

From: [Woods, Michael \(DETI\)](#)
To: [Bagdonaitė, Dovile](#)
Cc: [Saunders, David](#)
Subject: FW: NIRHI
Date: 11 April 2016 14:53:16
Attachments: [Comments on Initial Set of Issues From Internal Audit Review.docx](#)
[image001.gif](#)

Can you both consider and we can discuss tomorrow, i am calling into Netherleigh to see Jackie.

Michael Woods

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Please consider the environment - do you really need to print this e-mail?

From: Hepper, Fiona
Sent: 11 April 2016 13:30
To: Woods, Michael (DETI)
Cc: Stewart, Chris (DETI); Hepper, Fiona
Subject: RE: NIRHI

Michael

See attached as requested. As you have mentioned below you have also sent your paper to Joanne McCutcheon, I plan to copy my comments to her for information.

As you are aware I shall be out of the office from Thursday for a few weeks (I can't be specific about the length of time). In the meantime I hope the attached is of some help.

Regards
Fiona

Fiona Hepper
Deputy Secretary
Department of Education

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Tel: 02891279313 (ext 59313)

From: Woods, Michael (DETI)
Sent: 05 April 2016 13:29
To: Hepper, Fiona
Cc: Bagdonaite, Dovile; Saunders, David
Subject: NIRHI

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.

Michael Woods
DETI IAS
Ext 298929

To : Michael Woods

cc C Stewart

From : Fiona Hepper

Date : 11 April 2016

Comments on Initial Set of Issues From Internal Audit Review : Sent by M Woods 5 April 2016

1. The comments below relate to the paper sent through by yourself on 5th April under title of 'Initial Synopsis of Issues identified by Audit Review'. You asked if I would provide high level points which may be of use to you in finalising this stage of the work. I am content to do so. These are provided on the understanding that I have not had access to any files – current or past - held by DETI in relation to the RHI and therefore the comments are based on my best recollection of the work undertaken to develop and implement the scheme.
2. My comments are confined to the time period up to November 2013 when I left DETI. It would be inappropriate for me to comment on what happened thereafter as I am not privy to the decisions taken by the staff and management working on the scheme post November; nor indeed would I be aware of any material changes in the context within which they were having to prioritise the workload.
3. **In terms of the context** within which the scheme was developed, it should be noted that, while (prior to my arrival in the Division) consultancy work had been undertaken in relation to renewable heat, which was in line with similar work in GB and led by DECC, it was not until HMT, as part of the budget process, allocated funds to the Executive (for a 4 year) period that the work on a NI specific scheme was ramped up. At this stage we were approx. 18 months behind DECC in terms of preparation. There was, therefore, significant pressure on the Division to ensure that a NI scheme was developed, that NI's budget allocation was drawn down and that the sector in NI was not put at a disadvantage in comparison with the rest of the UK.
4. It needs to be recognised that some resource was carved out to take the work to the next stage – a full time DP and a part time Grade 7 – and this was supplemented by further staff at SO level and below when various elements of the domestic and non domestic schemes reached key points. However, Energy Division was not resourced to the level required for this new scheme, nor was the resource proportionate to the scale of staffing allocated by DECC to the GB scheme. It should therefore be seen as commendable that a considerable body of work was designed and implemented in a very short space of time to ensure that a NI heat market was developed and the budget allocated used to best effect. It is also a key reason as to why NI utilised the information available from DECC and modelled the NI approach to reflect (but not completely replicate) the GB scheme, including how it would be

administered by OfGem, as a means of maximising efficiencies in terms of time and value for money.

5. I would also say that, while Energy Division did not receive all the staff it needed, nor indeed were the staff deployed as quickly as needed, the Top Management Team were fully aware of the position but were also dealing with a range of other pressures across the Department and had to prioritise appropriately. It is easy to look back with hindsight and comment on a single project - but context is important and in this case the context is wider than Energy Division.
6. **In relation to the planning of the scheme – section 1 of your note** – the initial approach was based on the consultancy work commissioned prior to my arrival and fleshed out in further pieces of commissioned work. The consultants procured had also worked on the GB scheme and were recognised experts in the heat market and in the design of such schemes. They produced a detailed heat model as part of this work and, as with all such models, it was predicated on a series of assumptions. This included the amount of funding available to NI; assumptions on technologies and take-up; production of complex heat curve information – tailored to the NI market – all of which helped the consultants shape the level at which individual tariffs would be set.
7. The risks associated with setting tariffs too high for the NI market were identified and, indeed, there was a level of criticism from external stakeholders (including the ETI Committee) that the tariffs we set were lower than GB and therefore the scheme would fail, there would be no/limited take up and as a result the sector in NI would be penalised unfairly. It was also fully recognised that the take-up of the scheme would need to be carefully monitored against the budget as it rolled out – and mechanisms were put in place to do so.
8. In short, the scheme was designed with recognised consultancy expertise fully involved; the Energy division staff, including the economist covering energy matters, worked alongside the consultants to fully understand the model and how different tariffs, take up, technologies etc effected its operation; and, the design of the scheme was subject to a full public consultation. Risks were identified and managed – and part of this was the recognition that any model of this nature has inherent levels of volatility dependent on the level of tariff set and potential take-up.
9. **In relation to the business case**, it is therefore not correct to say that the process 'lacked a clear analysis' nor that 'the impact of the growth in value does not appear to have been tracked'. I have made the points above in relation to the model underpinning the scheme and would add that, up to November 2013, as applications for the scheme were received by Ofgem, the

