

## E-Serve Commercial

### 1. Offshore Transmission

#### Team Financial

The team budget for 2012-13 is £5.2m, however the current forecast for the year is £4.8m. Spend in November was £509k and the total to date is £3.15m (60% of the budget). To reach a forecast of £4.8m for the year, the team would have to spend at £570k for the remaining 3 months, an increase on December spend of 12%.

Vacancies – The team is still reporting 4 vacancies, the latest information we have been given is that 3 of them are expected to be recruited in January.

Consultancy – Consultancy spend continues to be below the team's expectations. The latest information we have from the team is an expected £1.4m of spend over the remaining 3 months (including year-end accruals).

Our view is that very significant accruals will be required to meet the team's view of outturn in addition to the over £160k of accruals that will be carried forward from the 2011-12 year end. We will help wherever we can to accrue expenditure but we consider the team's expectations to be too high.

#### Tender Funded Costs

Tender funded costs incurred to date in the year are £2.5m compared to income of £2.3m to date. Total tender funded costs for the year are forecast at £3.9m compared to income of £3.1m, a deficit of income compared to costs of £800k.

Earlier in the year we had set expectations that income would be larger than costs for the year enabling a return of some of the interim funding to DECC. That the figures now forecast a deficit of income is of concern.

OFFSHORE DIRECTOR – Manage the expectations of Corporate Finance and Treasury with regard to the likely shortfall in income from Offshore tenders compared with costs in this financial year.

## 2. RHI

### Team Financial

Spend in December was £322k, with total expenditure for the year to date at £1.55m. This is only 43% of the team budget of £3.6m with 75% of the year gone. To meet the team's expectations requires expenditure of £460k per month for the remainder of the year, an increase over December of 42%. We consider these expectations to be unrealistic. Our view is that the underspend to budget will be in the region of £800k (22%).

The underspend is mostly within the Operations part of the RHI team where staff and consultancy spend is significantly lower than expectations. This has been mostly as a result of the lower level of applications received than expected.

The forecasts provided by the team include addition of over 20 staff. We are concerned that even if the team were able to recruit such large numbers, it is questionable whether there is capacity in either London or Glasgow for them, particularly given the additional staffing forecasts in other teams.

In November the team provided us with updated consultancy forecasts. We have been given the opportunity to challenge the team's assumptions and have made significant progress. We are concerned however that the consultancy spend is still overstated, e.g. £200k is dependent on the legal support for the outsourcing project.

AD NEW SCHEMES – Scrutinise closely the forecast data to be reported to DECC to the year end to ensure it is our best view of likely spend and to avoid 'surprises'.

### Scheme Financial

Agreed funding from DECC is £5.46m (exc. Overheads).

Spend to date is £2.2m, only 40% of the funding from DECC. Based on actual costs to date we would expect an underspend of around £2m. We recognise that the underspend is likely to be below the £2m figure but are still concerned it is likely to be very high.

We have reported to DECC a likely underspend of just £0.7m (11%), excluding overheads, in the RHI scheme in December and have highlighted an additional £600k of spend as 'high risk' relating to IT and legal spend. However, our view is that the outturn for the year will be nearer £3.5m (a 36% underspend); considerably higher than reported to date due to:

- Unrealistic IT cost forecasts (still representing £600k in the final 3 months after taking out £400k as 'high risk')
- High staff forecasts (at 33% higher values than those actually incurred in December)
- High consultancy forecasts (at nearly £600k after taking out £200k as 'high risk')

If the figures communicated to DECC are realised, the underspend would suggest the true rate of overheads for the scheme was 26.3% rather than the agreed 24% rate. We have informed the Corporate Finance team of our concerns about the likely outturn overhead rate invoiced to DECC at the year end. If our view of the likely scheme underspend are correct the overheads would represent a rate nearer 37%.

