

FINAL VERSION

DAC Agenda Item xx

DEPARTMENTAL AUDIT COMMITTEE: 25 MAY 2016**TITLE OF PAPER: UPDATE ON NON DOMESTIC RENEWABLE HEAT INCENTIVE****Paper presented by: Alison Clydesdale**

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

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 other member of SMT) 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 15/16 & 16/17 – total RHI spend (domestic and non domestic)

The total spend for 15/16 is estimated as £35.1 million – of which £30.5 million is non domestic RHI.

The estimates for 16/17 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 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

| <i>Action Taken</i> | <i>Description</i> | <i>Timeframe</i> | <i>Status</i> |
|--|---|---|---|
| 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 secure agreement on how to regularise expenditure for future | Develop a set of cost controls that will assure DOF going forward. | July – October 16 | Commencing Q2 2016/17. |

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|--|---|-------------------------|------------------------|
| 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. | October – December 2016 | Commencing Q3 2016/17. |

DECISION REQUIRED

- None.

ACTION REQUIRED

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

TIMESCALE

- Immediate.