Brainstorm

Scheme design

- GB following
- Vulnerable to spikes in demand
- GB changed we didn't
- No ability to respond when demand exceeded expenditure
- Cost control

Scheme design

1. Vulnerable to demand

- Scheme started xx 2012
- Similar GB scheme
- Business and consultation and NI specifics xx
- By design, if an applicant applied to the scheme and met all criteria they will automatically be entitled to award.
- What has happened?
- Initial poor uptakes (13/14/15)
- In 2015/16 demand starting to increase
- DSO advice taken on 25th June (the actual question to and answer from DSO)
- 8th July submission to minister
- 8th September ministerial press release on the introduction of cost controls
- Spike in demand in October and November
- Applications received before the date cost controls were introduced had to be accepted
- Xx November cost controls introduced as the result of changes brought forward
- Scheme closed on 29th of February
- Budget implications
- So what?
- IAS considers that although the scheme had initial low take up it was always vulnerable to demand increasing
- Funding was finite in that it was limited to that agreed with DFP and 3% of DECC's overall budget for RHI (See also x)
- Department consulted in 2013 which would have allowed fort the scheme to be stopped if the was greater than 90% of budget was committed.
- When the spike occurred in 2015/16 department did not have a mechanism in place to respond quickly
- The scheme should have been able to be stopped automatically when certain triggers such as spend vs available budget were hit
- While the IAS appreciates that the scheme had to demonstrate to applicants that long term funding will be available in order to allow for applicants to make long term investment decisions the scheme should also by design needed to recognise that while existing

commitments will always be honoured funding for future year outside of the 1st 4 years covered by the DFP approval in xx 2012 was not guaranteed and depended on availability of funding.

- Whilst we accept that the scheme as it was initially designed mirrored the GB the scheme was inherently vulnerable to increases in demand and lacked in an appropriate automatic responses to increased demand that would have allowed the scheme to close to new applicants until such time as additional budget can be secured.
- Recommendation. Department should ensure that all schemes, particularly those which are demand led, have appropriate controls in place to mitigate any risk of unforeseen demand. Where possible schemes should be designed in such a way that applicants do not incur a liability which the department must honour unless funding is in place or where it is not practical to identify future commitments in advance the scheme should have a control which automatically closes the scheme when certain trigger points are reached.
-

************************

2. VFM, evaluation

- Business case to introduce the scheme
- The tariff that was applied of xx
- Business case was informed by research by CEPA
- The rates were sent to incentivise the uptake of renewable technologies in NI recognising that in NI there was high dependency on oil
- The tariff were set on three elements to compensate initial upfront capital to meet the differential between staying with oil and transferring to the new technology and to provide an additional incentive
- The scheme also received State Aid approval xx 2012
- As part of the original business case for the scheme evaluation was planned for 2014. Quote 13.37 from the business case.
- What has happened? 1) evaluation not completed
- IAS understands that due to initial low uptake of the non domestic scheme and the need to focus resource on the implementation of the domestic scheme that the evaluation planned originally for 2014 was not undertaken. Therefore the management did not have any up to date information to allow them to assess whether the average value of the award is still in line with that envisioned by that of the original business case. IAS considers that there's some evidence to indicate that the average value of award in 2015/16 is significantly greater than that in the 1st year of the scheme.
- When introducing funding schemes it is important that those schemes are regularly monitored to ensure that initial assumptions around vfm and the return on investment to applicants are still valid and in line with how the scheme was described when state aid approval was obtained.
- If an evaluation of the scheme had been undertaken in 2014, it would have informed any subsequent business case to DFP.
- Recommendation. The department should ensure that notwithstanding that the RHI scheme has been closed, the department should ensure that the evaluation of the scheme is carried

out asap. The evaluation should consider the extent to which the scheme has met its overall policy objectives and whether individual awards under the scheme are consistent with the original business case, state approval and represents a reasonable return on investment.

