MANAGEMENT LETTER

To: William McCulla – Director of Corporate Finance
Jeremy Fitch – Business Solutions Executive Director
Mel Chittock – Finance & Operations Executive Director

From: Michael Woods
Head of Internal Audit

Date: 5th March 2021

Subject: Sustainable Use of Poultry Litter (SUPL) – Glenmore Project

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1. Introduction, Scope and Background

1.1 Introduction

At the request of the Invest NI Board and the Executive Leadership Team, Internal Audit (IAS) recently carried out a lessons learned review regarding the Sustainable Use of Poultry Litter (SUPL) scheme, in particular the Glenmore Project within Invest NI. The purpose of the review was to provide an independent professional opinion on the adequacy and effectiveness of risk management, control and governance over the Glenmore Project. As well as highlighting any areas for improvement to existing controls, IAS has also provided advice on any lessons learned that could inform the delivery of future schemes.

1.2 Background Information

Following a formal request by DETI and DARD, Invest NI developed and implemented the SUPL Loan scheme with input and support from DETI, DARD and Strategic Investment Board (SIB). It was designed to meet the strategic objective of delivering a solution to the sustainable treatment of NI poultry litter, and a reduction in phosphorous surpluses arising as a result of application of this litter to land.

The SUPL scheme sought to achieve the above by providing loans of up to 40% of the capital cost of construction of demonstrator scale plants treating a minimum of 20k tonnes p.a. of the poultry litter. The Glenmore project was approved by the Minister in September 2015 as part of the SUPL scheme and relates to an Anaerobic Digestion (AD) plant, situated on a two acre site at Glenmore Estate, County Donegal, owned by the project Promoter. The total cost of this project was detailed as £24.3m, with £1m of this funded through equity injection. Of the remaining £23.3m funding requirement £13.98m (60%) was provided by a private sector funder, SQN Asset Finance Income Fund Ltd (SQN) and INI provided the remaining 40%, £9.305m, using Financial Transaction Capital funding on a pari passu basis.

As detailed in the Corporate Finance (CF) teams Lessons Learned review completed in December 2020 (see Appendix 2), the Glenmore SUPL project has been problematic since the commissioning phase. The main contractor, Williams Industrial Services (WIS), went into administration in early 2018, but had been previously suspended from the plant due to irregularities being discovered in the pasteurisation process.

A range of actions have been completed over the past number of years to address the progress of the project and the delay in the project becoming operational. In addition, a number of further investments have been made by SQN, (without participation from INI). However many setbacks have been experienced with the project and ramp up has yet to be successful enough to achieve profitability and repay the loan from Invest NI.

Following the completion of work by KPMG, KKV's (previously SQN) preferred option is now an expedited sale of the company. The company directors decided to follow this course of action and the sales process is ongoing. The outcome of this process is uncertain, but significant losses will be incurred by both KKV and Invest NI. A timeline of events from project approval through to present day has been included at Appendix 1 for further information.

1.3 Audit Approach

IAS engaged with the CF team to gain background information on the project and obtained access to the case work papers, monitoring reports, meeting minutes etc. We were also provided with a timeline of events which has been detailed at appendix 1, IAS has updated this timeline as the review progressed to include supplementary information as deemed relevant. Whilst staff within the team have changed since the initial stages of the project, the current staff were able to provide a significant amount of clarification regarding queries raised. Based on discussions with the team and following our review of documentation, we have identified a number of issues which have been detailed in section 2 below.

2. Executive Summary

Whilst the project was problematic from the commissioning stage, it is clear that the team continued to make decisions with the aim of keeping the project operational in order to achieve full commissioning and takeover. The focus of the team throughout has been on making the project successful as that was deemed the only valid option for Invest NI to recover its loan, as the team stated to us during our review:

"The team's view was always that should the project run out of funding and not be able to ramp up that there would be very limited prospects of receiving loan repayments due to the cash flow nature of this lend and the likely limited break-up value in a failure situation. When the final Invest NI funding was provided in 2018, the team considered that GGL still had the potential to repay the full amount of the Invest NI loan."

IAS notes that updates were provided to the Access to Finance (A2F) Working Group during the life of the project including the delay to the project in 2017, and the introduction of additional funding from SQN in 2017 on a preferential basis. However, the updates to the Working Group did not explicitly advise them that repayment of the loan had not commenced, although the requirement for incremental funds was highlighted. IAS notes that the date on which the loan was to be repaid was not a fixed date, but was dependent on the plant becoming operational. IAS considers that the results of the delay noted in 2017 to the plant becoming operational as originally planned, and the impact on the start of the loan being repaid should have been more clearly sign posted to the Working Group.

IAS asked INI if at that time, there was a formal reconsideration of the viability of the project and Invest NI's risk of the loan being repaid, Management advised us that:

"The financial model prepared at that time by GGL indicated that EBITDA following ramp up was expected to be in the region of £3.3m per annum and was similar to the level projected in the original business plan. Project IRR had reduced from 15.7% to 11.7% as a result of the additional costs that had been identified, but the cash flows indicated that the loans could be serviced, although over 17 years as opposed to 15 years. It was however considered that the loans would have been repaid through a refinancing of the project at a much earlier stage. In 2017 Invest NI was content that the loan was still able to be repaid and had considered this risk."

IAS notes that it was only in early 2020 that the risk that the project may not be able to repay the loan was seriously considered and that was in response to the decision taken by KKV. IAS considers that formal reassessment of the viability of the project should have taken place in 2017 and while this may not have led to a materially different decision, it would at least have formally considered whether the conditions of DoF approval had changed, in particular the delay in repayment of the loan and the extension of the loan period.

IAS also considers that the on a broader point, the ability for projects to be subject to greater oversight when they experience difficulties, is a point that should be given consideration. In this case while the project reported to the A2F Working Group, once difficulties with the project arose and the risk to repayment increased, it might have benefited from escalation for more targeted oversight and we have recommended that INI consider establishing such a group to which issues with projects in significant difficulty could be escalated.

We cannot confirm if any of the issues affecting the project, if rectified or communicated at an earlier stage, would have had a significant impact on enhancing the success of the project, however, a number of these could have been controlled more effectively.

Where appropriate, recommendations have been detailed in section three of this report. If accepted, these may allow control frameworks to be implemented or enhanced, which may improve the effectiveness of the delivery of future loan funding schemes and ensure risks can be mitigated and managed as required. These include issues such as:

- Operational guidance specific to loan funding was not developed nor implemented, therefore staff had no detailed guidance regarding loan project management, risk assessment and management, decision logging escalation requirements etc.(section 3.1, recommendation 1 refers);
- Additional information on the financial liabilities of the promoter were not provided to the Board for re-approval despite the material change to the information previously provided (section 3.2, recommendation 6 refers);
- Whilst the project was deemed as ‘high risk’, specific risk management structures were not implemented to allow the project to be managed accordingly, for example, a risk register was not developed, maintained and managed for this project in respect of INI funding (section 3.1, recommendation 2 refers);
- The casework papers submitted to SECC and the Board in 2015 and 2017 were not always completely accurate, evidence based or explicit in highlighting risks or significant issues to those providing approval (section 3.2, recommendation 6 refers);
- Updated papers were not always provided to the SECC or Board for re-approval as requested, when project details changed, or when repayments failed to commence (section 3.2, recommendation 6 & section 3.4 also refers);
- Separate due diligence could have been commissioned by INI on the viability of the decision to invest in the project (section 3.2, recommendation 7 refers);
- Fichtner Consulting completed a technical due diligence report at the outset of this project on behalf of funders and provided a letter of reliance

to Invest NI. However, a technical expert was not engaged throughout the project despite the team not having experience in the area of AD. Instead, a significant amount of reliance was placed on SQN and their experience in this field (section 3.2, recommendation 7 refers);

- Documentary evidence was not retained regarding INI 'satisfaction' of both pre and subsequent conditions within the loan funding agreements (section 3.3, recommendation 8 refers);
- An independent review was not commissioned following the failure of WIS in 2018 (section 3.4 refers);
- A 'Credit' type committee was not established or available to advise staff or the Board on decisions taken regarding the loan funding provided (section 3.1, recommendation 3 refers);
- At present an 'escalation/crisis' committee or Governance and Oversight Committee has not been established within INI, which could meet to discuss current and emerging issues within high risk projects, review the effectiveness of the actions being taken to address these issues, and ensure that progress is being made (section 3.1, recommendation 5 refers);
- A specific Working Group was not established for this project which may have provided more detailed oversight and challenge (section 3.1, recommendation 4 refers).

