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Northern Ireland Audit Office

Department for the Economy

Resource Accounts

2016-17

Report by the Comptroller and Auditor General for Northern Ireland

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Introduction

1 The Department for the Economy (the Department) was formed on 8 May 2016 when the Department of Enterprise, Trade and Investment (DETI) and the Department for Employment and Learning (DEL) (except for the Employment Service) merged following restructuring of Government Departments in Northern Ireland. The newly formed Department has responsibility for a range of functions including economic policy, energy, further and higher education, employment and skills programmes, tourism, telecoms, research and statistic services, health and safety at work, and mineral development.

2 Last year, I reported on significant concerns surrounding the operation of the non-domestic Renewable Heat Incentive (RHI) scheme. These included that the scheme:

- did not include any viable cost controls despite the fact that it should have been clear that it would not be funded without limit by HM Treasury;
- did not reflect adequate consideration of the tiering of rates similar to GB, which was a critical mistake;
- did not take the opportunity in 2013 to mirror the GB scheme and introduce cost control measures that were introduced in GB at that time;
- did not take account of changes to underlying costs since 2012 and therefore was over-generous in incentivising renewable heat;
- could not be changed promptly when it became clear that demand was rising quickly;
- was not approved by the Department of Finance and Personnel (DFP) between April 2015 and October 2015;
- facilitated the possibility of funding that was at best not in line with the spirit of the scheme and at worst possibly fraudulent;
- was not properly monitored and controlled by the Department who solely relied on the work being done by the Office of Gas and Electricity Markets (Ofgem); and
- had not identified the risk of significant overspending for the NI budget even though Treasury had advised the Department that its funding for RHI was limited.

3 In my report last year I had said that I would return to this issue and in this report I intend to provide an update on what has changed since last year. However, I will not be going back over the history of the establishment of the scheme which is now the responsibility of the Inquiry[1] to examine.

Total costs in 2016-17

4 In my report last year it was estimated that the total cost of the RHI scheme in 2016-17 would exceed the NI share of the UK Budget funding provided by HM Treasury for the scheme by over £32 million and would therefore have to be met out of the Northern Ireland Budget. In order to meet this estimated cost £12 million was funded from within the Department's own budget and £20 million was set aside from the wider NI

[1] The Renewable Heat Incentive Inquiry (www.rhiinquiry.org) established January 2017.

Executive Budget which would have otherwise been allocated to departments through the normal in-year process. The Department has now reported that the actual net cost to the NI Executive Budget in 2016-17 was £27 million as set out in Table 1 below.

Table 1: 2016-17 costs of the RHI scheme

	2016-17
	£million
Total cost of RHI scheme in 2016-17 *	**45**
Costs covered through NI share of UK RHI budget Annually Managed Expenditure	**18**
Costs met from the NI Executive Departmental Expenditure Limit (DEL)	**27**

*The cost of the RHI scheme in 2016-17 is comprised of £42 million for the non-domestic RHI scheme and £3 million for the domestic scheme.

Source: Department

Public Accounts Committee

5 The Public Accounts Committee (the Committee) first met in September 2016 to consider my report, which was appended to the 2015-16 DETI Resource Accounts. The Committee held seven evidence sessions up to January 2017, taking evidence from both the current and previous Departmental Accounting Officers, the consultants who had been involved in the original design of the scheme and Ofgem who administered the scheme on behalf of the Department. However, although much progress had been made during the evidence sessions and more had been planned, the Committee was unable to complete its work and produce a report before the NI Assembly was dissolved on 26 January 2017.

6 Although the Committee did not issue a report it did comment in a press release on 15 December 2016 that it had been *'shocked, not just at the apparent failure of the Department to control the way the Scheme was designed, implemented and monitored, but at the enormous cost to the public purse'*.

7 Considerable information, including that set out below, was presented to the Committee during the period of its examination of the evidence:

- The consultants who helped in the establishment of the scheme from 2011 to 2012 initially recommended subsidy rates of 4.5 pence per kWh for installations smaller than 45kW and 1.3 pence per kWh for those between 45-100kW in size, with no tiering; following consultation they proposed an increased rate of 5.9 pence per kWh for installations up to 99 kW, which was then more than the cost of fuel, but crucially still did not identify the need for tiering as they were not asked specifically to consider the issue at this stage. The consultants did accept that, in hindsight, they should have raised the need for tiering of the small scale commercial biomass band;[2]
- The regulations supporting the scheme were poorly defined, particularly in the definitions of what constituted an eligible use of heat, the use of multiple boilers and whether heat generated in the non-domestic scheme could be used to heat a domestic property;

[2] Opening statement PAC hearing 23 November 2016.