***************************

3. Programme/project management

- Good practice in both OGC and DFP guidance that all programmes should have https://www.dfpni.gov.uk/articles/programme-management
- IAS consider that adopting a structured programme/ framework would have been beneficial. There are a number of reasons for this as follows:-
- 1. In response to casework management committed to establishing a budget monitoring committee which would have given greater understanding and scope for challenge of RHI budget. In particular, to what extent the budget was or wasn't AME limited to 3% of DECC. A programme oversight board could have also provided the oversight.
- 2. During the initial 4 years of the scheme there was high turnover of staff within Energy division. This has impacted in terms of the loss of organisational knowledge and continuity.
- 3. There were a number of key milestones such as failure to get DFP approval in good time for expenditure post 14/15 which could have been captured in a programme/project plan
- 4. Management have also advised that with the pressure on resources there was a need to prioritise the introduction of the domestic scheme in 2014 ahead of the introduction of the cost controls. A programme oversight board would have allowed greater visibility and consideration of the risks that relate to this decision.
- In summary the use of the programme/ project oversight arrangements for this scheme would have provided greater oversight and challenge at key stages of the programme, and would have been appropriate considering the long term nature of the projects (20years) and may have led to the greater clarity in terms of the budgetary oversight and the basis of funding from treasure.
- Recommendation. The departments should review its existing major programmes and consider whether nor not appropriate programme/ project oversight is in place. Going forward when new programmes are being developed or implemented consideration mshould be given to the development of the appropriate programme/ project oversight arrangement and as a minimum programmes/projects should have a programme plan with key actions and dates when these actions are due to be completed (eg. The data by which any revision or renewal of DFP approval is required). A programme risk register which considers the specific risks inherent in the project and the formal challenge from the programme oversight group.

************************************

4. Risk Management/GB change – separate stand alone issue

- The original business case for the RHI scheme recognised a number of inherent risks to the scheme such as: - list
- IAS also noted that Ofgem in their Fraud Risk Strategy also recognised a number of inherent risks in the scheme such as:-list

- IAS confirm that management do not have separate fraud risk management strategy for their RHI scheme.
- IAS also noted that many of the risks recognised by Ofgem are mitigated to an extent by preventative controls. Many of these controls make reference to use of tariffs and degression as a disincentive to gaming and fraud and as a preventative control to budget pressure.
- In addition, while the initial design of the NI scheme was similar to the GB scheme the decision not to introduce similar cost controls as GB done in 2013 means that the way risks are managed in GB scheme are no longer exactly the same as how NI manages those risks and that there was no formal decision or consideration of how the risks identified in the original business case or as recognised by Ofgem are being managed in the NI scheme.
- Recommendation. In developing significant programmes and projects a robust formal risk management strategy should be developed at the outset. Where a scheme is based on a scheme being run elsewhere the department should ensure that the risks associated with deviating from that scheme are formally documented and considered.

***********************************

5. Oversight of Ofgem

- At the outset of this review the IAS aimed ascertain whether or not awards are only made to valid applicants that meet the conditions of the scheme. The key controls being such as assessment of applications and checking the validity of payments are being operated by Ofgem as per MOU. A separate review is being carried out by Ofgem's auditors to provide assurance over these controls and specifically in how they relate to NI payments. This will be reported separately in a report from Ofgem's auditors. IAS therefore considered what controls have been established within the department to provide assurance to date on the validity and accuracy of the work undertaken by Ofgem on behalf of the department.
- The MOU agreed between the department and Ofgem allowed for the sharing by Ofgem of the outcomes of any audits that related to NIRHI, it did not allow for the provision by Ofgem of an assurance to DETI on an annual basis on the risk management control and governance processes operated by Ofgem on behalf of the department. IAS were unable to find any evidence that audits undertaken by Ofgem were either informed by concerns raised by DETI or were shared with DETI where outcomes related to NIRHI or confirmation that no issues relating to NIRHI have been identified. Further, while the original feasibility study submitted by Ofgem made reference to discussing and agreeing appropriate KPI's with DETI, IAS notes that no actual KPI@s were agreed that that DETI does not receive any information on performance other than details of system upgrades and system downtimes.
- IAS does acknowledge that management receive regular information on awards made, pending or rejected as part of the monthly information received in support for making monthly payments.
- Recommendation. Where DETI is using an external organisation to deliver services, whether that organisation is another govt body or a private sector supplier, appropriate arrangements should be implemented to ensure that
- - appropriate assurances are provided to the department on regular basis

- - the results of any internal audit work undertaken is reported regardless whether there are issues identified or not; and
- - KPI's are agreed at the outset and are regularly reported
- All of these arrangement should be appropriately defined and documented in the MOU.

********************

Budget overspend in 14/15

- How did it happen? Timing? How they become aware? David to talk to Stuart re budgetary control.
- Issue over AME, DFP
- Finding. Identify that there was system in place to monitor and report on budgets.
  1. DFP approval
  2. AME – more clarity should have been sought in the outset in 2011 when the email correspondence first happened.
- No guaranteed position from DECC post 14/15. This should have been clarified earlier prior to 15/16.