3. Issues Identified:

3.1 Scheme Governance procedures

On review of the governance procedures established for this project, it is IAS' opinion that the appropriate governance procedures were not established at the initial stages of this project, nor implemented when issues started to arise. The following issues were identified:

Lack of Loan Funding Guidance

Whilst INI have comprehensive procedures in place regarding their operations, IAS note that guidance in relation to loan funding is not available for staff. IAS has seen evidence within the loan agreements provided of the project monitoring and reporting arrangements agreed for this project, however it is our opinion that specific and comprehensive guidance should be developed regarding loan funding. Such procedures could then be implemented on a proportionate basis, depending on the loan value or complexity. **Please see recommendation 1 below.**

<u>Decision logging</u>

As detailed throughout this review, there are instances throughout this project when decisions have been made or actions taken, without evidence being retained of who has made the decision, when the decision was made and the basis on which the decision or action was taken. For example, when preconditions were satisfied, when conditions subsequent were satisfied, when the security ranking of INI changed, for decisions made at team or ELT level etc. A formal decision log was not documented and maintained for this project which may have enhanced accountability.

Recommendation 1	**Priority 2** (See annex 2 for definition)
1.1 Management should ensure that guidance is developed detailing processes and procedures for loan funding. This should detail the processes regarding, risk assessment, risk management, project management, delegated authority levels for decision making, requirements for decision logging, amendment processes, escalation and reporting requirements, as well as any specific governance structures required, for example oversight and challenge functions provided by relevant Working Groups. Roles and responsibilities should also be detailed for the team, the Board, Project Boards as well as any associated working groups. 1.2. In addition, within any loan guidance, consideration should be given where possible to defining materiality and providing examples, which will help staff identify when escalation is required. Furthermore, the guidance should also address how pre-conditions or conditions subsequent are '*satisfied*', detailing what supporting evidence can be requested and at what level '*satisfaction*' can be authorised. Terminology such as this, as well as the term	

‘comfort’, should also be defined in casework papers so that interpretations of their meaning can be less subjective. 1.3 Management may also wish to review their existing materiality guidance to consider lessons learned from this project that could be applied more generally.
Management Response **(Accepted, Rejected or Alternative Proposal)**
Accepted. Guidance addressing the issues outlined above will be developed, with Invest NI taking independent specialist advice to identify industry best practice as required. This guidance will be initially developed by the Corporate Finance Team and then reviewed and assessed by the Co-ordination Team from an organisation perspective. Final guidance will be included in the operating manual. Further review of wider roles and responsibilities will be considered as a follow up to this report, including the Board, Working Groups and Project Boards. The existing loan book has been reviewed and no other similar issues have been identified.

Responsible Owner	**Implementation Date**
Corporate Finance Team. Performance & Co-ordination Division	Q2 2021/22

<u>Risk Management</u>

Whilst we note that a risk analysis review was completed as part of the 2015 casework papers, with risks mentioned in the 2017 amendment paper and highlighted as part of the Board status update in 2018, a project risk register specific to INI’s investment was not developed for review and management throughout the projects lifecycle, despite being deemed as a ‘high risk’ project from the outset. It is also noted that despite the current risks regarding this project and potential for substantial losses for INI, the risk has not been escalated to the Corporate Risk Register. Ultimately, IAS have been advised that a separate risk was added to the Business Solutions Group risk register in December 2020.

DN: We have not had sight of the evidence to support this, can this be provided to IAS.

<table>
<tr><th>Recommendation 2</th><th>Priority 2
(See annex 2 for definition)</th></tr>
<tr><td colspan="2">A detailed risk assessment should be completed for each project, detailing the overall RAG status, describing each risk and detailing mitigating actions required, RAG status, owner etc. As detailed in the INI Risk Management Strategy and Policy, this assessment/register should be monitored and managed throughout the project lifecycle to ensure that new or existing risks can be managed, mitigated and reported as required. Risks which are owned by project partners external to INI should be detailed with supplementary actions included to protect INI as required.

Staff should also be reminded of their responsibilities with regards to risk management of projects, and the associated management and reporting requirements.</td></tr>
<tr><td colspan="2">Management Response
(Accepted, Rejected or Alternative Proposal)</td></tr>
<tr><td colspan="2">Accepted.

Detailed risk assessments are completed in each project casework and projects are routinely monitored in line with existing guidance. In relation to this project, quarterly monitoring reports were provided to DfE. RAG status first introduced for QE June 2019 as AMBER, and amended to AMBER/RED in QE December 2019

Invest NI will review the risk escalation processes, and amend the guidance where appropriate with guidance based on initial risk classification of projects and how that risk evolves. Guidance will include recommendations for</td></tr>
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gates/check points which will lead to project escalation to corporate risk registers. Staff will also be reminded of their responsibilities with regards to project monitoring and risk management of projects and the associated management reporting requirements. Management will review effectiveness of oversight in this area. Consideration will also be given to a revised risk management and escalation process for major projects by the Finance and Ops Group.	
Responsible Owner	**Implementation Date**
Project Owner for case work. Executive leadership team for communication of responsibilities and review of effectiveness. Finance and Ops Group to oversee.	Q1 2021/22

<u>Governance structures</u>

At present, INI do not have an internal Credit Committee established. Generally associated with banks, these committees meet regularly to consider, and vote on, new applications for finance and/or decide whether to amend or extend existing finance arrangements. Credit committees consider the range of risks to the bank associated with finance provided, for example, credit/repayment risks, market risks, operational/organisational risks and legal risks. These committees then determine the terms on which finance is made available, including any security that may be required from the borrower or other funders.

Recommendation 3	**Priority 3** (See annex 2 for definition)
Management should consider establishing a Credit Committee for similar loan schemes to assess the associated risks, advise on the terms of the loan	

funding and provide advice to the SECC or Board casework committees to enable them to make informed decisions.
Management Response **(Accepted, Rejected or Alternative Proposal)**
Accepted Invest NI will consider the establishment, composition and mandate of a Credit Committee including a formal escalation process. This review will encompass the risks associated with loans through the full lifecycle – from the consideration of the risks / benefits of a proposed loan through to management of potential impairments. This is linked to recommendation 1 and will be included in guidance developed.