- The scheme had no senior project manager in place, did not appear on the Department's risk register, and once the project began, key staff moved on to other policy objectives within the Department or were transferred out of the Department;
- DFP gave approval of the non-domestic scheme in 2012 on the understanding that there would be regular reviews by the Department. The first review was due to begin in January 2014 but did not happen until 2015. The Department was unable to explain the reasons for this delay to the Committee as this was under investigation (see paragraph 22 below); and
- Checks carried out by Ofgem on new applications were desk-based and there was no evidence of any significant oversight by the Department of Ofgem's work until November 2015.

8 At an early stage in the work of the Committee, the Department identified emails from a concerned citizen over a couple of years starting in September 2013 which had highlighted a number of significant issues regarding the structural problems within the non-domestic RHI scheme. I was not aware of this correspondence when I reported last year and it is regrettable that the concerns raised were not addressed at the time that they were received.

9 Under whistle blowing legislation, public employees or members of the public can raise concerns about the use of taxpayers' or ratepayers' money directly with me and will be treated in confidence. To date, I have received a number of specific concerns from members of the public about applicants on this scheme and I have passed these concerns over to the Department to investigate and report back to me.

10 It is important that the Department has processes in place to fully address concerns raised by members of the public. In November 2014, I along with the other audit agencies of the UK published a good practice guide for workers and employers titled "Whistle blowing in the Public Sector." Whilst this guide is primarily aimed at how to treat concerns raised by workers, there is an expectation that the same principles also apply to concerns raised by members of the public and I asked the Department what action it has taken to ensure that all concerns raised by members of the public are investigated thoroughly.

11 The Department told me that in June 2016, following the creation of the new Department for the Economy, whistleblowing guidance was developed and published for dealing with concerns raised by its staff and members of the public. This replaced guidance which was previously in place for the former Department of Enterprise, Trade and Investment and the Department for Employment and Learning and is based on "Whistleblowing in the Public Sector". The guidance outlines the Department's commitment that where a concern has been raised, an investigation will be undertaken by people with the necessary expertise, experience and independence, and that all concerns will be properly and promptly investigated whether they have been raised directly with the Department or with an Arms Length Body. The Department's Audit and Risk Assurance Committee considers the status of ongoing Whistleblowing investigations on a quarterly basis.

PricewaterhouseCoopers report

12 In response to my report last year, the Department had undertaken to review the administration of the scheme to see if it was operating in compliance with the legislation and to carry out a number of site inspections. The Department has told me that it had been seeking to investigate serious allegations received by the then First Minister in January 2016, and it appointed PricewaterhouseCoopers (PwC) to undertake site inspections to secure evidence in relation to the allegations, and to follow up the issues highlighted in my Report. There were four key issues that PwC reported on to the Department in November 2016:

- concerns around the NI scheme legislation and the guidance supporting the scheme;
- operation of processes and controls around the scheme including work of Ofgem;
- results of the site inspections undertaken; and
- an opinion on the allegations received anonymously from a 'whistleblower'.

13 In relation to the regulations, PwC said that the NI scheme largely mirrored the GB scheme except for two fundamental differences, both of which I had also identified last year as being critical omissions. These were the absence of a tiered tariff to discourage heat waste and also the fact that that there was no suspension or degression mechanism to act as a cost control. PwC also pointed out that while the eligibility criteria for the scheme was essentially the same as in GB there was a general lack of clarity as to what was an eligible use of heat. This, when combined with the lack of tiered tariffs, created an incentive to generate heat over and above that which was useful or useable.

14 The absence of the tiered tariff system and degression in the NI scheme significantly increased its risk profile. If there had been a robust risk assessment at the start of the scheme then this might have identified the need for additional preventative and detective controls to mitigate that risk or to have amended the scheme at an earlier juncture. Unfortunately, no such assessment took place.

