be undertaken now that the scheme has closed. This could mitigate legal, financial and abuse risks.	June-Aug 16 develop policy proposals with a view to issuing consultation in September.	Ongoing

DECISION REQUIRED

- None.

ACTION REQUIRED

- The Departmental Audit Committee is asked to note the position.

TIMESCALE

- Immediate.