



RENEWABLE HEAT
INCENTIVE INQUIRY

WIT-34689

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21 July 2017

Dear Madam

**Re: The Independent Public Inquiry into the Non Domestic Renewable Heat
Incentive (RHI) Scheme
Supplementary Corporate Statement from Core Participants**

I am writing to you in my capacity as Solicitor to the Independent Public Inquiry into the Non Domestic Renewable Heat Incentive (RHI) Scheme (known as 'the RHI Inquiry') which has been set up under the Inquiries Act 2005 ('the Act').

The RHI Inquiry's Terms of Reference can be found on the Inquiry's website:
www.rhiinquiry.org.

As a core participant before the RHI Inquiry, you will be receiving the RHI Inquiry's evidence bundle via the Globalscape Enhanced File Transfer System which is used by the Inquiry to securely transfer files.

As you consider this material you may come to the view that the material in some way affirms, alters, challenges or contradicts matters which you have addressed in your initial corporate statement to the Inquiry.

In addition, it may be that there are particular issues which arise from the material, even if these are not covered in your initial corporate statement, on which you consider it appropriate for you to specifically comment or which you feel you should draw to the attention of the Inquiry. The purpose of this correspondence is to make clear that you may do so by providing a supplementary corporate statement to the Inquiry and to invite you to do so, should you feel this would be appropriate.

I should make it clear that any such supplementary statement is not intended to be a detailed analysis of all of the material in the Inquiry's evidence bundle, or in the nature of submissions. Rather, such a statement should address key themes or topics relevant to you and the Inquiry's Terms of Reference as to which, with the benefit of the further evidentiary material, you are able to provide an updated position.

Other than the comments provided above for your guidance, the Inquiry does not intend to be prescriptive as to the nature and form of any supplementary statement, and if it assists you to provide a series of statements covering specific areas and/or to provide statements from different people who can speak to those specific areas on behalf of your organisation, then this will be entirely acceptable to the Inquiry. Of course, where the Inquiry Panel specifically requires further written evidence from you upon a particular topic, it remains open to it to secure this separately by means of the issue by the Chairman of a further notice pursuant to section 21 of the Act.

I would also ask you to please ensure that, in any further statement or statements you are providing, when you refer to a document from the Inquiry's evidence bundle you include in the body of the statement the 'Bates' reference of the document or documents to which you are referring the Inquiry. This, by way of example, should be done in the following format: WIT-123456.

The Inquiry would be grateful if any supplementary corporate statement, drawing on

an analysis of the Inquiry's evidence bundle, is provided to the Inquiry by no later than noon on **Friday 1 September 2017**.

I would be grateful if you could acknowledge receipt of this correspondence by email to Patrick.Butler@rhiinquiry.org.

Please do not hesitate to contact me to discuss any matter arising.

Yours faithfully

A handwritten signature in black ink that reads "Patrick Butler". The signature is written in a cursive style with a long horizontal stroke at the end of the name.

Patrick Butler

Solicitor to the RHI Inquiry

0289040892

INQUIRY INTO THE RENEWABLE HEAT INCENTIVE SCHEME**RHI REF: SUPPLEMENTARY CORPORATE STATEMENT OF DEPARTMENT OF FINANCE DATE: 20 September 2017**

Witness Statement of: Emer Morelli

I, Emer Morelli, will say as follows: -

1. Further to the invite of the Solicitor to the Public Inquiry into the Non-Domestic Renewable Heat Incentive Scheme received on 21 July 2017, I provide a statement to supplement Mike Brennan's Statement of the Department of Finance's (DoF) position in relation to the RHI Scheme as provided on 2 June 2017.
2. In providing this supplementary statement on behalf of the DoF, I have reviewed the majority of statements and associated evidence bundles made available by the RHI Inquiry team to DoF. I have, however, been unable to review all statements and evidence bundles in the time available particularly those added by the Inquiry from week commencing 4 September 2017. DoF therefore wishes to retain the right of further response should any other significant issues emerge.
3. The following statement is structured around eight main themes as set out below and comments on any points of factual inaccuracy from the DoF perspective. This statement also highlights any new information that was not previously made available to DoF at the time of its first corporate submission to the Inquiry.
 - (1) Approval of the original 2012 Business Case.
 - (2) 2012 Regulations
 - (3) Timeline of DoF/DFP engagement with DETI
 - (4) AME forecasting
 - (5) AME controls
 - (6) Approval of Addendum to 2012 Business Case in October 2015
 - (7) DoF Role in monitoring approvals
 - (8) RHI Scheme general