15 Weaknesses were also identified across a range of operational controls, including the challenge and scrutiny of applications by Ofgem and the robustness of processes for independently validating information provided by scheme applicants, such as meter readings and explanations for unusual heat generation. There was also a fundamental weakness in the communication between the Department and Ofgem which I had also reported on last year. This included a lack of regular and detailed information being both sought by the Department and provided by Ofgem to show that the scheme was being appropriately administered and any compliance issues were being properly addressed. PwC concluded that the control framework fell short of that required to manage the risks to the NI scheme effectively.

16 PwC also undertook a number of site inspections to examine if the heat being generated was for an eligible purpose and within the intentions of the scheme when it was established. This involved two phases of work from August to September 2016 in which 295 boilers spread over 80 sites (78 businesses) were examined. The results of this work were split over four categories as set out in the table below:

Table 2: Summary of site inspections carried out by PwC

Category	Conclusion	Number of boilers inspected
Category 1	Heat generated for an eligible purpose within the intentions of the scheme	**138 (47%)**
Category 2	Heat generated for an eligible purpose, **which does not meet the intentions of the scheme**	**110 (37%)**
Category 3	Heat generated for an eligible purpose**, but using heat in a way that's not energy efficient**	**28 (10%)**
Category 4	Heat generated which may be for an ineligible purpose and therefore **may be in breach of the scheme**	**19 (6%)**[3]
		295

Source: PwC

17 Generally, PwC found that poultry, farm and general commercial sectors were in Category 1. However, it should be noted that PwC's site review only looked at whether heat generated was for an eligible purpose and within the intentions of the scheme. The Department has told me that its calculations clearly show that users included in Category 1 may still have been generating excessive profits from the scheme because of high levels of use and the lack of tiering of tariff rates or a cap on usage.

18 Sites that were involved with process drying and the drying of woodchip were categorised in Categories 2 to 4. They found a significant number of drying operations that were considered to be wasteful and inefficient, which included some that would not have been economically viable in the absence of support payments from the scheme. They also found a number of boilers, all of which were included in Category 4, for which the majority or all of the heat output had the potential to be serving a domestic dwelling. This is significant because the RHI scheme for domestic customers was considerably less generous than that for non-domestic customers.

19 Within those sites engaged in wood-fuel drying, PwC identified another issue in relation to 'parasitic wood chip drying' – this was where woodchip was dried purely for internal use to supply boilers drying the woodchip or other boilers such as those supplying a domestic house. In these cases, subsidy payments may have been received for the heat used to dry the fuel which would then be used to dry more fuel for which further support payments would be received. These were categorised in either Category 2 or Category 3 depending on whether there was any commercial resale of woodchip. The December 2016 UK Government response[4] to proposals for a reformed RHI scheme in GB indicated that the Government will be doing further detailed work to assess whether wood fuel drying should remain as an eligible heat use because of concerns about the value for money of RHI support for this heat use.

20 Another issue identified by the site inspections related to the use of multiple boilers which were used to gain a higher rate of subsidy than would have been the case where one boiler was used. This is an issue that was also discussed at the Public Accounts Committee and which I discuss later in this report.

[3] Note that Ofgem subsequently established that one of the inspection sites involved an additional installation, bringing the total number of installations referred to Ofgem by PwC to 20.

[4] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/577024/RHI_Reform_Government_response_FINAL.pdf

21 All of the details from PwC's inspections, particularly in relation to those boilers classified as Category 4, were passed to Ofgem. At the date of this report, of the 20 cases passed to Ofgem, 16 have been cleared to continue on the scheme, 2 remain under investigation and two installations have been revoked from the scheme. For the two revoked installations the Department is currently seeking recovery of all grants paid.

Departmental fact finding investigation

22 Following the first Public Accounts Committee evidence session on 28 September 2016, concerns emerged about the handling of whistle blowers and the possible role of Departmental staff in the range of issues that had been identified with the scheme. As a result, the Departmental Accounting Officer commissioned PwC to undertake an in-depth review of decisions taken by Departmental staff over the period from the inception of the scheme. This review began in October 2016, but its work was halted on the establishment of the RHI Inquiry in January 2017 before a formal report was prepared. The Department has told me that as a consequence there are some aspects of the facts of the case where it is not able to state a firm position, as there would be a risk of pre-judging the investigative processes.