Responsible Owner	**Implementation Date**
Corporate Finance team Mel Chittock Finance and Ops Group	Q2 2021/22

IAS was advised that this project was reported on via the Access to Finance (A2F) Working Group attended by Board members which meets three times per year. On review of the meeting minutes from October 2017 until June 2020, it was evident that reports were provided with key issues highlighted to the Group. Key issues highlighted included, further costs required, WIS in administration, remediation plans, SQN providing further funding (without INI meeting 40%), issues during 'ramp up', independent reviews taking place etc. On only one occasion (out of nine available) was further information requested regarding the SUPL projects. On review of the Terms of Reference for the A2F Working Group from 2015, it states that the working group will provide '***an oversight and challenge function independent of the INI programme management team'***. IAS accepts that the A2F Working Group review a lot of programmes /projects, therefore it is our opinion that for projects with values and complexities such as Glenmore, a specific Working Group is established to ensure that the oversight and challenge function can be discharged effectively.

Recommendation 4	**Priority 3** **(See annex 2 for definition)**
Management should consider establishing specific Working Groups for projects which are higher in value, risk or complexity to ensure that adequate oversight and challenge can be provided, which can then be fed back to the INI Board as required.	
Management Response **(Accepted, Rejected or Alternative Proposal)**	
Accepted Management will consider the most appropriate monitoring, oversight and governance structures for projects which are higher in value, risk or complexity and the subsequent reporting lines.	
Responsible Owner	**Implementation Date**
Performance and Compliance team	Q2 2021/22

It is also noted that at present, INI do not have an internal 'escalation' or 'crisis' committee in place which could be established and available to discuss current or emerging issues within INI projects deemed initially as high risk or as situations change or if staff identify an issue or have a significant concern about a project. DFE has recently developed a Governance Oversight Group which meets on a regular basis to discuss current and emerging issues, review the effectiveness of the actions being taken to address these issues, and ensure that progress is being made. Key staff members responsible for dealing with the issues attend these meetings to provide an update on actions being taken.

Recommendation 5	Priority 3 (See annex 2 for definition)
Management should also consider establishing a Governance and Oversight Committee which meet regularly to ensure that high risk projects can be monitored at ELT level, with issues identified on a timely basis and actioned accordingly. Updates can subsequently be reported back to the INI Board as required.	
Management Response **(Accepted, Rejected or Alternative Proposal)**	
Accepted As per recommendation 4 above. Management will consider the most appropriate oversight and governance structures for projects which are higher in value, risk or complexity and the subsequent reporting lines, with a view to enhancing control and project outcomes in this area. Consideration will be given to a separate GOC.	
Responsible Owner	**Implementation Date**
Mel Chittock	2021/22

3.2 Scheme Approval

IAS has reviewed the original case work papers from 2015 presented to the Senior Executive and Board Casework Committees, alongside a range of supporting documentation, for example, due diligence reports, financial status updates etc. IAS identified a number of issues which have been detailed below:

Williams as a '*strong operator*'

In response to each of the operational and technology risks analysed, the casework papers refer to the technical due diligence completed by Fichtner Consulting Engineers who confirmed Williams Industrial Services (WIS) as ***'a strong operator'***, the papers also refer to WIS as having experience '***in managing the ongoing performance of AD plants to maximize output.***' On review of the Fichtner report, IAS notes that it states, ***'the facilities which have previously been developed by WIS have been agricultural AD facilities and have been operated by the farmer. Therefore WIS does not have any references for facilities which it has operated. However, WIS has commissioned several facilities and has demonstrated a robust approach to sampling and start up.'*** IAS also notes that of the five AD plants developed by WIS at the time the report was provided, only two were operational, two were within the commissioning stage and one was still under construction. There is no mention of WIS being a ***'strong operator'*** within the due diligence report. IAS was advised that this report was reviewed by SIB but the review does not refer to the experience provided by WIS. **Please see recommendation 6 below.**

Due Diligence & Independent Advice

IAS notes that due diligence reports were provided by KMPG regarding the commercial aspects, Fichtner regarding the technical aspects and A&L Goodbody regarding the legal aspects of the project. However, we also note that these reports had initially been commissioned by SQN in 2014 with INI subsequently being added to the reporting mechanisms. It is IAS' opinion that INI should have commissioned additional due diligence reviews specific to INI's involvement in the project to provide further valuation of assets and liabilities, to assess risks specific to INI, for example regarding the partnership with SQN, the impact of security rankings changing etc., and to identify areas for further investigation or mitigation as required.

Whilst the Corporate Finance team were experienced in dealing with loan funding, it was referenced within their lessons learned review that they did not have sufficient experience in dealing with AD projects, instead placing reliance on SQN and their industry knowledge, as they had invested in c10 AD plants across the UK. It is our opinion that having an independent expert available to provide advice as and when required throughout the project would have been beneficial in this case. **Please see recommendation 7 below.**

‘Equity injection’

The casework papers refer to ‘***equity injections’*** from both the Promoter and WIS valued at £500k each. The capital provided from the Promoter was for site preparation works with costs already incurred, whilst the ‘equity’ from WIS was in the form of a loan ***‘which provides a degree of comfort to their involvement and commitment to seeing the project succeed. The final structure of this equity injection has yet to be agreed, but likely to be by way of long term subordinated loan’.*** It is IAS opinion that these investments should not have been considered as ‘*equity injections’* and in doing so has provided a level of ‘comfort’ to the Board and SECC which was not appropriate. **Please see recommendation 6 below.**

Financial status of the Promoter

[redacted]

Within the Board minutes (dated 30/06/16, section 19) it is noted that ***‘the Committee emphasised that the project must come back to INI for re-approval if any slippage or dilution of the conditions occurs, including cumulative immaterial changes which may occur, and if there are any changes to the circumstances of the Promoter and/or his wife.’***

[redacted] However, IAS notes that this information was not provided to the Board for re-approval despite the material change to the information previously provided. **Please see recommendation 6 below.**

Personal Guarantee from the Promoter

Within the risk analysis table of the casework papers it is detailed that the project SPV will ***‘benefit from a £1m personal guarantee from KMcE’***. It is IAS opinion that on the basis of the statements provided from the Insolvency Practitioner, the viability of this guarantee was significantly diluted, and should have been highlighted to the Committees as a further material change to the project.

Recommendation 6	**Priority 2** (See annex 2 for definition)
6.1 Management should ensure that information contained within casework papers is accurate, evidence based, transparent, explicit and as up to date as possible. 6.2 If significant and/or material changes become apparent following approval, an updated paper should be provided to SECC and the Board as required to ensure that appropriate decisions can be made, reassessment or re-approval can be considered and that relevant mitigations can be implemented based on the updated situation.	
Management Response **(Accepted, Rejected or Alternative Proposal)**	
Accepted. 6.1 Staff will be reminded of the absolute requirement for casework papers to be accurate, evidence based, transparent and as up to date as possible. Line management to continue to review and assess casework papers to ensure this is adhered to. Papers will not be submitted for approval unless evidence of line management review is confirmed. 6.2 If significant changes in a project become apparent following approval the changes should be resubmitted to the original approval authority in line with the published policy on material changes 'Guidance for Amendments'. Such changes require additional approval in line with this guidance. https://intranet.investni.com/sites/default/files/documents/static/documents/invest-ni-guidance-for-amendments.pdf	

All staff will be reminded of this policy and requirement for project owners to follow it.	
Responsible Owner	**Implementation Date**
Project owner for each case. Executive Team owners responsible for communication of requirements and validation of conformance. Additional communication of the guidance to be undertaken by PCC Division.	Guidance in place

Recommendation 7	**Priority 2** (See annex 2 for definition)
When undertaking major projects or investments, a review should be completed to ascertain whether any specialist advice is required as part of the assessment of the project. This assessment should be formally documented and where Management consider that adequate internal skills are available, that should be recorded. As part of this review, Management should consider whether there is a need to engage independent assessors to complete due diligence for example in the case of a significant loan, to complete a review of the viability of the investment and likely repay-ability or to review the proposed funding partnerships etc. Where specific specialist advice is required, for example with regards to Anaerobic Digestate, Management should consider engaging an independent expert, accessible throughout the project lifecycle, who can provide advice as the project progresses, and as and when issues arise.	