AD NEW SCHEMES and AD ENVIRONMENTAL PROGRAMMES – Scrutinise overheads for all schemes. These overheads were calculated at 24% of the funded value and that percentage will increase as a result of any underspends. Determine a consistent approach to DECC on this issue.

We have reported the potential for a further £600k underspend over the remaining 3 months of the year. These figures were developed at a very high level with no critical analysis.

### **Scheme Performance**

The appendices provide data that has been provided as a trial to elicit feedback on what might be useful to include in future reports. We welcome comments on the applicability of information for other teams/schemes and thoughts on what other information would be useful to include.

### 3. New Scheme Development

#### Team Financial

The budget for NSD includes an allocation of the funding vired from contingency by SMT in July 2012 for ECO. A substantial amount of that was allocated to IT but this has not been fully transferred to IT pending on requests for funding from them.

Spend in December was £165k compared to £212k in November (November included the pay award).

Total spend to date is £1.27m, which is 62% of the budget (£2.05m). Based on average spend and the December spend we would anticipate a very small underspend; however we are aware that there is a further ramp-up of spend expected so there may be an overspend to budget. There is sufficient contingency held within E-Serve to service that overspend.

According to the forecasts provided by the team the outturn would be expected at £0.4m overspend. We recognise the figures provided but suggest that the ramping up of costs may not be achieved.

The NSD Budget has been split between the varying schemes and the following provides a comparison of budgets and actuals to date, and budgets and forecasts for the whole year.

	Year to Date			Full Year		
	Actuals	Budget	Under/Over spend	Team Forecast	Budget	Under/Over spend
	£	£	£	£	£	£
RHI	104,119	135,000	-30,881	193,539	180,000	13,539
FIT	296,586	330,176	-33,590	466,147	405,138	61,008
ECO	496,980	463,300	33,680	1,163,210	835,994	327,216
RHINI	89,379	143,639	-54,259	138,326	229,313	-90,987
RO Banding	206,104	200,204	5,901	262,251	263,208	-957
RO Sustainability	69,191	102,767	-33,576	130,716	134,690	-3,974
<b>Total</b>	<b>1,262,360</b>	<b>1,375,085</b>	<b>-112,725</b>	<b>2,354,188</b>	<b>2,048,343</b>	<b>305,845</b>

AD NEW SCHEMES – Scrutinise the forecasts for the remainder of the financial year for each scheme and consider whether virement between budgets or requests for additional budget from the E-Serve Contingency is required.

#### 3a. New Scheme Development - ECO

##### Team Financials

ECO is a scheme run wholly within the Commercial Division for 2012-13. We have been informed of the intention that the Commercial Division manages an operational team in early 2013-14 'in parallel' with Environmental Programmes. Should this be finalised it will require a virement of corporate plan budgets for that period.

In July a figure of £2,856k was vired from contingency as a budget for ECO by SMT.

That figure was intended to fund the NSD Team, IT, Legal Services and MD's Office. We have split the budget as follows:

• NSD	£835,994
• IT	£1,892,606
• Legal Services	£110,500
• MD's Office	<u>£16,900</u>
• <b>Total</b>	<b>£2,856,000</b>

As shown above the ECO team is currently costing significantly higher than the budget allocation of the £835k for the year. This issue is likely to be resolved when a more sensible position can be worked out with the IT team in relation to spend for the year (see below). However, until the IT issues are resolved the team budget is showing a likely overspend of around £300k (29%).

Despite the £1.9m of funds put aside for IT only £200k has actually been transferred to them. The IT costs reported in December show that the IT team have overspent the funds transferred. We are extremely surprised that this situation has been allowed to happen and we are concerned this shows a lack of proper budgetary management on both sides.

AD NEW SCHEMES – Consider the additional funding required for IT for the ECO scheme in this financial year and agree budget allocation.

AD NEW SCHEMES and AD ENVIRONMENTAL PROGRAMMES – Scrutinise the forecast IT spend across the schemes for the remainder of the financial year and ensure amendment from IT in their reports where necessary.

