Renewable Heat Incentive in Great Britain

My letter of 10 December 2018 set out the actions that my Department has taken to respond to the Committee’s recommendations 1a, 2a, and 3, and provided an initial response to recommendations 4 and 6a, as detailed in the Committee Report HC696 RHI for the Renewable Heat Incentive (RHI). I write now to provide a full response to recommendations 4 and 6.

Recommendation 4 – measuring the low carbon heat supply chain

As set out in my letter of 10 December 2018, the Department already uses a basket of measures to assess the health of low carbon heat supply chains. Working across analytical and policy teams for a variety of low carbon heat policies, we have taken steps to augment this basket of metrics, identifying a number of new indicators covering different aspects of the supply chain: manufacturers and suppliers, installers, consumers, innovation and finance. I attach an overview of these indicators, which includes a mock-up of the final dashboard using illustrative data. The fully populated dashboard will be published on GOV.UK when the first tranche of data is available later this year, and will be subsequently updated on a yearly basis.

The aim of the dashboard is to provide a high-level overview of the low carbon heating supply chain, using indicators grouped across the three key themes of Increased Market Demand, Increased Supply and Market Efficiency and Innovation.

It is envisaged that, when read together, this basket of quantitative metrics will inform the qualitative information gained by policy officials through market intelligence, consultation and meetings with stakeholders from the low carbon heating industry. This will continue to sit alongside specific commissioned research into low carbon heating and independent advice submitted to government from bodies such as the Committee on Climate Change, providing a broad view of heating supply chains which is considered from multiple angles.

As the Committee are aware, the Government is currently developing its low carbon heating policy for the 2020s and beyond. It is believed that the overarching framework of broad key
themes outlined above is flexible enough to cover future heat policies, although the underpinning indicators considered may need to be adapted or re-designed, or alternative indicators suggested, in the context of future policies, whose scope and objectives may be different. We will therefore keep these metrics and the usefulness of this information under review in future iterations of the dashboard.

**Recommendation 6a – publish estimates of RHI fraud and non-compliance**

The Department and Ofgem continue to work closely together to ensure an appropriate level of scrutiny of the RHI’s counter-fraud and non-compliance processes. Following the NAO’s review, Ofgem has improved its analytical model for the RHI to provide a more reliable estimate of non-compliance. These improvements include:

- Increased engagement with BEIS during the audit strategy and planning phase, and in the setting of the data frame and parameters;
- New sample method selection tool for choosing the right sampling methodology and for calculating the sample itself;
- New ‘potential loss estimate’ methodology for predicting, based on previous audits, the error that will be detected in audit cases that remain open;
- Improvements to the method for extrapolating the sample error to the wider scheme population and for combining the error from different samples;
- A clear statement of the most likely error together with the upper and lower limits and the confidence level;
- Separation of control of the Audit Team from scheme operation function;
- Use of a Central Assurance Team to provide independent scrutiny of the Audit programme; and
- Use of independent expertise to develop and review elements of the analytical model, which have subsequently been signed off by BEIS statisticians.

In their role as administrator of the Government’s GB Renewable Heat Incentive scheme, Ofgem made payments to scheme participants totalling £831,917,666 in the financial year 2018/19. Based on Ofgem’s sampling of the population and subject to our detailed assumptions, we can be 95% confident that the estimated value of error for GB Renewable Heat Incentive scheme payments made or accrued in the financial year 2018/19 is between the upper and lower limits of £22,138,831 and £43,915,706. Based on the same assumptions, the most likely estimated value of error for the same period is £33,027,268. This is less than 4 per cent of scheme spend in 2018/19.

The Department intends to meet the Committee’s recommendation by publishing the scheme’s annual fraud and non-compliance figures in the BEIS Annual Report and Accounts for 2018/19.

BEIS and Ofgem will continue to use information from the RHI audit programme to quantify the potential loss due to non-compliance and fraud, and use our quarterly meetings to consider suspected fraud, non-compliance and potential for gaming in detail. This complements the work of BEIS and Ofgem to reduce non-compliance on the scheme, set out in my letter of 19 September 2018. This work includes fraud prevention, Ofgem-internal checks made against meter readings data, the use of auditors in the field to record
instances of gaming in addition to non-compliance, and legislative reform of the RHI scheme in 2018 to remove certain heat uses, such as wood-fuel and waste drying.

This concludes my Department’s response to the Committee’s recommendations from 2018. I hope the Committee finds this update useful.

Alex Chisholm