Use of multiple boilers

23 One of the key issues identified both during the course of the Public Accounts Committee sessions and through PwC's work was the use of multiple boilers at single sites. The way that the subsidy rates for the scheme (up to 18 November 2015) were established meant that there was a much higher subsidy rate for heat created by biomass boilers less than 100kW as can be seen in Table 3 below. This meant that there was a clear disincentive to install a boiler higher than 100 kW. In many cases, if more than 100kW of heat energy was required applicants would install a number of boilers which were less than 100kW so that the heat generated could obtain the higher rate. At the Committee hearing on 26 October 2016, Ofgem confirmed the Regulations allowed for separate boilers to be treated as separate installations provided they are on separate heating systems. As shown in Table 3, 99 per cent of the boilers applied for in the scheme prior to 18 November 2015 were less than 99kW.

Table 3: Subsidy rates in 2016-17 for biomass boilers (applications pre 18 November 2015)

	Up to 18 November 2015		
Boiler type	**Installation capacity**	**Tariff Pence / kWh**	**Number of boilers installed**
Small	< 20kW	6.7p	16
Medium	20-99kW	6.5p	1,772
Large	>99kW	1.5p	13
			1,801

Source: Department

24 Out of the 1,788 99kW and less boilers applied for before 18 November 2015, 1,294 (72 per cent) were at sites with more than one boiler on the scheme. In a number of cases, more than 10 boilers were installed and accredited at a single site meaning that the applicants could avail of the higher tariff of 6.5 pence per kWh for all of the heat generated by each of the boilers.

25 After 18 November 2015, the new two-tier system came into effect which allowed the tariff to apply to medium-sized boilers up to 199kW, while also applying tiering and a maximum cap (327 boilers were applied for under the scheme in this period up until the scheme closed on 29 February 2016). This had an immediate effect on behaviour in that 200 boilers (61 per cent) applied for under the new rate were between 100 and 199kW. In addition, 125 (38 per cent) of the boilers approved after the tariff change were part of multiple-boiler installations at 56 single sites.

Table 4: Subsidy rates in 2016-17 for biomass boilers (applications after 18 November 2015)

	After 18 November 2015			
Boiler type	**Installation capacity**	**Tariff Pence /kWh**		**Number of boilers installed**
		Tier 1	Tier 2	
Small *	< 20kW	6.7p	1.5p	15
Medium *	20-99kW	6.5p	1.5p	99
	100-199kW	6.5p	1.5p	200
Large	>199kW	1.5p		13
				327

*New Tier 2 applied to applications received after 18 November 2015 for all hours after the first 1,314 hours (representing 15 per cent of total hours in the year) of use in the year and up to a maximum of 400,000 kWh).
Source: Department

26 In total, out of 2,128 boilers who applied to be in the scheme, 1,419 were part of multiple-boiler installations at 437 single sites. I am concerned at the extent of the use of multiple boilers which allowed applicants to claim a considerably higher level of subsidy payments than would have been payable for installations with a single boiler of a more appropriate size greater than 100kW (or 200kW after November 2015). I asked the Department to explain why this was allowed to happen.

27 The Department told me that applications are received by Ofgem and administered in accordance with the Regulations. Approval was given for the installations on an individual basis. The Department, supported by its legal advisers, is currently exploring with Ofgem the interpretation of the eligibility of some sites with multiple boilers.

Potential excessive returns

28 I reported last year that I was concerned that the design of the scheme, and the way that the Department operated and monitored it, made it vulnerable to abuse. I also outlined that the level of subsidy that had been set for the scheme i.e. without tiering, meant that users could make excessive returns even when they were using the boilers within the intentions of the scheme.

29 Table 5 outlines the actual extent that boilers were used in 2016-17 and the amount of subsidy received per boiler. For applications received before 18 November 2015, tiering of the subsidy rates does not apply and based on the extreme assumption of virtually continuous use throughout the year for one boiler, an applicant would obtain a maximum annual grant of £56,371 for a single 99kW boiler.[5]

[5] Calculation based on 8,760 hours, a 99kW boiler and 6.5p/kWh subsidy.