**Scheme Financials**

DECC have yet to agree final funding for 2012-13, however we expect a figure of around £3.3m to be agreed.

Our latest report to DECC includes an outturn of £3.2m (3% below the expected funding for the year). Our view is that the underspend will be considerably greater due to:

- Unrealistic IT cost forecasts (£1.1m over 3 months compared to just £0.3m spent to date)
- High consultancy forecasts (£377k compared to £86k for the year to date)
- High staff costs (including over 10 vacancies the team now think will not be filled)

The ECO team are currently negotiating amendments to forecasts in order to reach agreement on funding with DECC. This includes trying to bring some work forward into the current financial year. We have expressed our concerns to the team that time is running short to increase the workload sufficiently to undertake additional work this year.

Based on the actual costs to date and discussions with the team, our view is that the ECO costs will outturn at around £2.4m, and underspend against expected funding of £800k (a 24% underspend).

We are very concerned about the messages we are providing to DECC. We have not provided any figures in the 'Financial High Risk Areas' table of the report to DECC for potential further underspends.

### 3b. New Scheme Development Scheme Financials - RHINI

#### Team Financial

The RHINI team are forecast to underspend against budget by around £50k (24%). Spend in December was just £10k, this is being held artificially low because of issues over funding from DETI and because of the very low level of applications.

#### Scheme Financials

DETI have yet to formally agree funding for RHINI for 2012-13. We are currently working on the basis of feasibility study figures and further forecasts communicated to DETI.

The limited funding available is making it difficult to develop the RHINI scheme in an orderly manner and is leading to problems for the development team and other teams.

AD NEW SCHEMES – Scrutinise the forecasts for RHINI costs for 2013-14 in detail and assess whether we are likely to obtain sufficient funding to make the administration of the RHINI scheme viable; propose options based on that analysis to address the issue.

## 4. Legal Services

#### Team Financial

Spend in December was just £164k compared to £245k in November (which included the annual pay award).

Spend to date is £1.39m, 70% of the amended annual budget. We would expect the legal team to outturn within a narrow margin of the annual budget of £2m for the year.

Vacancies – The team is currently hoping to add additional resources in the new year and these have been incorporated into our figures.

We have agreed a new procedure for communicating accruals and will be undertaking further work to ensure this is fully implemented for January month-end.

## Environmental Programmes

### 5. FIT

#### Team Financial

The FIT team expenditure in December was £117k, taking the total for the year to £573k. This represents just 65% of the budget of £881k. Our view is that the likely outturn for the FIT team will be around the £900k forecast.

#### Scheme Financial

Funding for 2012-13 agreed by DECC is £3.13m. At the end of December we have reported spend of £324k with a forecast outturn of £3.13m.

To meet our latest forecasts the team would have to incur costs of £308k per month for the remainder of the year, a reduction on the December costs reported of 5%. However, the December spend included IT costs of £104k compared to around £30k in prior months so the (Non IT) costs would need to increase by 34% compared to the December figures.

Based on the actual costs reported to DECC, our view is that the likely outturn for the FIT scheme will be around the agreed funding figure.

AD NEW SCHEMES and AD ENVIRONMENTAL PROGRAMMES – Scrutinise the projected spend for the FITs scheme and assess how that interacts with the additional funding requested in CR9.

### 6. Renewables (RO)

#### Team Financial

The RO team expenditure in December was £108k, taking the total for the year to £882k. This represents just 45% of the budget. In November the team forecast full year costs of £1.4m; to meet that the team would have to spend at a rate of £173k per month for the remainder of the year, an increase of 60% over the December spend.

Our view is that the likely outturn for the RO team will be around £1.3m, an underspend to budget of £0.7m (34% underspend).

## 7. CERT

### Team Financial

The CERT team expenditure in December was £107k, taking the total for the year to £532k. This represents just 40% of the budget.