DP in the DETI RHI team took note of the information and modelled the specific technology and the size of the installation and produced an estimate of cost. Of course, this was manageable in this period as the number of applications was low. But, nevertheless, the point remains valid – that in the period up to November 2013 (which is all I can comment on), there was appropriate tracking in place. In addition, we were engaging very regularly (formally and informally) with Ofgem and ensured that there were reports produced in relation to the number of installations. The engagement included Ofgem travelling to NI for meetings as well as conference calls. Many of these were led at Director level (on both sides).

10. The business case was as robust as it could have been, having taken on board the detailed information from the expert consultancy team. It also benefited from the input of the economists in DETI, and passed all approval processes – including a detailed examination at DETI Casework Committee and scrutiny by DFP economists and Supply. Had there been obvious flaws in the underpinnings of the scheme, these would have been identified – so care needs to be taken in making comments with the benefit of hindsight and in the context of fundamental changes in the way HMT decided to fund the scheme. I would also note that there absolutely was a rationale as to how the scheme would operate and this is (to my recollection and without access to the paperwork) articulated in the business case – the size of the budget envelope was important, monitoring was to be in place in relation to the uptake – we did this as individual applications came in and, this is also the pattern followed by DECC in relation to the GB scheme.
11. **In relation to the options for outsourcing the delivery of the scheme :**
Again, context is important. We were operating some 18 months behind DECC; DECC had spent a considerable amount of their budget in commissioning Ofgem to design and put in place a very significant handling and processing system for the GB scheme. This was underpinned by comprehensive legal advice on operational matters and detailed guidance manuals. The decision for NI to dovetail into this system was considered in the context of other options – including whether the NI Regulator could perform the same role for NI – the Regulator declined on the basis of lack of capability in relation to heat matters, capacity and cost; like-wise it was not deemed that ‘consultants’ in NI would have the necessary expertise, at that time, to be able to handle this work; and the obvious point of economies of scale and value for money. Also, in the initial consultation on the design of the scheme, the option of utilising Ofgem versus others was covered ahead of a final decision being taken. It is also the case that, in considering a DAC, all due process was followed – Top Management Team had an input and signed off the final decision and CPD were fully involved.
12. There was significant engagement with Ofgem in relation to how they would manage the NI scheme. Internal to DETI there was also considerable

engagement with Finance Division (including the Head of Internal Audit) in relation to how monitoring/audit would be carried out, rights of audit access to information held by Ofgem and what specific information DETI would require to ensure the scheme was operating as intended and within budget. It was also the case that a 'break clause' was built in to the contract – and this was to allow for an evaluation at a point in time and a decision on whether to exercise an option to procure the service from another source – including NI based entities. That is why a 6 month notice period was set – as that would have allowed for a procurement to be undertaken (if needed) while Ofgem continue to manage the scheme and process the applications and payments.

13. Inaccurate assumptions and confusion over funding after the SR period

2011-15 (section 1.3) : The funding offered by HMT (ie the £25m to 2015) was clearly articulated and it was also made clear by DECC that they had an understanding from HMT that funding would continue (on a UK wide basis) into the next spending review period. Indeed, there was no confusion in this – contracts were signed with installers for a 20 year tariff period, hence, funding would be needed to cover the tails of these contracts even if no further contracts were signed post 2015. Any projections etc made in the business case or by the consultants were as robust as they could be at the time and any comments made in relation to future funding were on the basis of information provided by DECC (and through them, HMT). At this point in time there was no reason for DETI to make any assumption that HMT would change the approach to the funding stream – and certainly no indication that DECC was aware that HMT would do so. Also, if there was any reason for this to be seen as a significant risk, DFP would have highlighted this in their scrutiny of the business case and would have covered it in the approval letter. Also, again if there was a risk, DFP would have raised this directly with HMT in their ongoing and regular engagements. I am not aware that this was an issue.

