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To:	Hepper, Fiona
Cc:	Bagdonaite, Dovile; Saunders, David
Subject:	NIRHI
Date:	05 April 2016 13:29:23
Attachments:	Governance and Relationship with Ofgem.docx Interim Conclusions - RHI (non domestic) review.docx

Fiona

As discussed earlier, see attached an initial set of issues arising from our review of RHI. This is a rough set of issues and is not a "draft report", as such they are based on the information we have obtained to date. I would be grateful for any input you might have or any points of fact you may be aware of. I would be happy to meet to discuss on your return, in the interim if you have any comments to make on the issues/ questions i would be grateful for you send these to me. We have also sent these to Joanne McCutcheon.

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Objective 3 Ofgem / DETI roles, responsibilities and processes
Scheme Governance Arrangements

	1. DAC & Business Case/Economic Appraisal for appointment of Ofgem – 2012
	One risk has been identified at this stage – Ofgem may fail to deliver either at the development phase or at operation stage. This risk was considered to be low likelihood as Ofgem has good track record in delivering other Energy schemes. The risk will be managed through an ongoing performance monitoring. Administration board will be set up which will meet on monthly cycle and will be supplemented with regular contact between DETI project team and Ofgem project management
	Q How was this risk monitored and managed? What was the mechanism employed?
	Proposed monitoring of the outsourced relationship as per Economic Appraisal - Clearly stated expected outputs - Targets and costs and - Evaluation of the operational part of the contract will be at the end of the first year
	Q What are the expected outputs which have been agreed by management? How are the targets agreed monitored and what is the cost management mechanism? Is there any documented evidence that these have been agreed and distributed among relevant staff? What is the monitoring of the overall project as per Economic Appraisal?
	2. Ofgem Responsibilities in the NIRHI – Ofgem Feasibility Study – 1th November 12
	Ofgem has an overarching scheme management coordination role as administrator of the NIRHI
	Ofgem has direct lead responsibility for - accreditation of generators - development and operation of the IT system - making payments to generators - auditing and assurance of all RHI systems and processes - enforcement of performance standards and reporting - ability to outsource functions (such as onsite auditing)
	Ofgem is responsible for providing DETI with all necessary information around suspected instances of non compliance
	Generator Fraud. Ofgem will execute any decision taken by DETI in relation to enforcement if they are directed to do so.
	Ofgem proposed to retain the power to put on hold any generator or installation with which they have genuine concerns.
	IAS note Management advised that there has not been any instances of fraud notified by Ofgem to date.

	3. DETI Role in NIRHI – Ofgem Feasibility Study – 1st November 2012
	Generator Fraud. DETI retains formal enforcement powers under the scheme
	DETI retains all legal risks surrounding the scheme.
	4. Key scheme administration features as proposed by Ofgem – Ofgem Feasibility Study, 1st November 2012
	Accreditation of generators greater than 45kW - central accreditation and registration system - all necessary information to determine eligibility will be assessed (registration and certification details, metering, biomass sampling etc.) - most of the above will be done via online portal but for large complex sites and technologies a more hands on approach in verifying details will be used.
	Accreditation of generators less than 45kW - use of third party certification - MCS will play a central role in certifying the installations - The installer of generator will contact Ofgem to register - Web based portal will be used for the accreditation and capture of the certification details. - Back up phone contact function to deal with queries from generators
	Central register - Central data repository - Accredited generators are entered into the register - Register will be used to verify eligibility, to ensure that accurate payments are made using the appropriate tariffs and to minimise potential for abuse - Register will include details of the site, technology and ownership to enable to unambiguously identify the generator - It will capture metering and sampling details
	Contract management - Detailed and technical accreditation queries will be forwarded to the generator enquiries team in the RHI operational team
	CRM - Software system to manage contact function with the generators - Used to record queries and complaints - Access allowed to some information for call handlers - Function to send out targeted material such as reminders that declarations are due and tariff rate announcements.
	Periodic information capture - Meter readings, sampling information or periodic information capture. - Will be done through the web portal mainly but generators may choose to call or post the information which is logged by the administrator onto the central register for payments and compliance checks
	Calculation of payments - Information collected via accreditation process will be used by the central register to calculate payments based on tariff rates (at the time of accreditation) for the lifetime of the scheme - Metering and sampling information will also form part of the calculation using the tariff rates matrix loaded onto the system
	Payments processing

