

**From:** [Morelli, Emer](#)  
**To:** [Brennan, Mike](#); [Sterling, David](#)  
**Cc:** [Scott, Michelle](#); [Caldwell, Alison](#)  
**Subject:** Re: RHI - Regularity  
**Date:** 18 December 2016 18:25:55

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All

I have spoken to Minister on the above. He met with Simon Hamilton earlier today to discuss the issue.

Minister is very clear that all the options need to be considered and accepts that there should be no announcement in advance of Treasury engagement.

Minister has also noted the point re SOS below.

Minister has requested that he is kept up to date on this issue and has requested a meeting, to be arranged, tomorrow.

Minister has also raised two specific queries:

- do we need to continue to spend money on consultancy support, is there no alternative to this?
- does the Executive have the powers to pause the scheme including payments to those applicants in the system which have yet to be assessed?

Emer

Sent from my BlackBerry 10 smartphone.

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**From:** Brennan, Mike  
**Sent:** Sunday, 18 December 2016 15:41  
**To:** Morelli, Emer; Sterling, David  
**Cc:** Scott, Michelle; Caldwell, Alison  
**Subject:** Re: RHI - Regularity

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David

I would also be very worried about building up expectations on any HMT dispensations on Option C. There would need to be some political signal from SoS first before our Ministers start down that road

M

Sent from my BlackBerry 10 smartphone.

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**From:** Morelli, Emer  
**Sent:** Sunday, 18 December 2016 14:48  
**To:** Sterling, David; Brennan, Mike  
**Cc:** Scott, Michelle; Caldwell, Alison  
**Subject:** Re: RHI - Regularity

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David

Yes, agreed. Minister has asked for an update tonight at 6.00. I will reflect the advice below. Supply will need a commensurate business case which considers all options. We will need SPD input to this complicated issue.

Emer

Sent from my BlackBerry 10 smartphone.

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**From:** Sterling, David  
**Sent:** Sunday, 18 December 2016 14:30  
**To:** Morelli, Emer; Brennan, Mike  
**Cc:** Scott, Michelle; Caldwell, Alison  
**Subject:** RE: RHI - Regularity

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Emer/Mike

Can we think carefully about this and have a quick word early tomorrow morning before we respond. I can see the political attractions of Option C particularly if Treasury could be persuaded to switch some anticipated Res AME to Cap AME to fund a "buy out". The AG's advice also favours Option C.

However you've already highlighted several drawbacks to Option C which we'll need to work through before we give a considered DoF response.

David

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**From:** McCormick, Andrew (DFE)  
**Sent:** 18 December 2016 09:55  
**To:** Sterling, David  
**Cc:** McCoy, Laura; TEO HOCS; Cousins, Heather; McCann, Brendan; McMurray, Stephen; Stewart, Chris (DFE); Morelli, Emer; Scott, Michelle; Caldwell, Alison; Coyne, Terence; Marten, Lucy  
**Subject:** Fw: RHI - Regularity

David,

The NIAO Report of June 2016 says the following:

"My report below reviews the results of my audit of the Department's 2015-16 financial statements and sets out why I have decided to qualify my regularity audit opinion in relation to

two issues:

- expenditure amounting to £11.9 million which was incurred without the necessary approvals in place for the non-domestic Renewal Heat Incentive (RHI) scheme (paragraphs 4 to 16) and is therefore irregular; and
- because I was unable to obtain enough evidence to be assured that expenditure on the non-domestic RHI scheme amounting to £30.5 million had been incurred for the purposes intended (paragraphs 17 to 27). This was due to the fact that I did not consider that the systems in place to prevent or detect abuse of the scheme were adequate.”

The PwC Report (Project Heat) will almost certainly lead C&AG to treat the expenditure IN 2016-17 on the RHI as irregular irrespective of DFP/DoF's position, on the basis of the second bullet point above – the qualification re 2015-16 was based on absence of evidence of control systems – PwC provides clear evidence of the absence of adequate control systems.

Hence I think that any course of action other than option C – even if the full cost was to fall on the NIE DEL – would require a Ministerial Direction on the grounds of irregularity. In fact, of course, there is good reason to hope that the Treasury would agree to help in the circumstances.

Many thanks.

Andrew