Management Response (Accepted, Rejected or Alternative Proposal)	
Accepted Management will set up a process where the scope of work and the third party due diligence providers will be assessed, with a view to deciding whether a specific independent review is required for Invest NI. This will be performed on a project by project basis, with decisions and rationale being recorded and included in any Credit Committee review where appropriate. Guidance will be reviewed to ensure that independent advice should be sought for areas that may require specialist input, after taking into account the significance of issues that arise as the project progresses. This is included in the scope of recommendation 1.	
Responsible Owner	**Implementation Date**
Corporate Finance Team	Q2 2021/22

3.3 Preconditions/Conditions to Loan Funding

Based on the information contained within the 2015 casework papers a number of preconditions were stipulated, which were to be satisfied by INI prior to the drawdown of loan funding. These included planning requirements, contract/agreement review, net worth statements provided etc. Whilst IAS has seen evidence which confirms SQN's satisfaction to the preconditions, evidence could not be obtained which details INI's satisfaction. The CF advised that ***'A&L Goodbody were acting on behalf of both Invest NI and SQN. SQN Capital Management was the security trustee acting on behalf of SQN Asset Finance and Invest NI. The confirmation from A&L Goodbody that the preconditions had been satisfied was addressed to SQN Capital Management (the security trustee) and as such this was the evidence that Invest NI relied on to ensure that the preconditions were met prior to***

drawdown.' However, it is our opinion that INI should have documented their decision regarding the 'satisfaction' of these conditions with regards to their own investment in the project, especially as this was a condition of DoF Supply's approval of the project which stated *'**therefore it is also condition of the DFP approval that all 15 pre-conditions are met prior to funding drawdown.'***

IAS does note that a number of subsequent conditions were detailed in the loan agreement (total 18), six of these related to actions required at the takeover date but of the remaining 12 conditions, nine were not completed in line with the deadlines agreed. Five of these were in relation to the financial affairs of the Promoter regarding his secured and unsecured liabilities. Whilst monitoring was being completed to ensure the conditions were met, we note that neither the three nor six month deadlines were achieved and INI were only '***comfortable***' with the financial position of the Promoter in Oct 2016 – nine months after financial close when over £5m loan funding had already been drawn. IAS also notes that evidence of this '*comfort*' is only noted within the tracker document detailing the conditions, there is no evidence of the formal decision being made or by whom this decision was taken.

Recommendation 8	**Priority 2** (See annex 2 for definition)
Management should ensure that documentary evidence is retained which demonstrates that preconditions and conditions subsequent have been satisfied, this decision should be authorised at the appropriate level. (Please see recommendation 1 also re. terminology used in preconditions) Management should also consider implementing an escalation process which allows communication to the SECC or Board committees, advising of any slippage which occurs regarding fulfilment of such conditions or if any further issues are identified. (These recommendations also link to the guidance recommendation at 1 re. terminology used in casework papers and escalation processes implemented.)	

Management Response **(Accepted, Rejected or Alternative Proposal)**	
Accepted Consideration to be given for guidance notes to be updated to provide direction on requirement for rigorous satisfaction of conditions in substance and timeliness with escalation processes if slippage occurs or if any further issues are identified. This is included in the scope of recommendation 1.	
Responsible Owner	**Implementation Date**
Corporate Finance Team	Q2 2021/22

3.4 Scheme Amendment

As detailed in the 2017 casework papers, construction of the plant commenced in February 2016 and was initially projected to take 12 months. Whilst construction was materially completed within the 12 month timeline the project was impacted by a number of commissioning challenges which led to increased project costs and an elevated projected working capital requirement. The additional funding required was verified by Hargreaves Jones (who had been verifying costs since the project commenced) and was a total of £4.65m. Casework papers were subsequently submitted to SECC and Board in August 2017 requesting approval for INI to contribute £930k to this uplift which was in line with the delegated discretion granted at the time of approval by DoF. This 10% uplift was matched by SQN who provide an additional 10% on their facility, £1,395k on pari passu terms. The additional £2.325k would be in the form of a '***Short Term Facility'*** which would rank ahead of the Exiting and Uplifted Facility in terms of security and repayment to '***reflect the additional risk being borne by SQN.'*** A number of issues were identified by IAS regarding this amendment which are detailed below:

Material/Non Material change

Whilst materiality was considered regarding the additional 10% provided, the change to security rankings was not detailed as a material change. On review of the INI Guidance for Amendments, section 17 part iv states that *'**Ministerial or DoF approval to amendments will be necessary if the original project required their approval and the amendment changes the specific conditions on which the offer of assistance was made.'*** Further details are then provided which refer that changes in **'*scale, purpose, scope or risk'*** are classed as material. The approval received from DoF Supply in August 2015 also states that approval is conditional on the basis that ***'there are no further substantial changes to the scope/scale of the project as described in the business case*.'** In our opinion this change to the security rankings of the loan impacts the scope of the project and the associated risks involved and subsequently should have been referred for explicit approval from the INI casework committees, DoF and the Minister as required by the INI guidance. **Please see recommendations 1 and 6 above which refer to these enhancements.**

Repay-ability

The risk analysis detailed in the original casework papers refer to the **'Financing and Repayment'** risk with mitigating factors which included the percentage level of funding provided, **'*the pari passu terms with SQN, comfort is taken from SQN's relationship and prior lending to the Promoter for a similar project, which also involved WIS and BSG as contracting entities*.'** **Following discussions between KPMG and Fichtner, the financial model was reviewed and an '*acceptable debt service and loan repayment terms can be evidenced'*.** It is our opinion that the mitigating factors are not adequate as controls. It is also noted that a specific time frame for repayments to commence was not detailed. The loan agreement provided a start date of April 2017 but this was for '***illustrative purposes only*'** with the actual date being linked to takeover, (which has yet to take place) but as detailed in the casework papers, WIS were contractually allowed 16 months to construct, commission and complete takeover testing which would have been May 2017. On review of the amendment papers dated August 2017 the change to the repayment period from 15 to 17 years is detailed, however, it is not explicitly highlighted that repayments have yet to commence. In August 2018 the Board update paper does refer to the loan repayments commencing in 2019 if stable operating conditions have been achieved, with SQN senior debt repaid first and INI's debt thereafter. A decision was taken at that time to pay the additional £930k. The papers detail that this option was '***considered to be high risk, but provides the opportunity for the project to be successfully completed, repay the Invest NI debt, and sustainably utilise 50,000 tonnes per annum of chicken litter.'*** The option not to pay may have led ***'to the collapse of the project, the loss of Invest NI debt and the loss of a sustainable outlet for chicken litter.'*** IAS accepts that this project was a 'cash flow lend' and needed to be operational in order to provide repayments of the loans, with decisions taken to enhance this objective being obtained, however, it is IAS' opinion that the viability of these loan repayments and the associated financial risks to INI/FTC monies being recouped, should have been explicitly highlighted to the Board or SECC for options to be considered and decisions to be made. Please see recommendation six for more details.

Furthermore, from 2018 until December 2020, a number of reports have been completed (Future Biogas, IXORA and SLR etc.) to assess the viability of the project, however, INI had not commissioned any independent reviews solely in respect of their investments to assess options or review opportunities to protect their investment or enhance the possibility of repayment. IAS notes that Grant Thornton have recently been engaged to review the project and assess the options for INI to minimise losses in relation to this project. As actions have already been taken with regard to this issue, a formal recommendation has not been made.