	- Using SUN, Ofgem internal payments processing system
	Fraud prevention - Ofgem responsible for scheme auditing and compliance Small scale generator fraud - Assurance provided by MCS at installation and via on-going maintenance checks Use of central register for fraud prevention - Checks at accreditation to avoid duplicate accounts - Verification of MCS certification - Trend analysis - Checks that the meter readings are consistent with the generation capacity for the type of technology and installation size - Checking the consistency over time of meter readings (e.g. checks that generation isn't double last period's generation or that it isn't exactly the same as last period's) - Registrations and accounts audited regularly on a sampled basis - Fraud audit of the systems - Random physical verification of installations
	Audit and assurance - The NIRHI and all of the organisations, systems and processes, which form part of it, will be subject to audit to ascertain the validity and reliability of information and to provide an assessment of relevant internal controls. - The goal of audit will be to express an opinion on each of the system components based on work done on a test basis. - The audit will be risk based with areas of greatest risk subject to greatest testing, to provide reasonable assurance that the RHI payments are free of error. - The onsite audit function will be outsourced to protect the scheme against generator fraud.
	Q Has DETI Energy requested and received any of the assurances from Ofgem to satisfy themselves over the operation of Ofgem's internal controls? Has DETI requested that NIRHI specific systems are included in Ofgem's internal audit programme? Have DETI received copies of relevant internal audit reports/ assurance statements from accounting officers in Ofgem? Has DETI been shared with Ofgem's risk management strategy in relation to operation of the NIRHI scheme?
	Reporting - Ofgem will make regular public reports on NIRHI - Additional reporting will be provided internally to DETI in accordance with their needs and the performance of the scheme functions. Reports Ofgem provide DECC - Accreditation report (statistics around accreditation process to identify adjustments needed in the systems and to track the applications submitted) - DECC Extract Report – provide DECC with statistical data they want to be built into the system for their own research and reporting purposes. - KPI management report – internal reporting on performance against targets for reviewing applications and granting approvals - Payment forecast report – forecast for payments a month in advance. - Public reporting
	Q Has DETI received/requested for any additional NIRHI specific reports?

	Are the reports such as Ofgem's described DECC reports regularly presented to DETI?
	Project governance: - Joint NIRHI administration board (top level meeting monthly) - RHI implementation board (operational meeting fortnightly)
	Q Do these meetings regularly take place? What is discussed in these meetings? Are any of them documented and results escalated to relevant senior staff?
	5. Payment of operational/admin costs – Ofgem Feasibility Study – 1st November 2012
	Gema invoice DETI for costs incurred to date on a monthly basis for the operational costs incurred in the immediately preceding calendar month
	DETI will pay Gema within 30 days of the date of the invoice
	6. Drawdown of funds. Incentive payments – Ofgem Feasibility Study – 1st November 2012
	Monthly returns of receipts and payments into the special bank account including bank reconciliations will be done by Gema
	A request for top up of bank balance will be made monthly by Gema to DETI if required. The request will be provided no later than 5 working days prior to the beginning of the calendar month
	DETI will transfer the money no later than by the 27th of the calendar month.
	Gema will not use the funds transferred to the account other than for the purpose of making periodic payments.
	7. Agency Services Agreement – 21st December 2012
	Ofgem will administrate the scheme on behalf of DETI. Conferred and deferred functions agreed between the partners. DETI retains enforcement function, function to ensure that no other public grants have been received by the installations applying for RHI or that these have been repaid. (cf. agreement and regulation references). DETI was given the right to audit as described in Annex. Clear that DETI retains all the risk for the success of the scheme.
	8. Agency Services Agreement (Annex) – 21st December 2012
	1. DETI will be immediately notified if any financial irregularity (fraud, theft or other impropriety, mismanagement, or use of funds for purposes other than that approved) in relation to NIRHI is suspected.
	2. Ofgem will communicate with DETI regarding the ToR for audit activity undertaken by both Deloitte and Ricardo AEA
	3. Ofgem will endeavour to ensure that DETI concerns are adequately addressed
	4. Upon completion of the audits Ofgem will share outcomes where these relate to NIRHI.
	5. Ofgem will provide any records, information, or explanations which may reasonably be required to enable DETI to follow scheme payments, including information relating to accredited installations, calculation of payments and transfer of funds from Ofgem to the installer.
	6. Ofgem will provide DETI or the NIAO with access rights relating to the payments made to accredited installations.

