

POST PROJECT EVALUATION

Title of Consultancy Assignment:

Administration of the Northern Ireland Renewable
Heat Incentive

Name of Consultant Appointed:

Ofgem

Cost of Consultancy:

£78,590.00

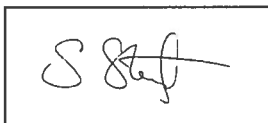
Prepared By:

Susan Stewart

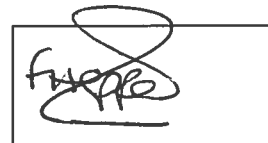
Approved By:

Fiona Hepper

Signed:



Signed:



Date:

21 August 2012

Date:

22 Aug. 2012.

Section 1: Background***Provide a brief description of the assignment including:***

- ***What was the purpose of the assignment?***

In September 2010, DETI published the Strategic Energy Framework (SEF) which had been agreed and endorsed by the Executive. The SEF included a target of 10% renewable heat by 2020; this is required to meet a EU Renewable Energy Directive (RED) (2009/28/EC) as well as to increase fuel security, reduce dependence on fossil fuels, support the drive for a cut in emissions and provide opportunities for green jobs. In the same month, the DETI Minister announced that DETI would seek to introduce a Renewable Heat Incentive (RHI) in Northern Ireland should one be economically viable (GB had already announced plans to introduce a GB RHI).

In October 2010, Her Majesty's Treasury allocated DETI £25m (2011-2015) for the introduction of a NI RHI. The NI RHI represents a long term approach to developing the renewable heat market by providing consistent, secure, long term payments for renewable heat generation. The incentivisation is by means of payments to installers of renewable heat technologies (with tariffs dependent on the type and size of technology installed), in the form of pence per kilo watt hour (p/kWh) for heat generated. Payments will be made quarterly over a 20 year period for all eligible installations (following accreditation).

The purpose of this particular assignment was to carry out an assessment of the options available for the administration of the NI RHI, through the use of systems already developed for the GB RHI, with consideration being given to maximising potential economies of scale.

The NI RHI administrative system needs to be capable of managing enquiries and applications, accrediting installations, ensuring participants meet ongoing obligations throughout the life of the scheme, processing payments, preventing fraud and providing management information. This study considered the details of the existing business processes (within the GB systems) that needed to be amended or implemented for NI and the associated costs both in terms of development and ongoing operational costs.

- ***What was the need for the assignment?***

With a budget of £25m until 2015 and payments 'grandfathered' for 20 years, it is vital that the NI RHI scheme is properly administered. A sophisticated system, incorporating both IT systems and manual operations, and capable of managing the various stages of the scheme is required.

The resource to develop such a system, both in terms of number of personnel and expertise, was and still is not available within Energy Division. Similarly there is insufficient resource to manage the system on an ongoing basis. The NI RHI would not be able to proceed without an administrative system being put in place.

- ***Who was the appointed consultant and when were they appointed?***

Ofgem is the Energy Regulator for Great Britain and has a close working relationship with the Department of Energy and Climate Change (DECC). Ofgem acts as the delivery body for a number of DECC led renewable energy schemes including the Renewable Obligation (and the Northern Ireland Renewables Obligation), the Feed-in-Tariff and the GB RHI.

Over the past 18 months Ofgem and DECC have worked closely to develop administration arrangements for the GB RHI, design IT equipment and draft guidance documents that underpin the scheme. The work that Ofgem has carried out has been vital for the introduction of the GB RHI.

The Department therefore wished to consider the feasibility of using Ofgem for the delivery of the Northern Ireland RHI so that DETI would be in position to benefit from the expertise developed by Ofgem in the design and delivery of the GB RHI i.e. use existing IT systems, guidance documents and legislative advice which are already in place for the GB RHI. DETI considered this might present significant economies of scale and would ensure consistency in approach with GB in the delivery of the two similar incentive schemes.

Section 2: Assessment of Costs

This section should provide a comparison of the actual costs of the external consultancy with the agreed contract value.

Where the variation between contract value and actual costs is greater than 10%, an explanation for the variation must be provided.[Note where actual costs exceed the cost approved by DFP by more than 10%, then DFP must be informed].

Expected Cost

£97,872.00

Actual Cost

£78,590.00

Percentage variation between expected cost and actual cost

-19.7%

Explanation of variation in costs

The Department estimated that the feasibility study would cost in the region of £100,000. The budget was available from the Energy Division Budget.

Ofgem's costs of carrying out further analysis on the feasibility study were estimated at £97,872 (excl. VAT). Ofgem undertook and completed the feasibility study for £78,590 (excl. VAT). The feasibility study was therefore completed at almost 20% less than the estimated cost.

Ofgem's costs of carrying out the feasibility study were estimated at £98k (excl. VAT) over the life of the project. This was broken down into staff costs of £43,754; Consultancy cost of £10,000 for a risk assessment; IT costs of £19,485; other costs including travel, training and subsistence of £5,058 and an overhead charge of £19,574.

The actual cost of the feasibility study was therefore lower than the cost initially quoted by the service provider. Part of the reduction in cost (£10K) was due to the fact that Ofgem did not use an external consultant to undertake a risk assessment as originally envisaged.

Section 3: Assessment of Deliverables

This section should provide detail on what was delivered by the consultants. The extent to which projected deliverables, as outlined in the Terms of Reference, were met by the consultants, and the quality should be assessed.