(1) APPROVAL OF THE ORIGINAL 2012 BUSINESS CASE.

4. As set out in the DoF corporate statement, DoF (formerly DFP), (WIT-30026), where a spending decision exceeds the departmental delegated authority it must be submitted to DoF for approval. In recommending a spending decision to DoF the relevant department must confirm, on behalf of the Departmental Accounting Officer, that it is content with the regularity and propriety of the spending proposal, it represents Value for Money (VFM) and that it has been reviewed by the Departmental Economists.
5. DoF approval relates solely to the agreement to proceed and does not imply approval for expenditure to be incurred beyond existing agreed public expenditure controls.

Ofgem Statement

6. In its corporate witness statement (Notice 125 of 2017), OFGEM identified a range of issues and concerns regarding the non-domestic RHI regulations which OFGEM officials believe were communicated to DETI in November 2011 (WIT- 95058).
7. These concerns included:
 - No cost controls in the draft NI Regulations
 - The absence of a provision in relation to “useful heat” which permitted inefficient heat use
 - Ongoing advice as to GB Scheme amendments in 2011.
8. From this evidence now available to DoF, it is not apparent if these issues were ever factored into the DETI decision making process or why the associated risks were not fully reflected within the 2012 Business Case presented to DFP. These were material issues that DFP would have expected to see referenced within the Business Case. It is also unclear why steps were not subsequently taken to update the Renewable Heat Incentive Scheme Regulations (Northern Ireland 2012).
9. DFP may have approached the approval of the Scheme in a different manner had this information been included within the 2012 business case - either through a requirement on DETI to address these issues before implementing the Scheme or through a condition on any approval which required DETI to address the issues raised within a set time frame.
10. DETI makes a repeated and general assertion that all the experts including DFP were content with the original Scheme (eg WIT 00060). DFP at that time could only rely on the Business Case as presented

and approved by DETI. DFP, in its Business Case consideration, would not have the resources or expertise to challenge the CEPA report, (prepared by the experts in the field and accepted by DETI and the DETI Casework Committee).

DFP Approval

11. It is important to note that the DFP approval letter in 2012 was conditional, and was an approval on the basis of the inherent risks DETI identified. Hence, as a consequence of the risks, DFP approval (WIT-30044) was expressly subject to review with required changes to be in place by 31st March 2015 which was in line with the HMT Spending Review period funding allocations for the Scheme. (WIT 00084, WIT 0088).
12. The DFP approval letter stated:
 1. "Whilst the Scheme is envisaged to be open to new installations until 2020, approval is given for the period 1 July 2012 to 31 March 2015, representing the period for which HMT funding has been secured. Any decision to continue the Scheme beyond 2015 would require further/ separate DFP approval;
 2. As outlined in Section 7.53 of the Business Case, arrangements are in put in place for scheduled reviews to allow the progress of the Scheme to be monitored and assessed and if necessary changes implemented. It is noted that the first review is scheduled to start in 2014 and that the reviews will be carried out by DETI."
13. In reviewing the evidence made available to DoF by the Inquiry, DoF notes that in advice to its Minister at the time, DETI officials stated that "the Scheme will be open to new applicants until 31 March 2015, at which stage there will be a Review" (DFE 143710). DETI officials advised "However it is anticipated that the Scheme will be extended to 2020, with any required modifications in line with GB".
14. DFP approval was time bounded to 31 March 2015 to allow for such a review to happen. DFP was not sighted on correspondence between DECC and DETI on modifications to the GB Scheme. It is unclear from the evidence now available as to why DETI did not consider and implement the required amendments to the 2012 Regulations given its undertakings to do so as set out above in the Ofgem statement (Para 181 WIT 95059).
15. (WIT18534 and WIT 18524 refers). At the Casework Committee convened to consider the original 2012 Business Case, Energy Division presented budgetary controls – including: proactive monitoring of uptake with industry and Ofgem; actual energy usage feeding into forecast expenditure; a management forum with Ofgem; proactive