	Q Has DETI ever requested to exercise these rights and received information? Has any following up of the payments been carried out by management? Sample tests carried out? In regard to any information that DETI actually does receive from Ofgem, how, does DETI use this information to discharge its' responsibilities to oversee and manage the NI scheme?
	9. Addendum to Ofgem Feasibility Study – 21st December 2012
	Q Independent risk assessment of the NIRHI scheme was deferred by Ofgem? Has it been carried out since?
	Q Ofgem proposed to discuss and agree appropriate KPI's with DETI (pg 24 feasibility study). Had this been done? What is DETI's involvement in setting/agreeing NIRHI specific KPI's.
	Ofgems proposed internal RHI performance measures Dec 12: 7. 90% of all enquiries answered within 10 working days 8. Follow up outstanding issues or forward them to the next level of internal review – 90% within 10 working days 9. 95% of payments paid within 30 working days of quarterly periodic data submission 10. On-line application system available for a minimum 99% of the supported business hours.
	Q Has DETI received any of this information from Ofgem specifically relating to performance of NIRHI scheme?
	Ofgem RHI operations team check all applications to ensure installations meet all the criteria and stratify them according to complexity as either 'standard' or 'intense'. More stringent checks are performed on intense applications.
	IAS note In relation to identification of risks to the NIRHI project Ofgem only lists risks that would impact them but not the NIRHI scheme or DETI.
	Admin costs calculated: DETI costs= Total RHI operating costs * value of NI tariff payments / value of the total (NI+GB) tariff payments.
	Q Has DETI management been making sure that the admin costs paid were accurately presented as per formula agreed? Have any assurances been received from Ofgem accounting officers in relation to regularity of the figures presented?
	11. DETI Business Case for NIRHI – original business case for NIRHI 2012
	The risk of failure in administration of RHI was identified as part of the risks to the scheme identified in the business case. In particular – delays with applications, accreditations and payments leading to customers complaining and how it will be mitigated.
	Q Other risks to administration were not assessed such as the risk that the payments are not regular, risk to IT and data security etc. Why?
	12. Change Control Document from Ofgem – proposed change in calculation of administrative costs – October 2014
	Proposed to change the method the cost is calculated - 3% of total operating costs less

	GB specific costs.
	Q Has any evaluation been carried out by DETI to determine the impact of this change? Any assessment done on the actual difference in the cost after the change in comparison to the earlier method?
	13. Feasibility study for phase 2 of the RHI – July 2015
	Q It was issued by Ofgem in July 2015. Has DETI paid for it? How much? Has it been approved and is it currently in operation? Stage 1 currently in operation?
	The document refers to Fraud and Compliance (page 26) and Appendix 3 (page 37) refers to Fraud Prevention Strategy. **Q** Has DETI been issued with one for the phase 1 of the scheme (cf. the document refers to the Strategy updated in Aug 12 to include NIRHI)? Has DETI been consulted and were able to input to it?
	14. Fraud prevention Strategy - Appendix 3 – July 2015
	Definition of fraud: 4.3 (page 37) For the RHI, examples of fraud would include falsifying meter readings/ periodic data submissions, submitting false documentation in support of an RHI application, submitting applications for bogus, non-existent installations or an Ofgem member of staff diverting RHI payments to their own bank account.
	RHI specific risk threats (page 39)
	1. Scheme may be targeted by organised criminals/money launderers. Prevention – work with serious crime agency; check participant's details against lists of known fraudulent identities and fraudulently obtained genuine identity
	2. The risk of participants providing false metering and periodic data information in order to increase the level of RHI payments. Prevention – Independent Report on Metering Arrangements (IRMA) for multiple installations larger than 45 kW. Exceptions report signalling generation of heat above capacity or spikes; photographic evidence of opening meter reading; uploading of meter photographs annually from March 14.
	3. The risk that participants may be purposefully generate unwanted heat purely to claim RHI support payments, which is in breach of the RHI regulations. Prevention - RHI IT system capable to identify when the declared capacity of a new installation is inconsistent with the capacity of the one that it has replaced; checking metering; tiered tariffs for biomass reduce the incentive to purposefully generate then waste heat.
	4. The risk that an Ofgem staff member fraudulently manipulates the RHI IT system to divert payments into other bank accounts or otherwise misuses confidential personal data held on the system. Prevention – segregation of duties; 3rd party provider involved in carrying out Authorised Signatory Identity and bank account verification for all new applications; password