The external consultants had to consider a range of project deliverables, as specified in the business case, which were as follows;

- A focused feasibility study providing a detailed evaluation of preferred options to implement the Northern Ireland RHI
- A high level reporting and governance structure between Ofgem E-Serve and DETI
- Use a cost/benefit analysis to identify the most effective internal options for developing and operating the scheme
- High level process maps showing how the processes will be carried out in practice
- Risk analysis of risks associated with Ofgem E-Serve taking on this role and proposed mitigation
- Identified key workstreams and deliverables for development, and resources (staff, IT, legal, technical support etc) required
- Evaluation of resources required for operations
- Detailed costs for the development and implementation phase
- A full timetable of the scheme delivery
- Review of draft regulations

This feasibility study's aim was to inform the future administration arrangements of the Northern Ireland RHI. Although the formal external risk assessment was not completed at this stage of the NI RHI project, Ofgem's work was deemed to be consistent, sufficiently detailed, and in keeping with what was asked for in the business case.

Section 4: Assessment of Benefits

- ***Were the deliverables achieved within the timescale specified in the contract? Reasons for any delays and the impact on expected benefits should be explained.***

The contract was officially awarded on 30 September 2011. The external consultants estimated that the report would be finalised week commencing 23 December 2011 however the final report was received on 16 December. The report covered all agreed deliverables within the project terms of reference.

- ***Was the consultancy assignment used for the purpose originally intended?***

Yes, the consultancy assignment was used for the purpose originally intended in that it provided evidence as to the business processes required for the administration of the NI RHI, the potential of using the existing GB systems for delivery and the expected costs of doing so.

It provided the information the Department needed to appoint as administrator for the scheme.

- ***How were the outputs delivered by the assignment used?***

The immediate output from the feasibility study has informed the final design and process on how the Northern Ireland RHI administration can be efficiently and cost-effectively rolled out in a timely manner. This has helped to ensure that the administration arrangements are fit for purpose and fully costed. In addition, the study has allowed Senior Management within the Department to make decisions relating to the future implementation of the RHI.

Section 5: Division of Work

This section should provide details of the division of work between in-house staff and the consultants. Evidence should be provided of whether the in-house assistance provided matched what was in the business case.

The business case stated that in-house staff would be used in managing the delivery of the project, assisting consultants with queries, advising on policy issues and ensuring the project was delivered on time and on budget. In addition, the business case stated that there would be ongoing contact in terms of phone calls, email correspondence and tele/video-conferencing and that the Departmental economists would provide a quality assurance check before the feasibility study was signed off.

A number of conference calls and a face-to-face meeting were held throughout the project, as well as continual communication via telephone and email.

Regular updates were provided throughout the project, with a draft outline report and final draft submitted and considered in advance of a final draft being agreed.

Section 6: Skills Transfer

- ***What mechanisms were put in place to allow the transfer of skills and knowledge to happen?***

The potential for skills transfer during this assignment was mainly in the form of increased knowledge and understanding amongst Energy Division members of the potential administration issues of a Northern Ireland RHI.

- ***Assess the extent to which transfer of skill and knowledge to in-house staff has taken place and what impact has this had on in-house capability?***

By working closely with Ofgem, Energy Division staff have been able to understand better the requirements of the administration aspects, potential risks or failings and how the scheme's accessibility can be optimized.

Knowledge and skills delivered by the consultancy was transferred to internal staff throughout the project through meetings and discussions about the elements of the project. This was increased further on delivery of the draft report through the process of quality assurance.

- ***Has the need for future consultancy support diminished as a result of skills transfer?***

The project has assisted in the design of appropriate administrative arrangements to allow the successful delivery of the Northern Ireland RHI. The administration and implementation of the Northern Ireland RHI will be delivered by Ofgem with oversight from DETI.

Section 7: Assessment of Project Management Arrangements

- ***Were the monitoring arrangements put in place to manage the consultant's satisfactory?***

The Department managed the progress, objectives, and financial monitoring of the feasibility study work with regular discussions and project updates.

- ***Was there an opportunity to influence performance interim stages?***

The consultants, Ofgem, reported to the Department on progress and provision of the draft versions of the feasibility study. Representatives from DETI were engaged in monitoring progress of the further analysis work through e-mail and telephone correspondence with the consultants to ensure that the work was completed in accordance with the business case and to try to ensure that the study would be completed on schedule. The Department was kept informed of progress and were able to offer appropriate support and advice as appropriate. Departmental staff also kept senior officials informed about the progress of the feasibility study.

- ***Was the project managed effectively?***

The final report was deemed to be comprehensive and sufficiently detailed and was accepted by Renewable Heat Branch.

Section 8: Conclusions and Recommendations

Conclusions

Provide a summary of what value was added by this assignment and assess whether, on balance, value for money was achieved.

The feasibility study was used by the Department as the basis for deciding how the NIRHI would be administered. This was an important decision given the duration of the scheme and the budget (£25m). The recommendations from the feasibility study were provided as evidence to the Minister and the DETI Casework Committee during the approval process.

Ann Agency Services Agreement is currently being put in place with Ofgem for the delivery of the Northern Ireland RHI and the feasibility study provides the basis for that agreement.

Recommendations

Provide a summary of the lessons learnt and provide details on how these will be disseminated within the Department/Agency.

Ofgem's work in completing the feasibility study on the NI RHI administration was deemed to be good quality, sufficiently detailed, and in keeping with what was asked for in the business case. If this assignment had not been undertaken the Department would not have had the necessary information to make arrangements for the administration of the NIRHI scheme. This in turn would result in money set aside for the scheme (£25million over 4 years) having to be returned to HMT and the target for renewable heat, set by the Executive, not being achieved. No additional lessons were learned. This PPE will be disseminated within Energy Division.