6. Budget. Funding post 14/15

- The original business case for the scheme covered the years x to y. DFP approval to that business case and to the RHI was obtained on x date and gave approval for total spend of £25m up to the end of 31xxx. While the DFP approval confirmed that all commitments entered into at that point will be honoured for the 20 year life of the scheme there was no guaranteed that additional funding other than necessary to honour commitments already incurred is available.
- In addition, it was clear in the business case and in the correspondence from HMT in April 2011 that the NI funding for RHI was restricted to 2.98% of the DECC's spend on RHI in line with the Barnett formula. Whilst at the time of the introduction of the scheme it was reasonable to assume that funding in future years would be available, the exact level of that funding was not specified or guaranteed.
- Despite the fact that the necessary approvals from DFP were not in place Energy received a budget allocation for RHI of xxx based on 3% of DECC's allocation for that year.
- Energy division should have submitted BC to DFP for RHI funding post 14/15 before the end of that year. That would have clearly established the basis of the funding in future years, the extent to which funding was capped at 3% of DECC spend and the scope if any for DETI to have flexibility in future years of funding outside of 3% allocation based on DECC's spend.
- As a consequence of not having obtained DFP approval before entering 15/16 fin year IAS understanding is that any expenditure incurred from the 1st April 15 until a BC was subsequently submitted and agreed by DFP on x date, is considered irregular,
- Recommendation. The department should ensure when setting and agreeing budgets through the normal internal budgetary process where the budgets are set for future year that the confirmation is requested and obtained from business areas that the necessary approvals are in place to cover expenditure in that future year.

*********

7. Clarification of budget

- See para. 8 of letter to Hocs and copy (finding)
- Ultimate clarification on funding was received in Dec 15 and was only at that point that department received confirmation that a full negative DEL implication.
- If it had been known in March 15 when the initial identification of a pattern of increased costs arose then the decision could have been taken at much earlier juncture on whether the scheme should close.
- IAS considers that at the outset clarity should have been sought and an agreement reached formally with HMT on the liability and the consequences of the department's expenditure exceeding the agreed allocation.
- It is also likely that had this been fully appreciated at the design stage that the design of the scheme would have, as we pointed out earlier in the report, have included controls to automatically halt the scheme when there was a risk of budgets being exceeded. IAS notes that such controls formed part of the consultation in 2013. However with the scheme underperforming at that stage the introduction of these controls was not considered a priority.
- Recommendation. Department should ensure that when similar schemes are being introduced in the future particularly where funding is dependent upon a proportion of funding in GB that such schemes have a) sufficient controls to ensure demand does not exceed budget b) a clear formally documented understanding of the consequences for the department of any expenditure exceeding budget c) formal assessment of the risks and controls within the scheme taking the budgetary risks into consideration.
- Further, the department should carry out the review of current major schemes to ensure that basis of funding is properly understood, the consequences and risks for exceeding the agreed budgets are known and had been considered and that appropriate controls have been established to monitor and mitigate the effects of unexpected spikes in demand.

********

8. Resources and staff changes

- Throughout our review a constant refrain from staff currently in post and from staff who worked in the division previously was such that pressures developed as the result for competing demands for oversight of existing and implementation of the new aspects of the scheme. This is best illustrated with reference to the issue of the introduction of cost controls.
- The introduction of cost controls form part of the consultation undertaken by management in 2013. However following the consultation there was a change of staff within a division from DP up to and incl G5. In 2014 further work on the introduction of cost controls did not take place. The focus of the team was on introduction of the domestic RHI and phase 2 f the non domestic. While management have advised that there was no formal decision not to introduce cost control in the context of these competing priorities and in light of at the time initial slow take up of the scheme, the introduction of cost controls was not advanced. IAS consider that there's lessons to be learned here concerning the differing resourcing needs

between the development of policies and programmes and implementation of those programmes. In the context of RHI there both the need to implement and oversee the non domestic scheme while at the same time introducing further proposals for domestic. Referencing back to our previous point of the programme/ project oversight, a programme board would have provided both a forum for consideration of resourcing needs and challenge to decision to prioritise.

- A further contributory factor in IAS opinion was the loss in late 13 early 14 the key members of the team and their organisational knowledge around the initial development of the scheme. IAS considers this is one of the main contributing factors that led to the non renewal of DFP approval at the end of 14/15. IAS considers that there should have been a more formal handover of staff and as part of this handover a formally agreed list of future actions required should have been captured.
- Recommendation. IAS has already recommended previously in this report that major programme should include programme oversight and programme plans. In addition, the dept should consider whether current arrangements for the handover from the key staff are sufficiently formally documented and should have as a key requirement the need to capture and retain organisational knowledge.