	controls; physical controls over the physical information containing bank account details; payments are only made to accounts were the name of the owner matches bank account number; all requests for bank account changes are processed by the Fraud and Compliance team who contacts the Authorised Signatory before any change is made.
	Other: Creation of Fraud Management Group and Fraud & Audit Managers Forum; mandatory fraud awareness training to staff; development of dedicated website; 10% delegated authority sample checks of all periodic data submissions; 10% delegated authority sample checks of all approved payments; permanent staff at Periodic Data Submission account manager's positions
	Q Was DETI offered an opportunity to have presence in the above, or receive minutes/action points for their information? Does DETI receive copies of Ofgem's internal audit reviews or ask for NIRHI specific internal audit reviews?
	5. The risk of bribery or corruption of Ofgem's staff which may lead them to collude with the participant using their knowledge to set up new accounts or circumventing inbuilt controls. Prevention – staff training; segregation of duties and suspicious item matches; sample check; whistleblowing policy
	6. Participants may generate heat for eligible purposes but which do not meet the spirit of the RHI Regulations (eg heating of empty buildings etc) or may waste heat in a compliant manner by using heat in a non-energy efficient way. Prevention – RHI regulations stipulate what constitutes eligible heat; Ofgem ask to for evidence that the heat is generated for eligible purposes; tiered tariffs for biomass reduce the incentive to purposefully generate then waste heat
	7. Oversizing of boilers to ensure high proportion of heat is generated at a higher tariff rate; undersizing of boilers/ installing multiple separate boilers in order to maximise the applicable tariff rates. Prevention – no remedy available. Regulatory amendments needed. **Q** States that regulatory amendments are being considered by DECC, what about NI?
	Q In light of all the above risks described, what was DETI's strategy to ensure that these risks are appropriately managed by Ofgem and that the NIRHI scheme is sufficiently safeguarded against scheme gaming risks?

Initial Synopsis of issues identified by Audit Review

Objective 1 – Scheme Design and Management

1 Planning and Design

1.1 Scheme not planned for the number of installations estimated by external consultants

The original Business Case did not specify the number of installations that management are effectively forecasting for the SR (spending review) period 2011-2015. The business plan was predicated on the funding available not on the average value of an installation which could have been tracked or the projected number of installations that were indicated. The projections provided by two external reviews were not taken into consideration.

The two reviews carried out by external bodies (CEPA Review of NI RHI July 2011 and Ofgem Feasibility Study December 2011) included projections for the uptake of the scheme. CEPA report stated that in the year 2013/14 they expected the non domestic scheme to grow to 1,300 installations. The Ofgem Feasibility Study stated that it was difficult to predict the growth of the scheme; however, based on their experience with the GB scheme and assuming that NIRHI will be 3% of the size of the GB uptake they predicted 1,600 installations by the year 2015/16 and 2,200 in the year 2016/17.

The average payment expected per installation was also not established in the Business Case nor was a system introduced to track any increase in average payment (average annual payment per installation in 2013 - £4,000, 2014 – £10,000 and 2015 – £17,000).

In conclusion, the business case and business planning process lacked a clear analysis of the number of installations or average payment per installation per specific technology that were anticipated and what effect therefore that demand could have on the NIRHI budget. Such absence of proper planning for the growth of the scheme impacted on the budgeting for the annual increase in number of new applications and financial size of commitments entered. The impact of the growth in value of individual awards from £4000 in 2013 to £17,000 in 2015 does not appear to have been tracked or the impact of that growth, if the original projected number of installations materialised, considered as a future budgetary risk.

1.2 Options for outsourcing the delivery of the scheme were not fully evaluated

Ofgem was appointed via a DAC as the delivery agent for the scheme. The main reason for appointing Ofgem according to the business plans (scheme and DAC) were their expertise in running energy schemes for NI before and their experience in administering the GB RHI scheme. In addition management was also of the opinion that in accordance to the Energy Act 2011 Section 114 which says

“(1) GEMA and Northern Ireland Authority (NIA) may enter into arrangements for GEMA to act on behalf of NIA or in connection with, the carrying out of any functions that may be conferred

on the NIA under, or for the purposes of, any scheme that may be established, under section 113",
the NIRHI scheme could only be legally managed by Ofgem, NIAUR or DETI, however at scheme planning stage this was not discussed. Internal Audit noted that the MOU between Ofgem and DETI allows for the relationship to be terminated with notice by either party.