3.5 Project Issues

As detailed above, this project was problematic from the early stages with issues identified with WIS who were subsequently suspended from the site in December 2017 and placed in administration from February 2018. In February 2018 SQN engaged and funded a new team to develop a remediation plan and commission the plant. Whilst some success was achieved, issues with ramp up were still materialising. As detailed in the Lessons Learned review competed by the Corporate finance Team in December 2020, INI could have encouraged completion of a Management and Operations Review at this stage, instead of waiting until September 2019 when the Future Biogas review was completed. The lessons learned review states that this ***'may have resulted in an experienced AD operator being appointed at an earlier stage and may have resulted in a successful ramp up in output.'***

Audit conclusion – Agree with the CF team that this independent review should have been commissioned once WIS had left the site.

3.6 Other considerations

Due to the timescales set in relation to the provision of this report, IAS has been unable to request further clarification or documentary evidence regarding a number of areas. These are detailed below and may be something that could be considered within the current piece of work being completed by Grant Thornton:

- The business case estimated that the income from ROCs would be the largest single income stream in year one (approx. £4.5m 59% of all income). The CF team have advised that the earnings from ROCs for January to November 2020 was £2.3m. As total revenue for the same period was £3.3m the income from ROCs represents 70% of all income streams. IAS recommends that an independent assessment is made of income streams projected for this project in the original casework papers in comparison to the actual income streams obtained. This should consider the extent to which income streams predicted were reasonable. Such a review could be completed as part of an overall project review which would consider whether the income, costs and technical difficulty of the project were, with the benefit of hindsight, materially different than those presented in the casework papers;
- Whilst the casework papers refer to a company called LCC Power who were detailed as taking ***'all electricity and ROCs generated from the project via an agreed single Power Purchase Agreement (PPAs)',*** IAS were informed by the CF team that this single agreement did not materialize and instead PPAs were established for each Bombardier and

Montupet site involved in the project. There is no evidence detailing the rationale behind this change or if the Board/A2F Work Group were made aware of the change;

- With regard to related company transactions, IAS were informed of a piece of work completed by the Glenmore Directors to analyse cost structures etc. However the CF team have yet to obtain a copy of this document nor has an independent review of these transactions been completed to ensure that invoices are of a fair value, have not been inflated or to identify if any fraudulent activity has taken place.

<table>
<tr><td>Recommendation 9</td><td>Priority 2
(See annex 2 for definition)</td></tr>
<tr><td colspan="2">Management should ensure that consideration is given to these aspects detailed and that clarification is sought, further actions are taken or subsequent lessons can be learned as required.</td></tr>
<tr><td colspan="2">Management Response
(Accepted, Rejected or Alternative Proposal)</td></tr>
<tr><td colspan="2">Accepted – to be considered in light of updates to IAS Report.</td></tr>
<tr><td>Responsible Owner</td><td>Implementation Date</td></tr>
<tr><td>Corporate Finance</td><td>To be confirmed</td></tr>
</table>

Annex 1

Internal Audit Opinions

Opinion (Ratings)	Definition
Green	**Satisfactory** – Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified, this should not significantly impact on the achievement of system objectives.
Amber	**Limited** – There are significant weaknesses within the governance, risk management and control framework which if not addressed could lead to the system objectives not being achieved.
Red	**Unacceptable** – The system of governance, risk management and control has failed or there is a real and substantial risk that the system will fail to meet its objectives.

Annex 2

Prioritisation of Audit Recommendations

To assist management in prioritising the implementation of audit recommendations we use a three point scale:

Priority	Description
Priority 1	Failure to implement the recommendation is likely to result in a major failure of a key organisational objective, significant damage to the reputation of the organisation or the misuse of public funds.
Priority 2	Failure to implement the recommendation could result in a failure of an important organisational objective or could have some impact on a key organisational objective.
Priority 3	Failure to implement the recommendation could lead to an increased risk exposure.

Appendix 1

Glenmore SUPL timelines

Time	Description	Additional information identified by IAS
2012/13	• SIB, DETI, DARD and Invest NI were members of a Steering Group seeking solutions to problems caused by land spreading of poultry litter in Northern Ireland. This was increasing nutrients in the ground to levels that required a Nutrient Action Plan to be agreed with the European Commission. DARD led this negotiation. • SBRI project led by SIB to identify technical solutions to the poultry litter problem.	N/A
2013/14	• Steering Group agreed that the next step was to develop a scheme that would support a commercial approach to find solutions to the problem. A Strategic Outline Case was jointly developed by DETI, DARD, Invest NI and SIB. • The SUPL scheme was drafted to promote the following aims:- - To continue to support the poultry sector to develop more sustainable ways of disposing of poultry litter; - To promote the construction of demonstrator scale treatment plants in order to prove the technical, commercial and operational viability of technologies to the poultry sector, investors, funders and regulators; - To provide clear evidence of progress in the quantities of poultry litter being utilized in a sustainable way in the context of the current Nitrates Action Plan (NAP3). • The SUPL scheme sought to achieve the above by providing up to 40% of the capital cost of construction of demonstrator scale plants that could treat a minimum of 20k tonnes p.a. of the poultry litter. It was the expectation that a potential of 2 demonstrator scale plants would be supported under the scheme. The clear need to demonstrate commitment towards a sustainable solution to meet EC	Lessons learned review completed by the Team in December 2020 (EC1/20/0622148) states; *'The Invest NI Corporate Finance Team does not have technical AD experience and external independent technical input was obtained at various stages throughout the project. However, it may have been beneficial to have utilised independent technical input when the remediation plan was developed following WIS's failure. Potentially it may also have been beneficial for Invest NI to have retained an independent technical resource throughout the project.'* The SUPL steering group considered a range of options and as per EC1/20/0626412, in March 2014 Invest NI CEO was contacted by the Perm. Secs of DETI & DARD requesting that William McCulla's team specifically take the SUPL projects forward with support from colleagues in DARD, DETI & SIB (due to their experience of financial initiatives), based on the approach used in the Agri-Food loan scheme. The scheme would be delivered as loan funding via the FTC funding.

	regulations was the key rationale for DARD, DETI and INI drafting the scheme.	
2014	• Calls for Expressions of Interest for support under the Scheme launched.	N/A
2015	• Expression of Interest received for c£24m Glenmore project which was planned to process 25,000 tonnes of chicken litter per annum and supply competitively priced green energy to Bombardier and Montupet. • The project was considered high risk given the construction of a facility on a green field site, the bespoke nature of the technology used and its application in the processing of poultry litter as a feedstock. • Casework and approvals received for project – with circa £23m debt committed by SQN and Invest NI on 60/40 basis. • EPC and O&M contractor was Williams Industrial Services (WIS).	• [redacted] this was not communicated to the Board.
Jan 2016	• Financial close achieved on project – with an estimated cost of £24.6m. • Financed by a mix of £1m equity injection by the promoter (Karol McElhinney), £14.3m (c 58%) by private sector funder (SQN) and INI supporting the remaining £9.3m (c38%). • Expectation that project would be refinanced within 3 years of completion. • Construction commences by WIS – EPC contract c £19m with project due to be completed by June 2017.	• No evidence of pre-conditions or conditions subsequent being 'satisfied' but drawdowns commenced.
Mar 2017	• CHP engines accredited for ROCs – 3.9MW with end date of 2037 (20 years from accreditation).	N/A
Spring 2017	• Construction substantially complete, but cost overruns identified	N/A
August 2017	• Additional £930k funding approved by Invest NI Board, alongside £3.72m from SQN.	N/A