To meet the full year forecast provided in November of £1.1m, the team would have to incur costs of £190k per month for the remainder of the year, an increase of 78% over the December spend.

Our view is that the likely outturn for the CERT team will be around £850k, an underspend to budget of £0.5m (37% underspend).

## 8. CESP

### Team Financial

The CESP team expenditure in December was £119k, taking the total for the year to £379k. This represents just 32% of the budget.

To meet the full year forecast provided in November of £700k, the team would have to continue to incur costs around the December level for the remainder of the year. Our view is that the likely outturn for the CESP will be around the figure reported in November.

### Scheme Financial

The CESP scheme expenditure in December was £156k, taking the total for the year to £626k. We are very concerned that, to date, we have still not agreed funding with DECC. However, the spend to date represents just 50% of the forecast total for the year.

To meet the latest forecasts provided to DECC the team would have to incur costs of £208k per month for the remainder of the year, an increase of 33% over the December spend.

Our view is that the likely outturn for the CESP team will be around £300k below the latest forecasts. However, there may be potential for accruals at the year-end to make up some of that difference.

We have not provided any indication to DECC on the 'Financial High Risk Areas' table of any potential for a reduction in the forecast for the year. We are concerned about the view DECC will take if we are not indicating at least the potential for reduced expenditure at this point. DECC have in the past taken a dim view of being informed of underspends very late in the financial year.

AD NEW SCHEMES and AD ENVIRONMENTAL PROGRAMMES – Ensure that the table in the Finance Reports to DECC (DETI) relating to 'High Risk' are used to indicate potential changes to the forecast costs.

## 9. WHD

### Team Financial

The WHD team expenditure in December was £51k, taking the total for the year to £344k. This represents just 65% of the budget.

### Scheme Financial

The WHD scheme costs reported to DECC were £48k, taking the total for the year to £458k. This represents just 60% of the funding agreed with DECC of £769k.

To meet the latest forecasts provided to DECC the team would have to incur costs of £77k per month for the remainder of the year, an increase of 63% over the December spend.

Based on the actual costs reported to date, our view is that the likely outturn for the WHD team will be around £150k below the agreed funding (a 19% underspend).

We have not provided any indication to DECC on the 'Financial High Risk Areas' table of any potential for a reduction in the forecast for the year. We are concerned about the view DECC will take if we are not indicating at least the potential for reduced expenditure at this point. DECC have in the past taken a dim view of being informed of underspends very late in the financial year.

AD ENVIRONMENTAL PROGRAMMES – Ensure that the table in the Finance Reports to DECC (DETI) relating to 'High Risk' are used to indicate potential changes to the forecast costs.