adjustment and the ability by Energy Division to undertake emergency tariff reviews and to close the Scheme to new applicants. It is not clear to DoF why these measures were not put in place.

16. DFP had no role in the ongoing monitoring of the Scheme, rather DFP relied on the assurances provided by DETI that sufficient controls were in place.
17. It should be noted that DETI continued to recommend the original Scheme as Value for Money (VFM) and fit for purpose when it requested retrospective approval to the unamended scheme in the period 1 April 2015 to November 2015. This is rehearsed in more detail under Theme 6 of this statement.

(2) 2012 REGULATIONS

18. DoF has not seen any evidence to suggest that it had sight of the draft Renewable Heat Incentive Scheme Regulations (Northern Ireland 2012) “the draft Regulations” prior to approval. As provided by the primary legislation, the content of the Regulations was entirely a matter for DETI, there was no requirement in the primary legislation that DFP approve the Regulations or that the Regulations were to be made in conjunction with DFP, (which is sometimes the case with subordinate legislation). It was not therefore within the purview of DFP to advise on the content of the Regulations, nor was this requested of DFP by DETI at any time.
19. In addition to the above, in the absence of a provision in the primary legislation, it would be wholly inappropriate to include an express provision on the face of the Regulations that they were subject to administrative re-approval in 2015 or that they remained extant only so long as the approval was in place. That is a matter for internal DETI administrative arrangements.
20. Based on the evidence available to DoF now, WIT 18535, there would appear to be a fundamental lack of understanding within DETI of the differences between the NI Scheme and the GB Scheme. In GB, the first set of amendments to the original 2011 scheme were introduced in July 2012. The July 2012 Amendments provided for an interim cost control mechanism, suspension. It was replaced in 2013 with depression. These amendments were not introduced in Northern Ireland. It would be useful to understand why it was considered by DETI that there was no necessity to include these mechanisms within the NI Regulations.

(3) TIMELINE OF DOF ENGAGEMENT WITH DETI (JUNE 2015 – JANUARY 2016)

21. There has been a criticism that DFP took too long to clarify the available funding for the Scheme and an implied criticism that DFP delayed considering the request for approval of the Addendum of the Business Case.
22. On the basis of the evidence now available to DoF it is apparent that as early as March 2015 DETI were taking steps to make contact with HMT in an attempt to clarify the NI RHI budgetary position for 2015/2016, (WIT 02707 refers). DETI was advised, however, as early as 20 March 2015 by HMT that “it needed to speak with DFP NI in the first instance”. Despite the unequivocal HMT advice to contact DFP, in March 2015, DETI did not do so.
23. Throughout the summer of 2015, DETI Finance officials did not inform DFP officials of their advice to DETI Energy policy colleagues to “Please stop entering into commitments immediately” (WIT-17659) in and around 20 May 2015. Rather, as outlined in WIT-30268, DETI advised, as late as 1 July 2015 that its modelling suggested that, after a slow start, the Scheme was beginning to perform in line with the original planning assumptions and that DETI would engage with DECC to understand how this increased activity would be reflected in funding arrangements.
24. The DoF Corporate Statement submitted to the Inquiry on 2 June provided a timetable of DFP’s involvement with the RHI Scheme. As a result of reviewing the evidence made available to DoF by the Inquiry, an expanded timeline capturing DFP’s involvement over the summer and autumn 2015 period is included below.
25. This detailed timeline of engagement demonstrates that DFP was closely involved with DETI over the period and was not ignoring the issue or delaying consideration of approvals.