14. In the final sentence of this section you state '...effective budget management should have been built inallowed for better evaluation of the risk of over commitment of funding..' As noted above, budget management was built in to the system. At the early stages there was absolutely no risk of over commitment, in actuality, the risk was that the scheme was off to a slow start and would not 'pick up'. Plus, if you look at the consultation document that issued in July 2013 (and closed in October 2013) there is a detailed section on Cost Control. This clearly sets out the proposals associated with the introduction of cost control measures that would ensure that budgetary levels would not be breached and to remove the need for emergency reviews or reductions of tariffs at short notice. This would have been in line with the digression approach that GB were just starting to introduce. Bear in mind that DECC would only doing this some 18 months-2years after their scheme had started – so, we were moving in line with DECC to bring this in to play. Also, the consultation recognised that bringing in digression would require

legislation and that would take some time. So, the consultation covered an interim approach, the introduction of trigger points, that would provide forewarning that the committed budget was nearing the set limits. The proposed trigger points were detailed in the consultation document and were on a sliding scale with the first trigger being when 50% of an annual budget was committed, rising to trigger 5 when the scheme was 90% committed and closure was imminent.

15. The consultation had just closed as I left the Department so I cannot comment on how the proposals consulted on were implemented. I can only state that, having developed and consulted upon an approach to cost control, the next logical stage was for the process to implement the triggers to be put in place and the work on digression to start in earnest. However, I recognise that there may have been other priorities identified by the new management which took precedence over this piece of work.
16. **Para 1.4 – the comment on the increase in the ratio from £1500 to £17000 in 2015** – my view would be that had the triggers been put in place post the consultation I refer to above, this would have been picked up. The comment in this section in relation to the scheme performance and financial projections being incorrect and the weaknesses in monitoring – the key point is that the projections were based on the best information available at the time and cannot be criticised in this way simply on the basis of hindsight; and, there was monitoring in place (as I cover in para 9 and others above) and consultation on both digression and trigger points was complete by end October 2013. Hence by November 2013, no opportunities had been missed. In fact, on a like for like basis, we were possibly ahead of DECC in planning to bring this in to play – one of the benefits of starting later and learning from their experience.
17. **Section 1.5** – the date in the business case is not, I feel, a material point. The key document is the DFP approval letter – so, it would be foolish to try and mount a defence based on a single date in the bowels of the business case. Plus all the briefing submissions etc produced by the Division were clear on what the date was.
18. **Section 1.6** – the business case was appropriately signed off, at all levels (including Ministerial approval), and indeed this was required before the case left the DETI system for DFP approval.
19. **Project Management** : Again, this needs to be seen in the appropriate context. There were 2 members of staff working on the RHI in the development phase – a part-time Grade 7 and a DP; plus input from the economist. The focus was on getting the scheme up and running in the best way possible – while formal PRINCE/or other project management was not in place, it was run tightly and in project mode. For example, I met the team

weekly as a minimum, and much more frequently when needed. All work and actions were progressed and reported back. My own line managers were kept fully informed of developments and issues, as was the Minister when needed. We knew the risks around staffing and handled those as best we could within the Departmental resource constraints; and, worked closely with the consultants and economists on the design and model underpinning the scheme. The real risks at the time were staff resource and the scheme underperforming and not utilising the budget. There was a risk carried in both the Divisional and the Corporate risk registers – having a third register entry would not have added to the ability to manage this.

20. **Section 1.10** – my comments on digression are covered above and can only relate to the period up to November 2013. I am clear that digression (and triggers) were being consulted on with a view to implementation, in a timely fashion, once the consultation closed. Given this I cannot accept the comment that ‘.... 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..... informed decision on relation to tiering and digression of the NIRHI.’ I can only say again – we were consulting on both digression and tiering, so there is clear evidence that this was being brought into place, well ahead of any increase in the pace of uptake of the scheme. There is no ‘hindsight’ point to be made (para 3 of section 1.10) – the work was well in train.
21. **Section 2.1** – I can only comment up to November 2013 – by which time the uptake was low and slow, and the DP in the section was able to monitor the flow of applications and model the financial impact. So, at that stage there was no need for a bespoke committee. Plus, there were mechanisms in place to handle and process all the premium payments, fraud monitoring etc.
22. **Section 2.5** – regarding the point on 100% contingency for legal costs – this was considered and refuted – we never thought this would be needed and, indeed, it wasn’t.
23. All invoices etc during my time were fully scrutinised and challenged; plus there were meetings and conference calls with the Director in Ofgem, as I noted above.
24. I hope this is helpful in bringing your work to a conclusion.

(signed)

Fiona Hepper