	• This funding was provided on an 80/20 basis and SQN were granted priority on the excess over the initial 60/40 allocation (£2.325m).	
Autumn 2017	• Plant commissioning proving challenging with particular problems associated with pasteurisation.	• Construction completed in summer 17 and Hargreaves Jones had been/were responsible for cost verification of the construction phase. Glenmore Board minutes from Feb 18 refer to queries being raised with them regarding their sign off of progress and costs due to the issues which subsequently materialised as nothing major was highlighted throughout construction. • A2F working group minutes from 10/10/17 confirms update re. the 80:20 aspect of funding.
Dec 2017	• Company identifies that WIS have meddled with pasteurisation results. WIS suspended from site and notification to DAFM/EPA. Production stopped.	N/A
Feb 2018	• WIS enters administration due to financial difficulties.	• A2F working group minutes from 20/02/18 confirms update re. the additional funding required, the irregularities on site and the suspension of WIS.
Feb 2018	• Jamie Williams appointed by company as a consultant. His role included the development and costing of a remediation plan (he had worked with SQN on other AD plants in the UK). He was also appointed as a director of the company. Consultant biologist also appointed. • DAFM/EPA required that digestate that had been in storage off site had to be recovered and repasteurised. • Design issues identified with potential for significantly higher parasitic heat requirements.	• Feb and June 18 Glenmore Project Board meetings refer to claims being made against Fitchner re. the DD completed.
May 2018	• Plant feeding recommences	• A2F working group minutes from 20/06/18 details the WIS are in administration and the remediation plan was being costed.
Sept 2018	• Status update provided to Invest NI Board	• Details that T&Cs from amendment funding haven't been met. So additional funding not yet released. • Opportunity at this stage to not give the £930K but CW decision to go ahead after consideration of 2 options.

		• Paper refers to the 80% uplift from SQN and 'super senior loan' and the bonds being repaid to them (£1.5m & £1m)
Jun – Dec 2018	• Ramp up protracted. Mechanical issues being identified	• A2F working group minutes from 13/11/18 details that the remediation plan has been commenced and the plant is expected to be at 100% operation by Feb 19. Downtime was experienced in Sept/Oct. Going concern not highlighted to working group.
Jan 2019	• £1.08m additional facility provided by SQN	N/A
May 2019	• GGL Board approved projections showing an EBITDA of breakeven for the full year, with a funding need of £3.5m to complete remedial works and provide additional working capital to fund losses until such time as profitability could be achieved. • The Board sought a funding round of £4m to include a contingency. • INI did not have sufficient detail to make a Business Case at that point and SQN agreed to provide the additional £4m requested, with the potential for Invest NI to provide £1.6m (40%) of this subject to approvals.	• A2F working group minutes from 12/03/19 detailed that SQN had provide more funding, new staff in hired but additional challenges in ramp up. Bombardier heat issue not detailed, nor the consideration of mothballing.
Summer 2019	• Ramp up remained problematic and losses continued. Information to support a business case for the additional £1.6m funding from Invest NI was inadequate. SQN remained supportive of the company, but it was agreed that an independent review should be completed. • A Management and Operations Review was commissioned in September.	• A2F working group minutes from 25th June 2019 detailed further issues re. ramp up and the £4m requirement which included the £1.6m from INI.
Dec 2019	• Management Review was completed by Future Biogas in December 2019. One of the recommendations was that serious consideration should be given to engaging an operator with the requisite skill and experience to resolve all of the issues. The company accepted the recommendation.	• A2F working group minutes from 05/11/19 details more issues with ramp up and that INI are awaiting information to complete business case for the £1.6m

Feb 2020	• The company engaged an experienced operator Ixora Energy Limited ("Ixora")	• Board member requests updates re. Glenmore – update provided on the 19/02/2020 providing a status update from Aug 18 and referring to the Ixora engagement, the £4m required and the Future Biogas review.
Feb – Apr 2020	• Ixora demonstrated the biology at the plant could be stabilised and that ramp up is possible. • By early April some improvement was evident with the plant having ramped up and operating at the equivalent of c 2.0MW of CHP output, compared to a total CHP capacity of 3.9MW. This compares to an average for 2019 of 1.4MW and 1.0MW in January 2020, just prior to Ixora coming on board.	N/A
March 2020	• SQN share price falls significantly owing to impairments in AD sector and constrained its ability to commit to funding.	• A2F working group minutes from 09/03/20 details the Management and Operations review, the appointment of Ixora and the share price issue with SQN who have stated that no further funding will be provided. • Board update from 31/03/2020 details this issue. Update details that £1.9m was required and due diligence was due to be completed to assess options. This update details the possible outcomes for INI and highlights that a 'cash crush' could be imminent. Board member suggests that an outside advisor should be engaged to review options re. re-finance.
April 2020	• Business plan produced by GGL with significant input from Ixora. The aim of the plan was to identify what needed to be done to effect a turnaround of the company and to cost this.	N/A
May 2020	• SLR Consulting engaged to carry out technical due diligence on the operating assumptions included in the business plan. • KPMG was engaged to appraise the potential value of the plant on a number of separate assumptions - ranging from the company entering Administration to the company effecting a successful turnaround. In addition a valuation based on an expedited sales process was prepared.	• Board update from 22/05/2020 advised of these due diligence steps being taken re.the £2m required. Breakeven still not achieved. Updates states that if SLR report not positive then support could not be provided and the £9.3m would be lost.

June 2020	• SLR reported the plant could reach the forecast output levels – but also highlighted it may take longer and cost more than outlined in the existing forecast. • The forecast funding required increased from c£2m in the April business plan to c£3.5m taking account of the diligence recommendations. • Invest NI continued to develop casework papers with the objective of providing funding to support the turnaround plan. • SQN (now known as KKV) was informed by Invest NI that a significant contribution from them would be required if Invest NI was to seek further funding to support the turnaround plan.	• A2F working group minutes from 15/06/20 details some success achieved and anticipated that ramp up can be achieved, but that credit facilities exhausted by July 2020. INI preparing a business case for the additional £2m required.
July 2020	• KPMG report was circulated. The key findings from the Valuation process were that more value would be preserved if Administration could be avoided. However, the increased value from effecting a turnaround compared to an expedited sale was only c£4.4m and not sufficient to justify providing the turnaround funding. The estimated proceeds from an expedited sale were c £15m (including an assumed £2m from a claim from BSG). Both Invest NI and KKV would lose considerable amounts in such a situation. • KPMG outlined its belief there would be a number of parties who would be interested in purchasing the business, and who would carry out the turnaround work themselves. It introduced the idea of an expedited sale being possible within a 4-6 month period. • KPMG were pressed on their estimates but maintained that their in-depth sectoral experience gave them confidence in the figures they had used. • Faced with the relatively small increase in value, KKV and INI recognised that it would be very difficult to take a case forward for increased investment in the region of £3.5m-£4m to try and turnaround a business that had consistently underperformed.	• IAS noes that in the Board update dated 14/08/2020 there is no mention of the £12.8m offer.