Revision 2

Brainstorm

Scheme design

- GB following
- Vulnerable to spikes in demand
- GB changed we didn't
- No ability to respond when demand exceeded expenditure
- Cost control

Scheme design

1. Vulnerable to demand

- Scheme started xx 2012
- Similar GB scheme
- Business and consultation and NI specifics xx
- By design, if an applicant applied to the scheme and met all criteria they will automatically be entitled to award.
- What has happened?
- Initial poor uptakes (13/14/15)
- In 2015/16 demand starting to increased
- DSO advice taken on 25th June (the actual question to and answer from DSO)
- 8th July submission to minister
- 8th September ministerial press release on the introduction of cost controls
- Spike in demand in October and November
- Applications received before the date cost controls were introduced had to be accepted
- Xx November cost controls introduced as the result of changes brought forward
- Scheme closed on 29th of February
- Budget implications
- So what?
- IAS considers that although the scheme had initial low take up it was always vulnerable to demand increasing
- Funding was finite in that it was limited to that agreed with DFP and 3% of DECC's overall budget for RHI (See also x)
- Department consulted in 2013 which would have allowed fort the scheme to be stopped if the was greater than 90% of budget was committed.
- When the spike occurred in 2015/16 department did not have a mechanism in place to respond quickly
- The scheme should have been able to be stopped automatically when certain triggers such as spend vs available budget were hit
- While the IAS appreciates that the scheme had to demonstrate to applicants that long term funding will be available in order to allow for applicants to make long term investment decisions the scheme should also by design needed to recognise that while existing

commitments will always be honoured funding for future year outside of the 1st 4 years covered by the DFP approval in xx 2012 was not guaranteed and depended on availability of funding.

- Whilst we accept that the scheme as it was initially designed mirrored the GB the scheme was inherently vulnerable to increases in demand and lacked in an appropriate automatic responses to increased demand that would have allowed the scheme to close to new applicants until such time as additional budget can be secured.
- Recommendation. Department should ensure that all schemes, particularly those which are demand led, have appropriate controls in place to mitigate any risk of unforeseen demand. Where possible schemes should be designed in such a way that applicants do not incur a liability which the department must honour unless funding is in place or where it is not practical to identify future commitments in advance the scheme should have a control which automatically closes the scheme when certain trigger points are reached.
-

************************

2. VFM, evaluation

- Business case to introduce the scheme
- The tariff that was applied of xx
- Business case was informed by research by CEPA
- The rates were sent to incentivise the uptake of renewable technologies in NI recognising that in NI there was high dependency on oil
- The tariff were set on three elements to compensate initial upfront capital to meet the differential between staying with oil and transferring to the new technology and to provide an additional incentive
- The scheme also received State Aid approval xx 2012
- As part of the original business case for the scheme evaluation was planned for 2014. Quote 13.37 from the business case.
- What has happened? 1) evaluation not completed
- IAS understands that due to initial low uptake of the non domestic scheme and the need to focus resource on the implementation of the domestic scheme that the evaluation planned originally for 2014 was not undertaken. Therefore the management did not have any up to date information to allow them to assess whether the average value of the award is still in line with that envisioned by that of the original business case. IAS considers that there's some evidence to indicate that the average value of award in 2015/16 is significantly greater than that in the 1st year of the scheme.
- When introducing funding schemes it is important that those schemes are regularly monitored to ensure that initial assumptions around vfm and the return on investment to applicants are still valid and in line with how the scheme was described when state aid approval was obtained.
- If an evaluation of the scheme had been undertaken in 2014, it would have informed any subsequent business case to DFP.
- Recommendation. The department should ensure that notwithstanding that the RHI scheme has been closed, the department should ensure that the evaluation of the scheme is carried

out asap. The evaluation should consider the extent to which the scheme has met its overall policy objectives and whether individual awards under the scheme are consistent with the original business case, state approval and represents a reasonable return on investment.