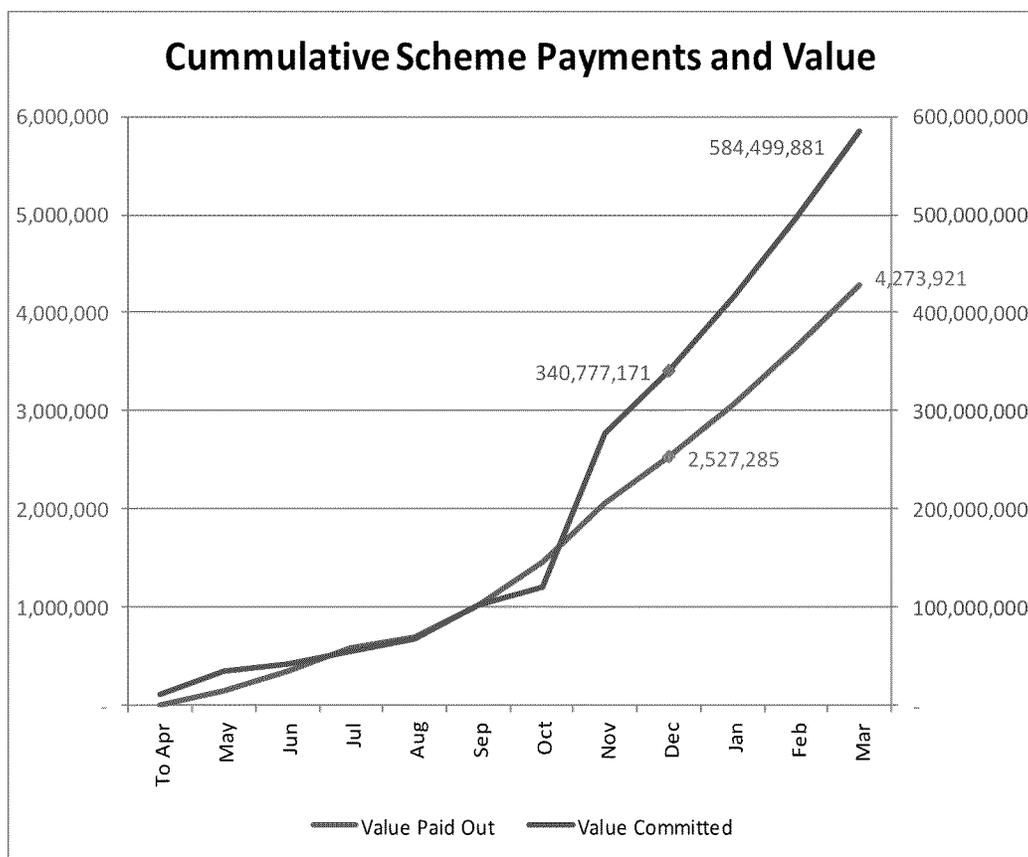
## Appendix - RHI

### Appendix RHI1 - Scheme Payments and Value

Value of payments in month	£466k (November: £610k)
Value of payments (cumulative)	£2.6m
Forecast payments in the year	£4.2m

Scheme Value added in month	£ 64m
Scheme Value to date	£340m
Forecast Scheme Value at March 2013	£584m

The following chart provides a reasonable forecast of the value of payments and scheme value to the end of the financial year.