	• KKV informed us and the company that its preferred option would be to explore an expedited sale of the company. • At this stage INI spoke to Tughans and Grant Thornton to consider options. Recognising that A&L Goodbody were engaged by the Funders (KKV & INI) Tughans were subsequently directly engaged to advise us during the process as it was recognised that our interests may not always align with those of KKV. • On 31 July Karol McElhinney introduced an offer of £12.8m by his company (Connective Energy) financed by Gravis to refinance the company. This offer was to exclude any claims to BSG which would be split 50/50 between Connective Energy and the funders.	
August 2020	• The company appointed KPMG to find a buyer. This would also involve engaging on the Karol McElhinney refinance proposal. • A significant level of work was required to prepare information for a data room to store information that could be issued to interested parties as part of a DD process. The intention is to complete this work so that it could be furnished to all interested parties including Gravis. • Subsequently KPMG recognised the amount of work needed was significantly more than first envisaged and caused them to reassess their advice. It took the view that the offer from Karol McElhinney was unlikely to be significantly bettered by an open market process and it recommended the Directors seek to finalise a deal with Gravis. An open market process remains an option, but is likely to take much longer to complete and require significantly more funding to enable the company to continue to trade.	• Board update paper from the 14/08/2020 details that SQN would prefer to progress the sale of the plant. INI possibility of £2m back or NIL if administration.
Sept 2020	• Sales process not progressing as quickly as expected with additional funding required to avoid administration. KKV offered a new £500k facility following full draw down of its previous £4m facility. • KKV appear to have limited appetite to continue to provide further funding.	• Board update paper – 23/09/2020 – states funding could be exhausted by Oct. Highlights that INI may receive no financial return but that economic benefits would be received.

October 2020	• Sales / refinance proposal progressing. Gravis to be provided with a one month exclusivity to progress deal, which can be extended if sufficient progress is being made. Aiming for a December completion. • Funding during this period remains very challenging. There remains a high risk of the company being unable to avoid administration.	• Ad hoc update 02/10 – INI states that they advised SQN that no more funding could be provided from INI. Jan 21 completion date aimed for with a further £1m required. Email from GGL refers to them approaching BSG for the £4m but refers to SQN wanting this too. • As per 16/10 Board update – INI return would be around £800k plus the possibility of 40% of the £4m claim from BSG. According to KPMG – Gravis would like INI to remain involved. £400k R&D tax credit still outstanding – since Aug 2020 • Board update 30/10 - Offer of £12.8m will prob be lower if the sale goes ahead. No word from Gravis re. INI involvement and money may run out in Nov. No more funding to be provided by SQN.
Nov 2020	•	• Board update 23/11 - KKV have offered an additional £200k facility to ensure November wages can be paid, • All parties agreed that the directors need to have a Plan B, should the Gravis deal abort or get delayed. • KPMG now advise that INI involvement no longer appears to be on the Gravis agenda.

Appendix 2

Glenmore SUPL Lessons Learnt

1.0 Executive Summary

1.1 Background

The Glenmore SUPL project has been problematic since the commissioning phase. The main contractor, Williams Industrial Services (WIS), had experience of successfully developing farm scale Anaerobic Digester (AD) plants, but was unable to successfully scale this to an industrial sized plant. WIS went into administration in early 2018, but had been previously suspended from the plant due to irregularities being discovered in the pasteurisation process.

Production was stopped at this time and a new team was identified by the lead private funder (SQN) and appointed by the company to develop a remediation plan and to commission the plant.

Some success was achieved, but there were many setbacks and ramp up was insufficient to achieve profitability. SQN supported the team that they had effectively put in place and have provided over £5m of new funding since 2019 with no participation from Invest NI.

An experienced AD operator (Ixora) was appointed in early 2020 after an independent Management and Operations Review was completed in late 2019. In conjunction with Ixora, the company produced a turnaround plan which Invest NI considered supporting. Technical and financial due diligence was undertaken. However, KKV (previously SQN) were not prepared to support this plan, largely based on the outcome of valuation work completed by KPMG. KKV's preferred option was an expedited sales process of the company. The company directors decided to follow this course of action and the sales process is ongoing. The outcome of this process is uncertain, but significant losses will be incurred by both KKV and Invest NI.

1.2 Lessons learned

It is considered that the SUPL Scheme design and the approvals processes for the Glenmore project were robust. **However, it has become apparent that the project was too highly leveraged and the promoter was unable to input further funding. Although the private sector funder was content with this at the outset, Invest NI could have required more equity to be input up-front. This may not have solved the problems that did occur, but would have reduced the financial risk.**

There is an argument that Invest NI could have encouraged a Management and Operations Review to have been undertaken following WIS's failure in early 2018, rather than in the second half of 2019. This would likely have been resisted by the private funder but may have helped identify problems earlier and found solutions to effect a turnaround that could have resulted in a better outcome for all parties.

It may have been beneficial to have utilised independent technical input when the remediation plan was developed following WIS's failure. Potentially it may also have been beneficial for Invest NI to have retained an independent technical resource throughout the project. Invest NI should consider including this right as a condition in any future similar projects.

The sales process is ongoing and the outcome of this is uncertain. However, it is considered that appropriate advice is being taken by the company and Invest NI throughout this process to maximise the proceeds.

2.0 Scheme Design and Project Approval

2.1 Scheme Design

Designed jointly by SIB, DARD, DETI and Invest NI.

- SIB participants provided project management and technical support
- DARD brought knowledge of issues re excess nitrates problem and NAP negotiations with EU
- DETI involved due to potential adverse impact on expansion plans of poultry industry due to excess nitrates
- Invest NI involved due to potential adverse impact on expansion plans of poultry industry due to excess nitrates and requested by DETI/DARD to be delivery body for the scheme.

An SOC was developed and presented to DFP in early 2014. Following this Expressions of Interest were sought through two calls during 2014/15. The maximum participation by Invest NI under the scheme was to be 40% of project costs.

2.2 Glenmore application and approvals

An application was received for the c£24m Glenmore project in January 2015 in response to the second call for Expressions of Interest. Due diligence completed and business case drafted. Board approval along with Ministerial and DFP approvals received in relation to Invest NI loan support of £9.3m. Approvals were for Invest NI to provide 40% of the loan funding alongside 60% from SQN, the private funder. Equity of £1m was introduced by the promoter. Financial close achieved in January 2016, with construction commencing immediately. [Subsequent funding needs were provided largely by SQN, [redacted]

2.3 Internal audit

Internal audit undertook a review of SUPL in 2018. The purpose of the review was to provide an independent professional opinion on the adequacy and effectiveness of risk management, control and governance. The report concluded that management has established a satisfactory system of risk management, governance and control in relation to the SUPL Scheme.

IAS noted that the level of monitoring during the complex construction phases of both plants was exemplary, with Invest NI kept up to date with progress being made and any issues arising.

2.4 Conclusions on scheme design, approvals process and project up to construction phase

Scheme design was developed jointly by SIB, DARD, DETI and Invest NI and is considered robust. Standard process was followed during the approvals process for the project, with appropriate due diligence undertaken and project approvals in line with delegations. Internal Audit Services concluded that management has established a satisfactory system of risk management, governance and control in relation to the SUPL Scheme.

Although £1m of equity funding was introduced, this has proven to be insufficient given the problems that have continued to occur.

3.0 Project commissioning

3.1 Early commissioning phase

CHP engines accredited for ROCs by deadline of March 2017 – 3.9MW with end date of 2037 (20 years from accreditation). This secured availability of a significant income stream which was essential for project viability.

Cost overruns/additional working capital needs were identified and an additional £930k funding approved by Invest NI Board, alongside £3.72m from SQN. This funding was provided on an 80/20 basis and SQN were granted priority on the excess over the initial 60/40 allocation (£2.325m). The total cash invested by Invest NI in the company was £9.3m.

During autumn 2017, commissioning was proving problematic with poor delivery by Williams Industrial Services (WIS), who had been the main construction contractor and were also responsible for the ongoing operation of the plant. Problems were experienced in the pasteurisation process and this was adversely impacting the ability to ramp up output.