26 May 2015 AME forecast received from DETI for the OBR Summer Budget 2015 forecast, increasing expenditure in 2016-17 onwards, but decreasing 2015-16 forecast expenditure. This exercise is referred to in the letter from DETI Finance Director on 1 July 2015 (WIT-30268)

3 June 2015 Meeting between DFP and DETI Finance Officials. DETI mention a potential issue with a Business Case approval at the confines of a meeting on a different topic.

- 4 June 2015 During the 2015-16 June Monitoring round, DETI updated the AME figures held on the DFP database doubling the 2015-16 RHI funding requirement. In line with normal procedures DFP included the updated AME figures, provided by DETI in a report showing the position, which was held on the DFP database. However for AME changes notified during a monitoring round this is done on the basis that such changes will be reflected in the Department's next return to an OBR forecast. This usually occurs every autumn and was scheduled for October 2015. It is not for DFP to confirm levels of AME funding; this is a matter for Treasury.
- 12 June 2015 A separate meeting is arranged with DETI and DFP Supply to discuss the RHI (Non Domestic and Domestic Schemes). DFP advise DETI to engage with DECC immediately as to the funding arrangements in place in GB and the impact in Northern Ireland.
- 01 July 2015 As promised at the above mentioned meeting, DETI Finance Director writes to DoF Supply advising of the actions he is taking to clarify key points in respect of the Scheme. (WIT-30268). This includes engagement with DECC "we are in the process of writing formally to DECC as a means of getting further clarity on the exact nature of the funding arrangement for expenditure on both the Non-Domestic and Domestic RHI".
- 11 August 2015 DoF issue a reminder to DETI regarding progress on the actions outlined in the DETI Finance Director's letter of 1 July 2015. (WIT 18784)
- 12 August 2015 Meeting to discuss budget structures for new Department (DfE). RHI discussed before the meeting convened.
- 8 September 2015 DETI write to its ETI Assembly Committee advising as to proposed changes to the 2012 Regulations. DFP was not advised of this action by DETI at that time.

- 30 September 2015 An urgent one item meeting is convened with DFP Supply, DETI Finance and Policy Officials to discuss progress in respect of RHI. This was an unusual occurrence as it is not normal practice for DFP Supply to engage with policy officials. At this meeting DETI advise DFP that a SL1 advising of the proposed changes to the 2012 Regulations issued to the DETI Assembly Committee on 8 September 2015.
- 8 October 2015 DETI provide forecast AME return to DFP to inform the OBR exercise which in turn is discussed with HMT. Based on advice from HMT, DFP advise DETI that no new installations should be included in the forecast position after March 2016. This reflected the fact that the UK Spending Review setting out the arrangements for 2016-17 to 2019-20 had not yet been announced by the UK Government.
- With no AME limit for RHI in place for 2015-16 Treasury did not challenge the RHI forecast when subsequently provided in October 2015 in line with OBR's timetable. The AME position in respect of 2015-16 was therefore not confirmed by HMT until October 2015.
- 13 October 2015 DETI submit a draft addendum to the 2012 Business Case albeit on an informal basis
- 21 October 2015 DFP attend DETI casework committee to discuss the addendum to the 2012 Business Case
- 27 October 2015 DETI submit the addendum to the 2012 Business Case for formal DFP approval
- 29 October 2015 DFP approve the addendum to the Business Case on a prospective basis only.
- 9 November 2015 DETI advises Executive Ministers of its intention to introduce amendments to the 2012 Regulations for affirmative resolution by the Assembly. DETI advises that the legislation relates solely to Energy issues and does not fall within Para 2.4 of the Ministerial Code. The Executive paper does not therefore come to