Based on the above assumptions management commissioned Ofgem (via DAC at a cost of £78,590) to carry out a Feasibility Study and proposal of how NIRHI would be administered by Ofgem and what the estimate costs of administration were going to be.

Other options for the scheme administration were not comprehensively evaluated. Given the life of the scheme (20 years) and the funding involved (potentially over £500m during 20 years) there should have been a more comprehensive options analysis carried out and all possible scenarios sufficiently evaluated such as DETI Energy retaining the control of administration but outsourcing individual functions such as accreditation, inspections and etc. No consideration was also provided in relation to the resources DETI in-house needed to adequately oversee the scheme and ensure sufficient control of payments.

In terms cost and savings analysis, in their Feasibility Study Ofgem referenced to the savings that DETI is going to benefit from by employing them to administer the NIRHI scheme (page 24). The Feasibility Study does not actually state how they have arrived at the assumptions on how much other delivery agents might charge. Therefore there is no objective assessment of whether the costs and savings quoted by Ofgem are founded on evidence or assumptions. In addition, we noted that DETI has not carried out independent evaluation or obtained quotes from other organisations to be able to substantiate the comparative analysis.

1.3 Inaccurate assumptions and confusion over funding after the SR period 2011-15

Funding offered to the NI by the HMT was £2/£4/£7/£12 (£25m) during the period from 2011 to 2015. The DETI Business Case under the section on Affordability (page 23 para. 2.60-2.62) presented an over optimistic assumption on the funding available for the scheme past the SR. IAS did not obtain any evidence to prove that the funding past the SR period quoted on the Business Case was officially offered to DETI.

The document bases its financial projections on GB's State Aid application which anticipates that the expected subsidies paid in 2020 in the GB RHI will be in order of £2.3bn, NI's 3% share of which would account for £70m. It also quotes the assumption in the CEPA report that the officially offered funding of £25m for that period would supplemented in future years by an annual increase of £5m p/a until 2020, however it does not go on to say where CEPA obtained these figures.

The table on page 44 of the scheme business case describes funding available and provides estimation on 2 scenarios of funding after 2015/16 – (1) assuming an additional £5m p/a every year until 2020 and (2) the funding remaining static at £12m p/a after the end of year 4. The scenario of the funding remaining static would mean that the scheme would effectively have to be closed for new applications from 2015 and only the commitments entered in previous years of the scheme will be honoured.

Taking into consideration that funding beyond 2015/16 was not guaranteed, the scheme should have been planned on a more pessimistic scenario and allowed for a certain element of optimism bias. Similarly measures of effective budget management should have been built in the scheme management mechanism. This would have allowed for a better evaluation of the risk of over commitment of funding and for appropriate mitigation strategies to be built in the scheme.

1.4 Benefits realisation plan and financial scheme performance projections not comprehensive

The benefits realisation plan (business case page 100) alludes that in the year 2015 the Branch are anticipating in the region of 6880 installations (this figure includes domestic RHI) and the budget of £10m to cover the incentive payments. The latter installation and funding ratio allows for an average annual incentive of approx. £1,500 in comparison to the average actual incentive on the non-domestic RHI of nearly £17,000 as at 2015.

This raises two questions. Firstly the scheme performance and financial projections were incorrect at a start and secondly weaknesses in the monitoring of the scheme performance and long term financial planning have led for the opportunities missed to apply relevant measures such as degression and capping etc.

1.5 Errors in the scheme Business Case referring to the year that the funding is guaranteed

Page 94 of the Business Case section on Affordability provides ambiguous reference to funding of £25m being available to 2015/16. This could give an impression that the financial year of 15/16 is included in the funded period.

We understand that this ambiguity might have caused a certain level of confusion and may have had an influence on the date for DFP approval running out missed, however, the conditions of the DFP approval were absolutely clear about the length of financial cover provided.

1.6 A signed and dated copy of the Business Case for the NIRHI scheme is not available.

Internal Audit has been unable to obtain a signed and dated copy of the Business Case. Electronic versions only have been provided.

Project/Scheme Management and Monitoring

1.7 Project management of NIRHI Non-Domestic scheme

DFP guidance says that a project is a set of agreed activities with a definite start, middle and end. Project management provides structure and control of the project environment so that the agreed activities will produce the right products or services and meet the objectives raised. Best practice dictates that common elements of project management include the following stages such as initiation, planning, execution and controlling, including monitoring and reporting, and closing. All of the stages must be appropriately controlled to keep track of the progress, ensure that note is taken of the critical dates or events of the project and appropriate decision points.