30 While this is a theoretical maximum that could be paid, Table 5 shows that the actual level of usage for a number of boilers came close to this level.

Table 5: Number of hours run by boilers during 2016-17 for installations before 18 November 2015

Percentage of total annual hours operated in 2016-17	Total annual hours run by one boiler in 2016-17	Number of boilers	Typical RHI payment for one 99KW boiler in 2016-17 at this level of usage *
0-10%	Up to 876	81	£2,819
10-20%	876 - 1,752	192	£8,456
20-30%	1,752 - 2,628	219	£14,093
30-40%	2,628 - 3,504	269	£19,730
40-50%	3,504 - 4,380	267	£25,267
50-60%	4,380 - 5,256	242	£31,004
60-70%	5,256 - 6,132	213	£36,641
70-80%	6,132 - 7,008	129	£42,278
80-90%	7,008 - 7,884	65	£47,915
90-100%	7,884 - 8,760	10	£53,552
		1,687**	

* This figure is based on the midpoint of the range of hours and a 99kW output boiler and the subsidy rates prior to 18 November 2015.

**114 other boilers were applied for under the scheme but have not received any payments because either they have not yet been accredited or because they were rejected for a variety of reasons, or were withdrawn voluntarily.

Source: Department, *NIAO calculations

31 For boilers applied for after 18 November 2015, a tiered rate was used so that the higher rate of 6.5 pence per kWh was only available for the first 15 per cent of hours used in a year before dropping to 1.5 pence per kWh. There was also a maximum cap of 400,000 kWh. This appears to have had a significant impact on the amount of use of these boilers, as set out in Table 6, with the majority using the boilers for less than 20 per cent of the hours in the year and only one user above 50 per cent. As already noted in paragraph 24, the majority of boilers installed after 18 November 2015 were 199 kW boilers.

Table 6: Number of hours run by boilers during 2016-17 for installations after 18 November 2015

Percentage of total annual hours operated in 2016-17	Total annual hours run by one boiler in 2016-17	Number of boilers	Typical RHI payment for one 199 kW boiler in 2016-17 at this level of usage *
0-10%	Up to 876	69	£5,666
10-20%	876 - 1,752	148	£16,997
20-30%	1,752 - 2,628	25	£19,611
30-40%	2,628 - 3,504	7	£19,611
40-50%	3,504 - 4,380	1	£19,611
50-60%	4,380 - 5,256	0	£19,611
60-70%	5,256 - 6,132	1	£19,611
70-80%	6,132 - 7,008	0	£19,611
80-90%	7,008 - 7,884	0	£19,611
90-100%	7,884 - 8,760	0	£19,611
		251**	

* This figure is based on the midpoint of the range of hours and a 199kW output boiler and the subsidy rates after 18 November 2015.

** 76 other boilers were applied for under the scheme but have not received any payments either because they have not yet been accredited or because they were rejected for a variety of reasons, or were withdrawn voluntarily.
Source: Department, *NIAO calculations

32 As discussed later in this report, the Department has reduced the subsidy rate in 2017-18 for all users of the scheme to the tiered, post-18 November 2015 rate that also includes a cap on usage. I would urge the Department to closely monitor if this reduction in the incentive to burn wood excessively results in a similar change in behaviour for those who had previously been paid the higher rates and to seek explanations where this is the case. The Department has told me that it intends to monitor closely the amount of heat generated by each installation following the change in the RHI payment structure, in the context of the 400,000kWh usage limit.

Ofgem

33 Ofgem has carried out a number of responsibilities on behalf of the Department in relation to the non-domestic RHI scheme. These have included:
- Approval of applications to the scheme;
- Inspections of existing users of the scheme to ensure compliance with rules; and
- Recommending actions where potential breaches of the rules have been identified.

34 The amount that has been paid by the Department to Ofgem for administering the scheme since 2012 and the number of applications received and inspections undertaken by Ofgem is shown in the table below.