***************************

3. Programme/project management

- Good practice in both OGC and DFP guidance that all programmes should have https://www.dfpni.gov.uk/articles/programme-management
- IAS consider that adopting a structured programme/ framework would have been beneficial. There are a number of reasons for this as follows:-
- 1. In response to casework management committed to establishing a budget monitoring committee which would have given greater understanding and scope for challenge of RHI budget. In particular, to what extent the budget was or wasn't AME limited to 3% of DECC. A programme oversight board could have also provided the oversight.
- 2. During the initial 4 years of the scheme there was high turnover of staff within Energy division. This has impacted in terms of the loss of organisational knowledge and continuity.
- 3. There were a number of key milestones such as failure to get DFP approval in good time for expenditure post 14/15 which could have been captured in a programme/project plan
- 4. Management have also advised that with the pressure on resources there was a need to prioritise the introduction of the domestic scheme in 2014 ahead of the introduction of the cost controls. A programme oversight board would have allowed greater visibility and consideration of the risks that relate to this decision.
- In summary the use of the programme/ project oversight arrangements for this scheme would have provided greater oversight and challenge at key stages of the programme, and would have been appropriate considering the long term nature of the projects (20years) and may have led to the greater clarity in terms of the budgetary oversight and the basis of funding from treasure.
- Recommendation. The departments should review its existing major programmes and consider whether nor not appropriate programme/ project oversight is in place. Going forward when new programmes are being developed or implemented consideration mshould be given to the development of the appropriate programme/ project oversight arrangement and as a minimum programmes/projects should have a programme plan with key actions and dates when these actions are due to be completed (eg. The data by which any revision or renewal of DFP approval is required). A programme risk register which considers the specific risks inherent in the project and the formal challenge from the programme oversight group.

************************************

4. Risk Management/GB change – separate stand alone issue

- The original business case for the RHI scheme recognised a number of inherent risks to the scheme such as: - list
- IAS also noted that Ofgem in their Fraud Risk Strategy also recognised a number of inherent risks in the scheme such as:-list

- IAS confirm that management do not have separate fraud risk management strategy for their RHI scheme.
- IAS also noted that many of the risks recognised by Ofgem are mitigated to an extent by preventative controls. Many of these controls make reference to use of tariffs and degression as a disincentive to gaming and fraud and as a preventative control to budget pressure.
- In addition, while the initial design of the NI scheme was similar to the GB scheme the decision not to introduce similar cost controls as GB done in 2013 means that the way risks are managed in GB scheme are no longer exactly the same as how NI manages those risks and that there was no formal decision or consideration of how the risks identified in the original business case or as recognised by Ofgem are being managed in the NI scheme.
- Recommendation. In developing significant programmes and projects a robust formal risk management strategy should be developed at the outset. Where a scheme is based on a scheme being run elsewhere the department should ensure that the risks associated with deviating from that scheme are formally documented and considered.

***********************************

5. Oversight of Ofgem

- At the outset of this review the IAS aimed ascertain whether or not awards are only made to valid applicants that meet the conditions of the scheme. The key controls being such as assessment of applications and checking the validity of payments are being operated by Ofgem as per MOU. A separate review is being carried out by Ofgem's auditors to provide assurance over these controls and specifically in how they relate to NI payments. This will be reported separately in a report from Ofgem's auditors. IAS therefore considered what controls have been established within the department to provide assurance to date on the validity and accuracy of the work undertaken by Ofgem on behalf of the department.
- The MOU agreed between the department and Ofgem allowed for the sharing by Ofgem of the outcomes of any audits that related to NIRHI, it did not allow for the provision by Ofgem of an assurance to DETI on an annual basis on the risk management control and governance processes operated by Ofgem on behalf of the department. IAS were unable to find any evidence that audits undertaken by Ofgem were either informed by concerns raised by DETI or were shared with DETI where outcomes related to NIRHI or confirmation that no issues relating to NIRHI have been identified. Further, while the original feasibility study submitted by Ofgem made reference to discussing and agreeing appropriate KPI's with DETI, IAS notes that no actual KPI@s were agreed that that DETI does not receive any information on performance other than details of system upgrades and system downtimes.
- IAS does acknowledge that management receive regular information on awards made, pending or rejected as part of the monthly information received in support for making monthly payments.
- Recommendation. Where DETI is using an external organisation to deliver services, whether that organisation is another govt body or a private sector supplier, appropriate arrangements should be implemented to ensure that
- - appropriate assurances are provided to the department on regular basis

- - the results of any internal audit work undertaken is reported regardless whether there are issues identified or not; and
- - KPI's are agreed at the outset and are regularly reported
- All of these arrangement should be appropriately defined and documented in the MOU.