The NIRHI scheme has not being treated as a project and controlled using a project management methodology, which, in IAS opinion has influenced the appearance of a number of issues highlighted in this report and resulted in a number of opportunities missed.

In addition, lack of appropriate the project management methodology and process over the NIRHI scheme and inadequacies in risk and control environment have resulted in confusion and reactive responses from management – ‘fire extinguishing’ rather than a proactive approach to controlling the scheme. This has also resulted in the number of risks materialising and opportunities missed.

1.8 Absence of appropriate risk management at a scheme level

In accordance to the best practice in project management endorsed by the NICS PRINCE2, risk management is one of the major integral elements of the project management which enables the achievement of project specific objectives.

For the purposes of the Business Case drawn to appraise the NIRHI scheme, a scheme specific risk register was drawn to accompany the business case and the following scheme specific risks were identified:

- Incorrect tariff levels set (too low or too high)
- Low uptake
- Harm to other sectors
- Failure of renewable heat supply
- Insufficient budget secured for the RHI payments or for the administration of the scheme
- Failure to meet EU and Executive set targets
- Failure to receive State Aid approval
- Inadequate resource to deliver projects/separate key functions including staff
- Instances of fraud
- Failure in administration of RHI

Although there were a number of relevant risks identified at the scheme planning stage and a number of mitigation strategies considered, the risk management process was not continued through the life of the scheme leading to a few risks materialising. No formal risk mitigation strategy was developed and implemented for the NI scheme.

IAS notes that a divisional and corporate risk registers include reference to risk related to the NIRHI scheme however these registers are strategic and high level by nature and do not allow for the adequate operational risk management processes to be included and monitored.

1.9 PPE for the RHI scheme has not been carried out by August 2015

DFP approval of funding letter for the period from 2012 to April 2015 indicated that the PPE for this part of the scheme is due at the end of August 2015. IAS understands this has not been carried out due to issues related to the scheme which took priority (such as revising of tariffs, getting approval for funding and introduction of the Domestic scheme).

If an evaluation of the scheme had been undertaken in 2014, early 2015 a number of issues such as budgetary cover, alignment of controls to those in the GB scheme, introduction of controls over demand and average award increases may have been identified and mitigation strategies could have been in place prior to the increase in demand in late 2015.

Other potentially misses opportunities

1.10 DECC example of introducing tiered tariffs and degression was not followed by NIRHI scheme

DECC started introducing degression of their tariffs early in 2013. Certain conditions were imposed for the tariff reduction, the frequency of reduction and levels. Under DECC regulations where the conditions for tariff reduction are met, a relatively low level reduction, usually starting at 5% is applied. However the level of reduction can increase depending on:-

- How well the scheme is doing overall (DECC has regard to two total scheme triggers – 50% and 100%) and
- Levels of expenditure for each tariff category (DECC has regard to two triggers for each type of technology)

Simply put, the higher expenditure is forecast to be for the scheme as a whole and for one or more technologies, the more likely it is that one or more tariffs will be reduced. Conversely, where overall scheme expenditure is low (i.e. less than 50% of what was expected) there will be no reduction to any tariffs. The decision on tariffs in GB RHI is taken on a quarterly basis.

Before taking any decision in relation to change of their RHI scheme and introduced degression DECC consulted all their stakeholders including DETI. Nevertheless DETI did not take this opportunity to make an informed decision on mirroring the processes put in place in GB to control the NIRHI budget. IAS have not been presented with any evidence that any discussion or consultation took place in DETI at the time or that any formal analysis was undertaken which would enable management to have an informed decision in relation to tiering and degression of the NIRHI.

In the hindsight, DETI scheme management would have benefited from introduction of similar triggers of take up of the scheme. **Appendix 1** demonstrates research carried out by IAS on changes in tariffs in DECC and comparing these to NIRHI and **Appendix 2** shows the growth of the NIRHI scheme in terms of installations, technology and average annual payment. Although IAS have not made any calculations to provide the projections of funding needed should the triggering and tiering had been introduced earlier, it is quite clear that one type of technology was being very popular in NI and even with at the time when degression on these tariffs was introduced in NI the tariffs for the same type of technology in GB were significantly lower.

This conclusion is only strengthened by the fact Ofgem's Fraud Management Strategy acknowledges the risks in relation to over generation and gaming of the scheme and identifies mitigation/prevention strategy which is reduction of incentive to over generate by tiered tariffs. Unfortunately DETI has not demonstrated that the decision not to follow GB's lead on managing demand/budgetary/ gaming risk was as a result of having formally and adequately evaluated the options available.