	DFP Supply for review and comment.
25 November 2015	UK Autumn Statement confirmed continuation of the DECC RHI Scheme with overall funding of some £1.15 billion available by 2020-21. DFP Supply notified DETI Finance Division of this position.
26 November 2015	DoF received confirmation from HMT of the funding available to NI for the period 2016-17 to 2019-20. This was conveyed to DETI.
Early December 2015	DETI Finance officials notify DFP Supply that the estimated cost of the RHI Scheme was considerably higher than the expenditure levels previously assumed
7 December 2015	DFP advised by DETI that 441 applications had been received in October 2015 alone.
7 December 2015	DETI officials are invited to provide briefing for DFP's use at a meeting with HMT on a range of topics including RHI.
18 December 2015	HMT notified the DFP Budget Director that DECC had never factored the additional NI energy output over the 3% population limit into the National target. In July 2015 the DETI Finance Director advised that "The RHI is the Government's key mechanism for driving uptake of renewable heat to deliver the UK's contribution to the EU renewables target with the aspiration of generating 15% of energy from renewable resources by 2020. The Executive has decided that NI's contribution should be to achieve 4% of renewable heat by 2015, as set out in PfG and 10% by 2020 as set out in the Strategic Energy Framework" (WIT 30268). DETI advised DFP that it would engage with DECC to see if this increased share of the wider UK target would attract more funding.
21 December 2015	DFP advises DETI that it could not provide retrospective part approval for the RHI Scheme for the period 1 April 2015 until November 2015. DFP also advise DETI that it is possible and indeed probable that any additional funding requirement over and above

the HMT agreed levels from 2016-17 will have to be met from RDEL.

- 15 January 2016 Outcome of Spending Review confirmed in letter from Chief Secretary to the Treasury which also confirmed the AME profiles for RHI, provided by HMT on 26 November. It further clarified that any expenditure in excess of these AME limits would have to be funded from DEL. This was conveyed to DETI.
- 19 January 2016 DFP Supply notifies NIAO of irregular spend.
- 26 January 2016 DFP Supply confirm the outcome of the SR with DETI. DFP officials meet with DETI to seek an update on progress in respect of plans to close the scheme to new applicants.

(4) AME FORECASTING

- 26. The DfE Corporate Statement (WIT 00110, para 283) advises that additional AME budget cover added by HMT in July 2015-16 had the effect of “reinforcing the misconception that the additional budget cover for the Scheme could and would be secured, significantly reducing the sense of urgency to act to bring it under control”.
- 27. DoF has addressed this issue in its corporate statement. Further to that statement, it would appear from the evidence that DETI assumed that the AME forecasting process would determine the level of AME funding for RHI funding in 2015-16.
- 28. DoF notes the reference in (WIT 18730) from DETI Finance to the DETI Finance Director on 10 January 2014 which advises that “DFP has confirmed the AME Budget 2014 exercise which shows AME budgets from 2014-15 to 2019-20”. DoF has not seen evidence to substantiate this claim in the documents provided to date by the Inquiry, and it would contradict our understanding of how funding for the RHI Scheme operated.
- 29. The RHI Scheme was not funded like a normal demand led AME programme where actual funding provided by HMT would have been based upon need and forecasts would have reflected the policy assumptions in place at that time. Instead the RHI Scheme was subject to specific spending limits which were set out initially in the Spending Review 2010 Settlement letter for the period 2011-12 until 2014-15. These limits were based on a population share of the HMT allocation made to DECC for renewable heat schemes. DETI were

fully aware of the peculiar nature of this funding arrangement and that this was how the funding was calculated (see WIT-07815-07819 and WIT-30249 email from HMT to DETI 2011). For this period up to 2014-15 DETI's forecast spend would have had to been within the limits set.