********************

Budget overspend in 14/15

- How did it happen? Timing? How they become aware? David to talk to Stuart re budgetary control.
- Issue over AME, DFP
- Finding. Identify that there was system in place to monitor and report on budgets.
  1. DFP approval
  2. AME – more clarity should have been sought in the outset in 2011 when the email correspondence first happened.
- No guaranteed position from DECC post 14/15. This should have been clarified earlier prior to 15/16.

6. Budget. Funding post 14/15

- The original business case for the scheme covered the years x to y. DFP approval to that business case and to the RHI was obtained on x date and gave approval for total spend of £25m up to the end of 31xxx. While the DFP approval confirmed that all commitments entered into at that point will be honoured for the 20 year life of the scheme there was no guaranteed that additional funding other than necessary to honour commitments already incurred is available.
- In addition, it was clear in the business case and in the correspondence from HMT in April 2011 that the NI funding for RHI was restricted to 2.98% of the DECC's spend on RHI in line with the Barnett formula. Whilst at the time of the introduction of the scheme it was reasonable to assume that funding in future years would be available, the exact level of that funding was not specified or guaranteed.
- Despite the fact that the necessary approvals from DFP were not in place Energy received a budget allocation for RHI of xxx based on 3% of DECC's allocation for that year.
- Energy division should have submitted BC to DFP for RHI funding post 14/15 before the end of that year. That would have clearly established the basis of the funding in future years, the extent to which funding was capped at 3% of DECC spend and the scope if any for DETI to have flexibility in future years of funding outside of 3% allocation based on DECC's spend.
- As a consequence of not having obtained DFP approval before entering 15/16 fin year IAS understanding is that any expenditure incurred from the 1st April 15 until a BC was subsequently submitted and agreed by DFP on x date, is considered irregular,
- Recommendation. The department should ensure when setting and agreeing budgets through the normal internal budgetary process where the budgets are set for future year that the confirmation is requested and obtained from business areas that the necessary approvals are in place to cover expenditure in that future year.

*********

7. Clarification of budget
- See para. 8 of letter to Hocs and copy (finding)
- Ultimate clarification on funding was received in Dec 15 and was only at that point that department received confirmation that a full negative DEL implication.
- If it had been known in March 15 when the initial identification of a pattern of increased costs arose then the decision could have been taken at much earlier juncture on whether the scheme should close.
- IAS considers that at the outset clarity should have been sought and an agreement reached formally with HMT on the liability and the consequences of the department's expenditure exceeding the agreed allocation.
- It is also likely that had this been fully appreciated at the design stage that the design of the scheme would have, as we pointed out earlier in the report, have included controls to automatically halt the scheme when there was a risk of budgets being exceeded. IAS notes that such controls formed part of the consultation in 2013. However with the scheme underperforming at that stage the introduction of these controls was not considered a priority.
- Recommendation. Department should ensure that when similar schemes are being introduced in the future particularly where funding is dependent upon a proportion of funding in GB that such schemes have a) sufficient controls to ensure demand does not exceed budget b) a clear formally documented understanding of the consequences for the department of any expenditure exceeding budget c) formal assessment of the risks and controls within the scheme taking the budgetary risks into consideration.
- Further, the department should carry out the review of current major schemes to ensure that basis of funding is properly understood, the consequences and risks for exceeding the agreed budgets are known and had been considered and that appropriate controls have been established to monitor and mitigate the effects of unexpected spikes in demand.

********

8. Resources and staff changes
- Throughout our review a constant refrain from staff currently in post and from staff who worked in the division previously was such that pressures developed as the result for competing demands for oversight of existing and implementation of the new aspects of the scheme. This is best illustrated with reference to the issue of the introduction of cost controls.
- The introduction of cost controls form part of the consultation undertaken by management in 2013. However following the consultation there was a change of staff within a division from DP up to and incl G5. In 2014 further work on the introduction of cost controls did not take place. The focus of the team was on introduction of the domestic RHI and phase 2 f the non domestic. While management have advised that there was no formal decision not to introduce cost control in the context of these competing priorities and in light of at the time initial slow take up of the scheme, the introduction of cost controls was not advanced. IAS consider that there's lessons to be learned here concerning the differing resourcing needs

between the development of policies and programmes and implementation of those programmes. In the context of RHI there both the need to implement and oversee the non domestic scheme while at the same time introducing further proposals for domestic. Referencing back to our previous point of the programme/ project oversight, a programme board would have provided both a forum for consideration of resourcing needs and challenge to decision to prioritise.