1.11 Reactive introduction of NIRHI non domestic tariff tiering

NIRHI non domestic tariff tiering was introduced from 18 November 2015. Management advised that this was done as a reaction to growth in installations accredited from May 2015 onwards. Because tariff tiering and degression triggering had not been inbuilt into NIRHI legislation at an earlier date it took management over 6 months to have necessary legislation brought forward during which time the number of applications received doubled.

In relation to the methodology behind the levels of the of the tiered tariffs introduced, IAS was not presented with a business case or other reference document which demonstrates how the tiered tariff levels were determined and what are the anticipated benefits to have these tariffs introduced and their impact on scheme budget. It needs to be confirmed that in setting these tariffs consideration was given to the current costs of the installations and the rate of return set at a level in line with state aid approval an only on a level necessary to incentivise the scheme. IAS consider that in setting these tariffs there should be a clear understand of whether as a result the risk of gaming or incentive to over generate heat is mitigated.

1.12 Review of the scheme has not been carried out in 2014

As part of scheme monitoring exercise, the Business Case for the NIRHI scheme states that the review of the NIRHI would take place in 2014 and will assess scheme uptake effectiveness, VFM and progress against objectives.

IAS were advised that this review has not been carried out to date. Management explained that a similar review before introducing of Phase 2 (domestic) was carried out by CEPA. IAS is of the opinion that because this review was initiated before the NIRHI scheme started in late 2012 (report issued in final June 2013) and concentrates on inclusion of the domestic customers and more advanced technologies it does not provide an adequate basis for a evaluation of the RHI Non-domestic scheme. In addition, at this early stage of the scheme (7 applications received in 2012/13) it would have been too early to make any recommendations in relation to VFM or progress against objectives.

In hindsight, should this review been carried out it in 2014 it may have helped early identification of some current issues before they materialised. For example, in terms of biomass boilers (most popular in the scheme) the VFM study could have highlighted that due to improved return on investment and fall in wood pellet prices it became far easier to generate profit while generating excessive heating. IAS have carried out a speculative research exercise to establish what was the push of the market to encourage business to take up biomass heating - see **Appendix 3**.

Objective 2 BUDGET PLANNING, MONITORING AND PAYMENTS

2.1 Budget Monitoring Committee has not been established

Scheme management at the time of obtaining approvals for the scheme stated that a Budget Monitoring Committee would be established to militate against any budgetary risk however this has not happened to date.

2.2 Delayed approach in clarifying scheme funding beyond March 2015

There has been a lot of confusion in relation to what funding will be available to NIRHI after March 2015. IAS had sight of correspondence from Energy Branch to the DECC in attempts to clarify the situation. A certain level of confusion was also noticed in the way the funding for NIRHI is calculated, i.e. application of the 2.98% formula.

This situation has caused delays in fully understanding and evaluating the impact of the funding available to the NIRHI scheme after from April 2015. However IAS believe that such confusion was totally unnecessary as the funding was known from the end of 2013 - the letter from G. Baker to A Foster (respective ministers of DECC and DETI at the time) of 29th November as part of stakeholder consultation on Publication of Government Response for the Non Domestic RHI Consultations and Domestic RHI Cost Control. Among other issues the letter advised on DECC Deployment of Non Domestic Budget Management Policy and it has indicated that £430 million will be available across GB for 2015/16 and that this will include both non domestic and domestic RHI. This equates at 3% to £12.9 for the NI scheme, less that the assumptions in the Business Case and therefore this should have triggered a reassessment of future budgetary needs.

The branch should have noted this funding available and should have made provisions accordingly.

2.3 Delays in obtaining DFP approval for the scheme

The deadline for application to DFP to request for extended approval for funding for the NIRHI scheme was missed and this has resulted in irregular expenditure during the period when the cover was missing.

The DFP approval for the funding of the scheme covered expenditure to the end of March 2015 and was in line with the funding offered to NIRHI by HMT (£25m in 4 years). A new application should have been submitted to get DFP approval after the period ended, however this wasn't done until 27 October 2015. DFP subsequently approved funding from 29 October 2015 until 31st March 2016. A retrospective cover was not obtained from DFP meaning that expenditure which occurred between April 2015 and 29th October 2015 was to be deemed irregular. Unfortunately this was also the period during which significant growth in the numbers of new applications was witnessed (over 1200 new applications received) and the total irregular experience was quantified at £17.74 million in 2015/16 and £355 million across the 20 year life of the commitments entered (letter from E Morelli - DFP of 21 Dec 2015).