Table 7: Payments to Ofgem and inspections undertaken

Year	Amount paid to Ofgem	Number of inspections	Number of applications received
2012-13	£526,000	-	-9
2013-14	£165,000	5	119
2014-15	£211,000	12	434
2015-16	£253,000	14	1,566
2016-17	£445,000	57	Scheme Suspended

Source: Department

35 As a result of the issues identified in my report last year and the considerable spike in applications, the amount of inspections undertaken by Ofgem in 2016-17 has increased. Of the total of 88 inspections undertaken by Ofgem since 2012-13:
- 11 are still under review;
- 77 inspections have been finalised and the results are outlined below;
  - 6 have been viewed as good;
  - 28 have been viewed as satisfactory;
  - 35 have been viewed as weak and/or unsatisfactory and sanctions/further investigations remain ongoing;
  - 8 are still under investigation at one site and haven't been given an initial rating yet; and
  - None have yet been removed from the scheme.

36 In addition PwC provided details of the cases it had examined to Ofgem to consider if further action was required. The Department has told me that:

- of 20 category 4 cases referred to Ofgem, 18 have been concluded of which 2 installations have been revoked with the other 16 installations still continuing on the scheme. The remaining 2 cases are still under investigation; and
- the 51 category 2 and 3 cases referred to Ofgem are currently being investigated. Again, to date, none have been removed from the scheme.

37 I asked the Department how it is working with Ofgem to ensure that there is better sharing of information and enforcement of instances of non-compliance. The Department told me that they have formalised the relationship by means of the "Administrative Arrangements" document between the two organisations and are finalising a revised Memorandum of Understanding. In addition the Department and Ofgem now have in place dedicated weekly conference calls and monthly Ofgem NIRHI Board meetings (with DfE representation) at which performance is monitored, risks reviewed and issues documented and discussed.

100 per cent site inspections

38 In response to the significant concerns I raised last year in my report, the PwC report, PAC evidence sessions and general public interest, the Department had intended to procure a suitably qualified independent external organisation to undertake a detailed on-site inspection of all non-domestic RHI installations. This review had been expected to start in early summer 2017. However the initial procurement process has not been successful. I asked the Department how it now intends to proceed with the inspection process and what its anticipated timeline is. The Department told me that it sought and received feedback from potential suppliers and after consideration of the points made decided that a pilot programme of inspections in partnership with Ofgem should be undertaken. It is still considering the extent of this pilot programme which is expected to take place in the second half of 2017.

39 It is of vital importance that when the full inspection process commences that there are detailed plans in place to deal with enforcement of any issues that are identified during the process. There would clearly be little benefit in carrying out the inspections if no action was taken when issues were identified. In respect of enforcement the Department told me the pilot programme will consider how enforcement should be undertaken given that the pilot inspections will cover an element of business analysis as well as technical checks.

Cost control measures in 2017-18 and anticipated impact

40 I reported last year that if no action was taken, there would be a substantial cost to the NI Block in respect of the amounts committed to be paid for 20 years which were in excess of the Treasury funding. At that time the Department had estimated a cost to the NI Block of around £140 million for the five years to 2020-21, with further costs continuing to be incurred until 2037-38.

41 In order to address the issue of potentially excessive returns for some users, and to reduce the possible incentive for wasting heat, the Department has introduced a new tiered tariff rate and a cap on heat output, which is in place for one year commencing 1

April 2017. This tiered rate applies to scheme users who joined before 18 November 2015 and makes the rate the same as that for users who joined after that date up to the date of scheme closure. The new rates are set out in the table below.

Table 8: Scheme subsidy rates 2017-18 (for medium sized (20-199Kw) biomass boilers)

	2017-18 rates/kWh	**2016-17 rates/kWh**
Up to 1,314 hours	6.7p	6.5p
Remaining hours in the year (up to maximum of 400,000 kWh – based on a 99kW boiler this would allow for use for about 11 hours per day 365 days a year)	1.5p	6.5p (1.5p for applications post 18 November 2015)
Maximum output allowable	400,000 kWh	No maximum for installations accredited before 18 November 2015
Maximum annual grant receivable (approximate)	£12,765*	None (based on maximum annual usage would be up to £56,371**)

* Based on 99 kW boiler - 1,314 hours of 99 kW boiler = 130,086 kWh at 6.7p = £8,716 plus 269,914 kWh at 1.5p = £4,049.