- A further contributory factor in IAS opinion was the loss in late 13 early 14 the key members of the team and their organisational knowledge around the initial development of the scheme. IAS considers this is one of the main contributing factors that led to the non renewal of DFP approval at the end of 14/15. IAS considers that there should have been a more formal handover of staff and as part of this handover a formally agreed list of future actions required should have been captured.
- Recommendation. IAS has already recommended previously in this report that major programme should include programme oversight and programme plans. In addition, the dept should consider whether current arrangements for the handover from the key staff are sufficiently formally documented and should have as a key requirement the need to capture and retain organisational knowledge.

Revision 1

Brainstorm

Scheme design

- GB following
- Vulnerable to spikes in demand
- GB changed we didn't
- No ability to respond when demand exceeded expenditure
- Cost control

Scheme design

1. Vulnerable to demand

- Scheme starter xx 2012
- Similar GB scheme
- Business and consultation and NI specifics xx
- By design, if an applicant applied to the scheme and met all criteria they will automatically be entitled to award.
- What has happened?
- Initial poor uptakes (13/14/15)
- In 2015/16 demand starting to increased
- DSO advice taken on 25th June (the actual question to and answer from DSO)
- 8th July submission to minister
- 8th September ministerial press release on the introduction of cost controls
- Spike in demand in October and November
- Applications received before the date cost controls were introduced had to be accepted
- Xx November cost controls introduced as the result of changes brought forward
- Scheme closed on 29th of February
- Budget implications
- So what?
- IAS considers that although the scheme had initial low take up it was always vulnerable to demand increasing
- Funding was finite in that it was limited to that agreed with DFP and 3% of DECC's overall budget for RHI (See also x)
- Department consulted in 2013 which would have allowed fort the scheme to be stopped if the was greater than 90% of budget was committed.
- When the spike occurred in 2015/16 department did not have a mechanism in place to respond quickly
- The scheme should have been able to be stopped automatically when certain triggers such as spend vs available budget were hit
- While the IAS appreciates that the scheme had to demonstrate to applicants that long term funding will be available in order to allow for applicants to make long term investment decisions the scheme should also by design needed to recognise that while existing

commitments will always be honoured funding for future year outside of the 1st 4 years covered by the DFP approval in xx 2012 was not guaranteed and depended on availability of funding.

- Whilst we accept that the scheme as it was initially designed mirrored the GB the scheme was inherently vulnerable to increases in demand and lacked in an appropriate automatic responses to increased demand that would have allowed the scheme to close to new applicants until such time as additional budget can be secured.
- Recommendation. Department should ensure that all schemes, particularly those which are demand led, have appropriate controls in place to mitigate any risk of unforeseen demand. Where possible schemes should be designed in such a way that applicants do not incur a liability which the department must honour unless funding is in place or where it is not practical to identify future commitments in advance the scheme should have a control which automatically closes the scheme when certain trigger points are reached.
-

***********************

2. VFM, evaluation

- Business case to introduce the scheme
- The tariff that was applied of xx
- Business case was informed by research by CEPA
- The rates were sent to incentivise the uptake of renewable technologies in NI recognising that in NI there was high dependency on oil
- The tariff were set on three elements to compensate initial upfront capital to meet the differential between staying with oil and transferring to the new technology and to provide an additional incentive
- The scheme also received State Aid approval xx 2012
- As part of the original business case for the scheme evaluation was planned for 2014. Quote 13.37 from the business case.
- What has happened? 1) evaluation not completed
- IAS understands that due to initial low uptake of the non domestic scheme and the need to focus resource on the implementation of the domestic scheme that the evaluation planned originally for 2014 was not undertaken. Therefore the management did not have any up to date information to allow them to assess whether the average value of the award is still in line with that envisioned by that of the original business case. IAS considers that there's some evidence to indicate that the average value of award in 2015/16 is significantly greater than that in the 1st year of the scheme.
- When introducing funding schemes it is important that those schemes are regularly monitored to ensure that initial assumptions around vfm and the return on investment to applicants are still valid and in line with how the scheme was described when state aid approval was obtained.
- If an evaluation of the scheme had been undertaken in 2014, it would have informed any subsequent business case to DFP.
- Recommendation. The department should ensure that notwithstanding that the RHI scheme has been closed, the department should ensure that the evaluation of the scheme is carried

out asap. The evaluation should consider the extent to which the scheme has met its overall policy objectives and whether individual awards under the scheme are consistent with the original business case, state approval and represents a reasonable return on investment.