30. There was a one year settlement in place for 2015-16 which did not make specific references to RHI funding for Northern Ireland. This was confirmed by DFP to DETI in October 2015. In the absence of a limit being set, HMT did not challenge the RHI AME forecast provided by DETI. DETI should not have assumed this to mean unlimited AME funding going forward especially as DETI officials were aware that funding was previously based on a population share of DECC allocations and of the requirement to review the Scheme in 2014-15 before entering into new commitments going forward (WIT-02523 refers).
31. That being the case, DoF is not clear why on 26 May 2015 in response to the OBR Summer Budget 2015 forecast request DETI advised a reduction in the 2015-16 AME budget requirement for RHI. However only nine days later, on 4 June 2015, in the context of an internal Northern Ireland June monitoring return, DETI advised of an increased requirement of an additional £11 million effectively doubling the cost of the Scheme in that year.
32. The OBR AME forecast process, and subsequent approval of revised AME budgets by HMT, is the usual mechanism for confirming levels of traditional AME funding. This is informed by a report compiled by DFP using the updated AME figures, provided by departments on the DFP database at the end of an OBR forecasting exercise. In line with this procedure, DETI provided input into the OBR Summer Budget 2015 AME forecast. In addition, where a department is aware of AME changes outside of the OBR forecasting process, and notifies DFP during a monitoring round, this is done on the basis that such changes will be reflected in the next return the department provides to an OBR AME forecast exercise which at that time will require HMT approval. As stated above OBR AME forecasts are usually held on a biannual basis. It is not for DFP to confirm levels of AME funding, this is a matter for Treasury.
33. As set out above, with no limit in place for 2015-16, Treasury did not challenge these figures when it was subsequently provided with them in October 2015, in line with OBR's timetable.
36. DoF does not accept DETI's assertion that the 2015-16 AME budget was confirmed by DFP to DETI in summer 2015. (WIT -00109). As set out above, the AME increase was an automated response from the DFP database reflecting the updated figures input by DETI onto

the DFP database during the June Monitoring round. Based on the evidence made available to DoF by the Inquiry to date, there does not appear to be any documentation to substantiate DETI's claim.

37. As set out in DoF's corporate statement and further supported by the evidence now available to DoF by the Inquiry, DETI and DFP officials continued to liaise on the budget issue. Formal confirmation could only be provided once the outcome of the OBR exercise was known in October 2015. As set out in WIT-18546, in response to a query from the DETI Permanent Secretary as to the resolution of the budget issue during the last two weeks in August, a DETI Finance official advised Energy Division that "whilst funding had been allocated RHI AME is not standard and that DECC had confirmed penalties for overspending.
38. DETI Finance asked Energy Division to contact the DECC finance team directly and followed up with an email on 4 September 2015 restating this request. It would appear from the evidence available to DoF by the Inquiry that the email was not in fact sent until the 5 October 2015. It is difficult to see how DETI Finance officials could give absolute advice as to the surety of budget funding at one point in time in August when there had in effect been no engagement with DECC Finance officials at that time.
39. In October 2015 Central Expenditure Division (CED) was advised by HMT that future funding of the Scheme would be determined as part of the Spending Review and that DETI should not include any new installations in its forecasts after the 2015-16 financial year in its forecasts. Supply Division relayed this message to DETI as soon as it was received from HMT.
40. The subsequent Spending Review 2015 Settlement Letter on 15 January 2017 set limits on the funding up to 2019-20 and DETI was required to comply with these limits.
41. It is not clear from the evidence now available to DoF as to why DETI, in response to a series of queries from DFP (WIT 18767 refers), gave a formal commitment to engage with DECC on funding issues on 1 July 2015 but failed to advise DFP on the engagement it had already had with DECC. It is clear that DETI had already engaged with HMT as early as March 2015 and that there was ongoing engagement with DECC as to the policy position and the potential to re-profile funding from May 2015 (WIT00112). This information was not communicated to DFP.
42. It now also appears from the evidence as provided by DfE to the Inquiry that sometime in the summer of 2015, the DETI Permanent Secretary had been advised by DECC that RHI was a devolved

funding issue which could only be addressed by DFP and HM Treasury (HMT) (WIT-00112). It is not clear as to why DETI did not relay this clear message to DFP contemporaneously when it was initially received from DECC. Indeed DFP never received a formal update as to progress against the commitments entered into by the DETI Finance Director in his correspondence of 1 July 2015 (WIT 30270).

43. The DETI Finance Director notes that advice to the DETI Minister was not in his view complete in July 2015. It is not clear from the evidence provided to the Inquiry as what other information the Finance Director was aware of regarding the funding arrangements in July 2015 and why that information was not shared with DFP.