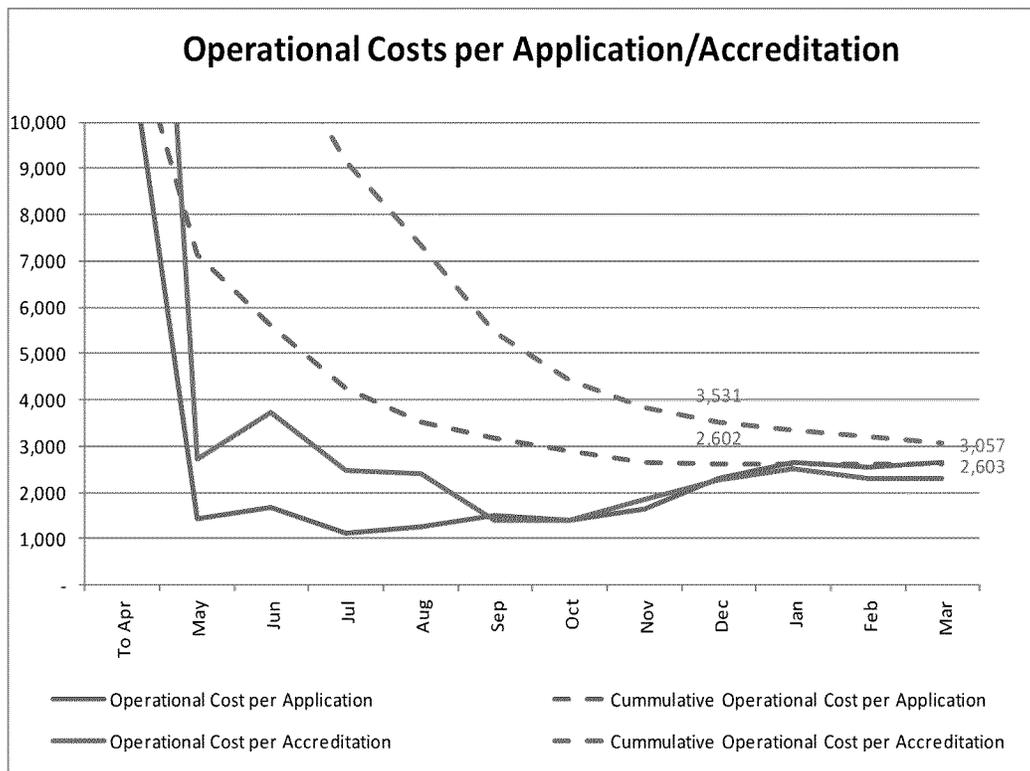


Payments in December fell from the November figure as expected because of the seasonal break, however the overall trend is relatively stable.



**Appendix RHI2 - Costs of Processing Applications and Accreditations**

The Operational Cost per application and per accreditation should give an indication over time of the efficiency of the team.



Operational costs per application and per accreditation have risen in December because of the fixed nature of costs but the lower level of transactions. The forecasts for those metrics over the remaining three months are higher due to the forecast increases in costs (which we have commented upon earlier). We expect those figures to outturn lower than the forecasts to be at or around the figures reported in the September to November period.

The cumulative costs per application and accreditation have fallen again in December as expected. The forecasts do not show any ongoing reduction at present but we expect a fall in future months as the forecast costs are not fully incurred.

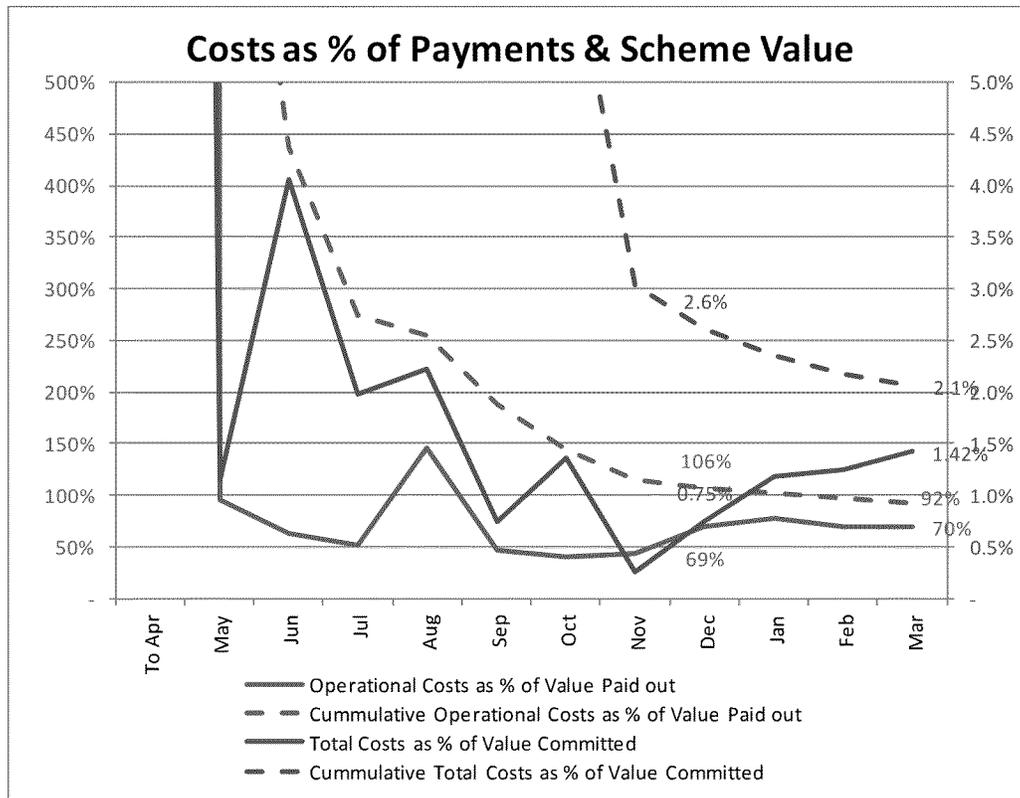


**Appendix RH13 - Internal costs as proportion of Scheme Financials**

We have included two measures;