The issue of the absence of DFP cover has been identified by management in June and but it took until October to submit a formal Business Case to DFP which could result in potentially £355 million in irregular spending over 20 years.

2.4 Over- commitment of the scheme funding

The NIRHI scheme has experienced an unprecedented spike in new applications prior to introduction of the cost control measures. In total 1283 new applications have been received for the non domestic scheme in the period from April to end November 2015 which represents an increase of 184% in comparison to the number of applications received throughout the life of the scheme since October 2012.

This situation results in the scheme being severely over-committed and may result in DETI pressure of £265 million over the 20 years additional to the funding which will be received from HMT. Appendix 4 – AME Forecast (received from management).

In response to this situation management have instigated closure of the NIRHI scheme for new applications from the end of February 2016 however further decisions will have to be made in relation to the existing commitments and scheme management until 2036. The absence of any in built controls in the scheme to allow the scheme to be suspended in the face of budgetary uncertainty has greatly limited the Department's ability to respond quickly to these events.

Scheme incentive payments and Ofgem operational costs

2.5 Business case for Ofgem administration costs does not include 100% contingency required by Ofgem

Business case and the DAC for employing Ofgem as delivery agent to administrate the scheme of behalf of DETI was presented as £386k for development and £136k, £157k, £198k and £249k to cover operational costs for 4 years. In total £1,126 million. Ofgem Feasibility Study which informed the Business Case of the funding necessary advised that they would recommend a 100% contingency to be applied for the development budget.

The Business Case should have included full costs of the contract including contingency which could then be revised down.

2.6 Business Case not changed to reflect material change

This comes from point 2.5 above. The original business case was presented for CPD approval and appraised estimated a value of £1,126 million. However Ofgem requested for an amendment of the costs on 21 December 2012 – £433k for development and £140k for operational costs. In total £573k for the year 2012/13. Ofgem explained that the increase was due to delays with launching of the NIRHI scheme.

Ofgem also made changes to their estimated operational costs for the subsequent years – 13/14 £165k; 14/15 £224k and 15/16 £342k. Thus, due to the increase of actual and forecasted costs the total project (DAC) value increased to £1,304 million representing approx 23% increase of the value of the project appraised via DAC. This represents a material change in the project resources and in accordance to the best practice a project reappraisal and re-approval should have been sought from relevant levels of approval and delegation as per Departmental Financial Procedural Guidance.

2.7 Ofgem's proposed change of the methodology in calculating DETI's share of administration costs – evaluation has not been carried out

In October 2014 Ofgem has sent a Change Control request to DETI requesting for the methodology of calculating operational costs to be changed to 3% of the total operational expenditure (NIRHI + GB RHI) from 2014/15. This request has been approved by DETI management on 31 October 2013, however IAS did not see any evidence of an evaluation being carried out to establish what effect this change would have on DETI resources and if such a change was VFM.

2.8 Lack of challenge of the figures provided by Ofgem

DETI are responsible for making payments to Ofgem in relation to covering of their share of operating costs and transferring of the funding to cover periodic incentive payments made by Ofgem to NIRHI generators.

IAS have carried out testing of both of the above and can conclude that we have seen some evidence of efforts by Energy finance staff in scrutinising payment information supplied by Ofgem. However the information on payments requested from DETI was not sufficiently backed up with assurances from Ofgem such as senior accounting officers' signature or other documentation to verify that it was accurate and complete.

Another example, payments in relation to operating costs were agreed to be calculated using a certain formula and always based on actual costs incurred by Ofgem. However no documentation was available to see how the costs presented for payment have been worked out. Overall the annual total cost requested from DETI was very close to the cost forecasted via feasibility study and had little relevance to the number of DETI applications dealt with (9 in 12/13; 136 in 13/14 and 694 in 14/15)

In addition, in relation to the periodic incentive payments, although there has been a certain system (excel spreadsheet based) established in Energy Finance for tracking and checking payments information, including providing estimates for reporting and budgeting including approvals, the function is understaffed and reliant on a single officer working part time. The understaffing of the function also resulted that the system itself has never been challenged to establish whether it is fit for purpose nor had there been any guidance or comprehensive processes drawn and approved in case of absence or change of critical staff.