***************************

3. Programme/project management

- Good practice in both OGC and DFP guidance that all programmes should have https://www.dfpni.gov.uk/articles/programme-management
- IAS consider that adopting a structured programme/ framework would have been beneficial. There are a number of reasons for this as follows:-
- 1. In response to casework management committed to establishing a budget monitoring committee which would have given greater understanding and scope for challenge of RHI budget. In particular, to what extent the budget was or wasn't AME limited to 3% of DECC. A programme oversight board could have also provided the oversight.
- 2. During the initial 4 years of the scheme there was high turnover of staff within Energy division. This has impacted in terms of the loss of organisational knowledge and continuity.
- 3. There were a number of key milestones such as failure to get DFP approval in good time for expenditure post 14/15 which could have been captured in a programme/project plan
- 4. Management have also advised that with the pressure on resources there was a need to prioritise the introduction of the domestic scheme in 2014 ahead of the introduction of the cost controls. A programme oversight board would have allowed greater visibility and consideration of the risks that relate to this decision.
- In summary the use of the programme/ project oversight arrangements for this scheme would have provided greater oversight and challenge at key stages of the programme, and would have been appropriate considering the long term nature of the projects (20years) and may have led to the greater clarity in terms of the budgetary oversight and the basis of funding from treasure.
- Recommendation. The departments should review its existing major programmes and consider whether nor not appropriate programme/ project oversight is in place. Going forward when new programmes are being developed or implemented consideration mshould be given to the development of the appropriate programme/ project oversight arrangement and as a minimum programmes/projects should have a programme plan with key actions and dates when these actions are due to be completed (eg. The data by which any revision or renewal of DFP approval is required). A programme risk register which considers the specific risks inherent in the project and the formal challenge from the programme oversight group.

************************************

4. Risk Management/GB change – separate stand alone issue

- The original business case for the RHI scheme recognised a number of inherent risks to the scheme such as: - list
- IAS also noted that Ofgem in their Fraud Risk Strategy also recognised a number of inherent risks in the scheme such as:-list

- IAS confirm that management do not have separate fraud risk management strategy for their RHI scheme.
- IAS also noted that many of the risks recognised by Ofgem are mitigated to an extent by preventative controls. Many of these controls make reference to use of tariffs and degression as a disincentive to gaming and fraud and as a preventative control to budget pressure.
- In addition, while the initial design of the NI scheme was similar to the GB scheme the decision not to introduce similar cost controls as GB done in 2013 means that the way risks are managed in GB scheme are no longer exactly the same as how NI manages those risks and that there was no formal decision or consideration of how the risks identified in the original business case or as recognised by Ofgem are being managed in the NI scheme.
- Recommendation. In developing significant programmes and projects a robust formal risk management strategy should be developed at the outset. Where a scheme is based on a scheme being run elsewhere the department should ensure that the risks associated with deviating from that scheme are formally documented and considered.

************************************

5. Validity of award

- At the outset of this review the IAS aimed ascertain whether or not awards are only made to valid applicants that meet the conditions of the scheme. The key controls being such as assessment of applications and checking the validity of payments are being operated by Ofgem as per MOU. A separate review is being carried out by Ofgem's auditors to provide assurance over these controls and specifically in how they relate to NI payments. This will be reported separately in a report from Ofgem's auditors. IAS therefore considered what controls have been established within the department to provide assurance to date on the validity and accuracy of the work undertaken by Ofgem on behalf of the department.
- The MOU agreed between the department and Ofgem allowed for the sharing by Ofgem of the outcomes of any audits that related to NIRHI, it did not allow for the provision by Ofgem of an assurance to DETI on an annual basis on the risk management control and governance processes operated by Ofgem on behalf of the department. IAS were unable to find any evidence that audits undertaken by Ofgem were either informed by concerns raised by DETI or were shared with DETI where outcomes related to NIRHI or confirmation that no issues relating to NIRHI have been identified. Further, while the original feasibility study submitted by Ofgem made reference to discussing and agreeing appropriate KPI's with DETI, IAS notes that no actual KPI@s were agreed that that DETI does not receive any information on performance other than details of system upgrades and system downtimes.
- IAS does acknowledge that management receive regular information on awards made, pending or rejected as part of the monthly information received in support for making monthly payments.
- Recommendation. Where DETI is using an external organisation to deliver services, whether that organisation is another govt body or a private sector supplier, appropriate arrangements should be implemented to ensure that
- - appropriate assurances are provided to the department on regular basis

- - the results of any internal audit work undertaken is reported regardless whether there are issues identified or not; and
- - KPI’s are agreed at the outset and are regularly reported
- All of these arrangement should be appropriately defined and documented in the MOU.