- Operational costs as proportion of payments, and
- Total costs as a proportion of scheme value

The following chart provides management with a view of efficiency based on the payments and scheme value.



The chart shows that on a cumulative basis the proportions are expected to diminish over time.

Over the following three months we expect total payments to exceed cumulative operational costs.

Total scheme costs as a proportion of scheme value continues to reduce and we expect it to be just over 2% of scheme value by the year end (although we suspect it may be a little lower than shown).

<b>SCHEMES</b>		Apr	May	June	July	August	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
1	<b>RO</b>	OB	OB	OB	OB	OB	OB	OB	OB	OB	OB	OB	OB	OB
2	<b>FIT</b>	MK	MK	MK	MK	MK	MK	MK	MK	MK	MK	MK	MK	MK
3	<b>CERT</b>	EM	EM	EM	EM	EM	EM	EM	EM	EM	EM	EM	EM	EM
4	<b>CESP</b>	EM	EM	EM	EM	EM	EM	EM	EM	EM	EM	EM	EM	EM
5	<b>WHD</b>	SH	SH	SH	SH	SH	SH	SH	SH	SH	SH	SH	SH	SH
6	<b>Rego</b>	SH												
7	<b>LEC</b>	SH												
8	<b>CCL</b>	SH												
9	<b>ECO</b>	EM	EM	EM	EM	EM	EM	EM	EM	EM	EM	EM	EM	EM
10	<b>RHI</b>	MP	MP	MP	MP	MP	MP	MP	MP	MP	MP	MP	MP	MP
11	<b>NIRHI</b>	MP	MP	MP	MP	MP	MP	MP	MP	MP	MP	MP	MP	MP

**Band D:**

All Staff identified in the table above are Band D and unless specified below are allocated 100% to the particular scheme:

**EM:** Time to be allocated is ECO 80% and CERT and CESP 20% for the period April 2013 to December 2013. Assume 0% on CERT/CESP for January-March 2014 and 100% ECO.

**MP:** Time to be allocated is 80% RHI and 20% NIRHI

**SH:** Time to be allocated is 50% WHD and 50% REGO/LEC/CCL

**Band E**

**EN:** Band E time to be allocated is 100% across items 1 to 8 in equal parts

**RL:** Band E time to be allocated is 50% across items 9 to 11 in equal parts [other 50% see Offshore]

**Admin Assistant**

**AO:** administrative assistant time to be allocated is 50% across items 1,2,3,4,5,9,10,11 [other 50% see Offshore]

**Director**

**Legal Director:** time to be allocated is 50% across items 1 to 11 above [other 50% see Offshore]

**New Recruit**

**New Recruit Band D (1):** Time to be allocated is 50% RO and 50% FIT from April 2013

**New Recruit Band D (2):** Time to be allocated is 20% ECO, 60% RHI, 20% NIRHI from April 2013

**Note the matters below**

Information matters such as Information Sharing/FOI/EIR. This is taking up 20-30% of 1X Band D.

Judicial Review (FIT/RO/CERT/CESP). This will need to be addressed as it arises but assume at least one judicial review for period 13/14. Time allocated for such matter may be 100% Band D, 20% Band E and 10% Director.

The allocation of staff above does not distinguish between the developmental and operational matters which on the policy side have been split between the NSD and environmental programmes. Lawyers identified above deal with both aspects. You may wish to take a straight 50% split on each scheme for that purpose.