** Based on 99 kW boiler - 8,760 hours (365 days at 24 hours) of 99 kW boiler = 867,240 kWh at 6.5p = £56,371.

42 The new tiered rate in 2017-18 is subject to an ongoing judicial review, which has challenged the ability of the Department to significantly vary the subsidy rates other than in line with inflation. Assuming the new tiered tariff is allowed to stand, the Department estimate a huge reduction in the cost of the scheme. As shown in the table below, the annual cost of the scheme to the NI block is projected to reduce to £2 million compared to £30 million at the time of my report last year

Table 9: Projected scheme costs in 2017-18

	Revised estimated 2017-18 costs (new tiered rate*)	**Previously estimated 2017-18 (old subsidy rate)**
	£million	**£million**
Total projected cost of RHI scheme in 2017-18 *	**24**	**52**
Costs covered through NI share of UK RHI budget Annually Managed Expenditure	**22**	**22**
Costs met from the NI Executive Departmental Expenditure Limit (DEL)	**2**	**30**

*subject to judicial review

Source: Department

43 The Department intends to consult later this year on the appropriate rates for the scheme in the remainder of its lifetime. As a result of the uncertainty relating to both the ongoing judicial review and the proposed consultation it is not possible at this stage to estimate the total costs and the impact on the block grant for the remainder of the scheme.

Qualified audit opinion

44 I am required under the Government Resources and Accounts Act (Northern Ireland) 2001 to report my opinion as to whether the financial statements give a true and fair

view. I am also required to report my opinion on regularity, that is, whether in all material respects the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and the financial transactions conform to the authorities which govern them.

45 I have qualified my audit opinion again this year for the same reasons as last year:
- ongoing weaknesses in controls in the non-domestic RHI scheme; and
- expenditure incurred without the necessary approvals in place.

46 As was the case in 2015-16, I was unable to obtain sufficient evidence that the controls over the spending on the non-domestic RHI scheme were adequate to prevent or detect abuse of the scheme. As I stated last year the scheme had serious systemic weaknesses including:
- there were no cost control measures put in place which encouraged some applicants to burn heat in order to claim the subsidy;
- it was over-generous in incentivising renewable heat;
- the Department did not properly monitor or control the scheme and placed too much reliance on the work of Ofgem who administered the scheme on their behalf; and
- the Department had not identified the risks of overspending at an earlier stage which has cost the Northern Ireland block grant a total of £27 million in 2016-17.

47 I have again also qualified my regularity audit opinion because of a lack of required approvals being received by the Department in relation to a significant proportion of the spending on the non-domestic RHI scheme. At the commencement of the scheme in November 2012, the Department of Finance and Personnel (DFP – now the Department of Finance (DoF)) had given approval for expenditure under the scheme up to 31 March 2015. DETI was due to seek re-approval of the scheme from DFP from 1 April 2015 but this was overlooked and DFP approval was not granted until 29 October 2015.

48 During this seven-month period in 2015-16, there were 788 boiler applications to the scheme, out of a total of 2,128 boiler applications (37 per cent). The ongoing costs incurred during 2016-17 in relation to these 788 applications amounted to £18.8 million (£11.9 million in 2015-16) and as stated above, because these applications were accepted onto the scheme by DETI during a period in which there was no DFP approval, the total expenditure in relation to them continues to be irregular.

49 The above irregular expenditure incurred on the non-domestic RHI scheme in 2016-17 of £18.8 million represents 44 per cent of the total expenditure incurred on the non-domestic RHI scheme of £42.3 million in 2016-17. It is likely that a similar proportion of the non-domestic RHI expenditure will continue to be irregular each year until 2037-38 when the scheme closes unless the Department is able to obtain retrospective approval from DoF.

Conclusion

50 The Department has made some progress in addressing the issues arising from my report last year. In particular the tiering of the tariff subsidy rate and longer term

consultation on a reasonable rate of return for the scheme will have a big impact on costs. This is dependent on the outcome of various legal challenges.

51 However I continue to have significant concerns about the operation of this scheme and the serious systemic weaknesses in controls that have facilitated the possibility of funding that is at best not in line with the spirit of the scheme and at worst is fraudulent. The proposed physical inspection of all scheme installations will provide some evidence about the scale of any abuse and how the Department respond to enforcement where any abuse is identified will be very important.

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