(5) AME CONTROLS

44. The DETI Finance Director comments that a "more formal ring fencing" should have been put into place by HMT, DFP and DETI. (see WIT-18538 and WIT-18539)
45. AME forecasts are commissioned by OBR usually on a biannual basis and DoF in turn requests the information from departments. Departments are responsible for providing AME forecasting information to DFP and therefore departments are responsible for the information that is provided. Responsibility for monitoring spend and providing forecasts therefore rests with DETI in this matter.
46. The management of the AME budget has been set out in the DoF Corporate Statement. DoF disputes the assertion that "more formal ring fencing" should have been put into place by HMT, DFP and DETI as the management of AME funding is fundamentally different to that of DEL budgets. There is not an overall AME budget that may be reallocated at the behest of Departments or the Executive. By its nature, AME funding is for specific purposes. Budgets originally forecast for one programme cannot be used for another. In this context a request for a separate ringfence is irrelevant as it essentially already exists by virtue of the nature of AME funding.
47. The availability of additional AME budget over and above a forecast position for the specific programme would be subject to negotiation with DECC, DETI and HMT, as set out in the explanatory and financial memorandum to the 2012 Regulations. This means that DETI was incorrect to assume that all commitments would be met post 2014-15. Indeed, should DECC have taken a decision to close the Scheme to new entrants at any time from April 2015 then no new additional funding would be available for the Non Domestic RHI Scheme in Northern Ireland. In the event DECC did maintain the Scheme albeit with further restrictions and controls thereby reducing potential additional funding.

(6) RE-APPROVAL OF ADDENDUM TO BUSINESS CASE IN OCTOBER 2015

48. Rather than provide full details of the background to the Scheme and details of its engagement with DECC and HMT, DETI continued to provide what now appears, to have been piecemeal advice to DFP over the summer of 2015, delaying the submission of the addendum to demonstrate Value for Money in the RHI Scheme until Autumn 2015. The reason for the delay in submitting the addendum to DFP is not clear from the evidence as seen by DFP.
49. It now appears on the basis of the evidence presented to the Inquiry that DETI had access to information as listed below that was not shared with DFP:
- information on the wider UK policy position and associated RHI Scheme at an earlier date than communicated to DoF;
 - market intelligence that was not shared with DFP;
 - information on the performance of the Scheme including usage rates etc; and
 - sight of various whistle blowing concerns as to the operation of the Scheme.
50. It is not clear as to why DETI was not forthcoming with any of this information in response to queries from DFP throughout summer and autumn 2015, including the Casework Committee meeting which was convened to discuss the Addendum to the Business Case on 21 October 2015.
51. DoF is sighted on an email from the Director of Energy Division on 11 August 2015 which refers to “suggestions of heating empty sheds.” (DFE-10005). As stated by the Director of Energy Division, “this cannot be defended on Value for Money grounds”. This email also highlights an awareness of the very high rates of returns achievable (38%) if the tier was applied at 3,000 hours, rather than 1314. The addendum submitted to DFP by DETI in October 2015 states the rate of return for a 99kw boiler was 33%.
52. It is accepted by DoF that the figures would have been subject to further review and adjustment by DETI in the period between August 2015 and submission in October 2015, nonetheless this rate of return is well outside the assumptions of the original Scheme and should have raised significant concerns within DETI, including VFM and State Aid compliance. It also demonstrates that DETI had access to a significant amount of information in the summer 2015 which must have at the very least raised concerns as to Value for Money (VFM) and an attendant sense of urgency to address that issue.

53. The Value for Money concerns were not made available to DFP Supply at meetings on the 12 August and 30 September, or at the subsequent Casework Committee on 21 October 2015 where DETI continued to advise that the retrospective scheme was Value for Money.
54. WIT 18546 sets out the DETI Finance Director's comments on the 8 July-December 2015 period, where DETI personnel in Finance Division engaged with DETI policy officials, departmental economists and with DFP to progress the Business Case for tiered tariffs and securing retrospective/prospective expenditure approval and also "Securing clarity on budget arrangements for the Scheme".
55. The funding issue has been rehearsed earlier in this statement but to reiterate, DFP engaged closely with DETI across the period from 8 July to December 2015 to gain clarity on the budgetary position in respect of 2015-16. It would now appear that DETI also had close engagement with DECC before the July period and after but did not convey this information to DFP (WIT-00112).
56. DETI had also engaged with HMT in March 2015. Again DETI chose not to copy DFP into that correspondence nor make DFP aware that the correspondence had taken place. Rather, DETI delayed making any response to DFP's queries throughout the summer of 2015.
57. DETI at all times assured DFP that while market intelligence was limited they were certain that the Scheme would function as set out in the original scheme assumptions. It is now clear that DETI was privy to a significant volume of information of which DFP was unaware. Again, DETI was not forthcoming with this information in response to DFP's questioning.
58. As stated earlier in this statement, the basis for DETI's recommendation that the Scheme should receive retrospective approval is not logical in that it does not appear to be supported by the information that was available to DETI at that time.

(7) DOF ROLE IN MONITORING APPROVALS

59. It has been suggested that DoF should be responsible for ensuring that Departments are reminded about timebound DoF approvals, (WIT-18549) refers. The DETI Finance Director advises that “In hindsight DFP could also maintain a central database to identify where approvals are due to lapse”
60. As outlined in Managing Public Money NI, departmental Accounting Officers are responsible for ensuring prior DoF approval is obtained in all cases where it is needed. It is essential that all departments have mechanisms in place to ensure approval requirements are understood, in place and monitored.
61. DoF also notes the reference to this issue within the Comptroller and Auditor General’s witness statement (WIT-110056), reproduced below:

“DFP’s correspondence with the Department was clear that the approval for the Scheme expired on 31 March 2015. DFP was under no obligation to prompt or remind the department in relation to the need for re-approval to continue the Scheme.”

62. DoF does not consider it would be appropriate to remove ultimate responsibility for ensuring spend is regular from the relevant departments.

(8) THE RHI SCHEME – GENERAL

Issue: Desertcreat

63. It is now apparent that DFP involvement in relation to the Desertcreat issue was minimal, DoJ played a more central role, DFP was copied into a letter in relation to which it had no prior knowledge of the detailed issues which the letter touched upon. DFP Supply passed the letter to DFP properties division. The letter was then subsequently raised with DoJ, as the lead department with responsibility for the Desertcreat project. It was understood at that time that the matter was appropriately dealt with by Department of Justice and no further action was taken by DFP officials. It is apparent from the Department of Justice’s response to the Inquiry (WIT -91001) that there was contact between Sheridan and Hood and BS Holdings and DoJ in relation to the Desertcreat issue and that DFP were not aware of the detail of this interaction. From November 2012 to until 21 February 2013 there were a series of meetings and communications. The following provides an outline of the level of contact between DoJ and Sheridan and Hood/ BS Holdings:-

- 27 November 2012 – Sheridan Hood write to Justice Minister outlining concerns as to the proposed design specification for the NI Community Safety College at Desertcreat.
- 4 December 2012 Programme Board considers correspondence
- 10 December 2012 Programme Board responds to PSNI Head of Command
- 14 December 2012 – Advice from Programme Board included in a submission to the Minister
- 22 February 2013 DoJ Minister writes to Wayne Cullen of BS Holdings (a company of which Brian Hood of Sheridan Hood was also a partner) advising that the company could not attain RHI approval through using multiple boilers.

Issue: Reference in C&AG Evidence to political interference on DFP officials

64. DoF strongly refutes the statement by Jim Allister MLA as included in C& AG's evidence (WIT CAG 01813). DoF is not aware of, nor has it had sight of any evidence of political pressure brought to bear on Supply officials to approve the original 2012 Business Case. DoF also questions the basis on which the "DFP Insider" considered the Scheme, as presented to DFP in April 2012, not to be Value for Money based on the evidence made available to DFP by DETI at that time.

Statement of Truth

I believe that the facts stated in this 16 page witness statement are true.

Signed: Enrico Morelli

Dated: 20 September 2017