WIS was suspended from the site at the end of December 2017 after irregularities were discovered in the pasteurisation process by the company. Production had to be suspended whilst the position was rectified. WIS failed in February 2018 due to cash flow difficulties.

At the time of approval, WIS were considered to be an appropriate organisation to both construct the plant and operate it. However, problems that subsequently occurred pointed to WIS not having the ability to scale up from farm scale projects to an industrial sized project. **In any future projects, Invest NI should carefully consider the risks involved with an operator's prior experience and whether this risk can be adequately mitigated.**

3.2 Remediation plan and commissioning

When production was suspended, the company brought in a new team to prepare a remediation plan to deal with the problems at the plant and to seek to ramp up output as per the original plan. Digestate had to be brought back to the plant to be re-pasteurised at a cost of over £1m and operating losses continued to be incurred. Bonds were called to the value of £2.5m, which provided partial funding to deal with costs and problems being encountered.

This new team was known and suggested by SQN and had AD experience. Support was provided on a consultancy basis. During this phase mechanical and biological issues were encountered and ramp up was protracted. SQN remained supportive and provided an additional facility of £1.08m in January 2019. Invest NI did not participate in this funding round. A further £4m facility was put in place by SQN in June 2019, with the potential for Invest NI to participate at 40% of this amount. Despite many information requests, the information required to prepare a business case was not forthcoming. As with the £2.325m provided by SQN in excess of the initial 60/40 funding share between SQN and Invest NI, the additional funding provided solely by SQN ranked first for repayment.

3.3 Management and Operations Review

Due to the slow progress being made by the company, Invest NI and SQN decided that an independent Management and Operations Review should be undertaken. Terms of Reference were agreed and the company appointed Future Biogas to do this work in September 2019. The Future Biogas report was received in December 2019. A key recommendation was that serious consideration should be given to engaging an operator with the requisite skill and experience to resolve all of the issues. The company accepted the recommendation and Ixora Energy was appointed in February 2020.

3.4 Turnaround Plan

With the assistance of Ixora, the company developed and costed a turnaround plan in April 2020. Biology at the plant was stabilised and by April output was c80% higher than the levels just prior to Ixora coming on board. However, as output increased, mechanical issues at the plant impacted the ramp up. These problems were more difficult to overcome due to Covid as suppliers were in lockdown and not available to provide support.

Invest NI was considering providing funding to support the turnaround plan and SLR Consulting were appointed to undertake technical due diligence of the company's plan. In June SLR reported the plant could reach the forecast output levels, but also highlighted it may take longer and cost more than outlined in the existing forecast. The forecast funding required increased from c£2m in the April business plan to c£3.5m taking account of the diligence recommendations and sensitivities.

Invest NI continued to develop casework papers with the objective of providing funding to support the turnaround plan. However, SQN (now known as KKV) was informed by Invest NI that a significant contribution from them would be required if Invest NI was to seek further funding to support the turnaround plan, given the increased funding requirement and increased risk involved. The business plan indicated that a successful turnaround could have provided the potential for Invest NI to recover c£10m over the remaining 17 year life of the project and for 25,000 tonnes of chicken litter to be utilised on an annual basis.

As part of the business case process, KPMG were engaged to appraise the potential value of the plant on a number of separate assumptions - ranging from the company entering Administration to the company effecting a successful turnaround. In addition a valuation based on an expedited sales process was prepared. KPMG presented their report in July and the key finding was that more value would be preserved if Administration could be avoided. However, the increased value from effecting a turnaround (£16.64m after costs) compared to an expedited sale (£14.67m after costs) was not sufficient to justify providing the turnaround funding.

KPMG were pressed on their estimates but maintained that their in-depth sectoral experience gave them confidence in the figures they had produced.

Faced with the relatively small net increase in value, KKV and Invest NI recognised that it would be very difficult to take a case forward for increased investment in the region of £3.5m-£4m to try and turnaround a business that had consistently underperformed.

KKV informed Invest NI and the company that its preferred option was an expedited sale of the company. The board accepted this on the basis of the KPMG Valuation Report and on the basis that KKV as senior lender was not committed to providing support for the turnaround.

3.5 Conclusions on Commissioning, Remediation Plan and Turnaround Plan

WIS were considered to be an appropriate organisation to both construct the plant and operate it. However, problems that subsequently occurred pointed to WIS not having the ability to scale up from farm scale projects to an industrial sized project. **In any future projects, Invest NI should carefully consider the risks involved with an operator's prior experience and whether this risk can be adequately mitigated.**

Ramp up was protracted and significant losses were being incurred. SQN supported the team they had encouraged the company to appoint and largely funded this phase from early 2018 with over £5m of new facilities and no participation from Invest NI. Inadequate information was supplied by the company to support the development of a business case by Invest NI.

A Management and Operations Review was commissioned in September 2019. **There is an argument that Invest NI could have encouraged this to have happened following WIS's failure in early 2018.** This may have resulted in an experienced AD operator being appointed at an earlier stage and may have resulted in a successful ramp up in output. However, it should be acknowledged that SQN who were investors in c10 AD plants in GB were instrumental in bringing the new team in during early 2018 and funded the operation during this time. In early 2018 SQN did not see the merits of the company appointing an experienced AD operator as opposed to the consultants who were brought on board.

4.0 Invest NI Technical Expertise

4.1 Technical advice taken

The Invest NI Corporate Finance team does not have technical AD experience and its AD knowledge was gained through involvement with the two projects supported through the SUPL Scheme. During the approvals stage for this project, technical due diligence was undertaken by Fichtner, who were regarded as being technically competent to carry out this work. As previously discussed a Management and Operations Review was undertaken by an independent experienced AD firm in 2019. In addition, SLR Consulting were appointed to carry out technical due diligence of the 2020 turnaround plan.

Invest NI placed reliance on SQN's industry knowledge, who had invested in c10 AD plants across the UK. It is acknowledged that Invest NI could have encouraged a technical review to be undertaken following the failure of WIS and the subsequent development of a remediation plan by the team appointed by the company at that time. This may have been resisted by SQN, but with hindsight further independent technical input at that time could have proven beneficial.

4.2 Conclusions re Invest NI Technical Expertise

The Invest NI Corporate Finance Team does not have technical AD experience and external independent technical input was obtained at various stages throughout the project. **However, it may have been beneficial to have utilised independent technical input when the remediation plan was developed following WIS's failure**. **Potentially it may also have been beneficial for Invest NI to have retained an independent technical resource throughout the project.**

5.0 Sales Process

5.1 KPMG appointed

Quotes were requested from KPMG and Grant Thornton to manage the sales process. KPMG were able to demonstrate a much broader experience in the AD sector and also has a detailed knowledge of the Glenmore project. On this basis, the company appointed KPMG.

5.2 Legal advice

Legal advice has been provided to the company and the funders by Carson McDowell and A&L Goodbody respectively since the project's inception. A&L Goodbody will continue to advise the funders throughout this process. However, Invest NI is also taking legal advice from Tughans when there is potential for a conflict in the interests of KKV and Invest NI.

5.3 Funding required and potential outcome

KKV rank first for all funding provided in excess of the initially agreed 60/40 share of funding. Including rolled up interest, this now amounts to c£10m. On this basis, Invest NI resisted requests from KKV to become involved in funding the expedited sales phase. To date (mid-November 2020) KKV has provided a further £500k to fund the expedited sales process. They have approved a further £200k which should facilitate trading until mid-December which is the target date for completing the process. This is considered to be an ambitious target and KKV may provide additional funding if sufficient progress is achieved.

On 31 July the promoter introduced an offer of £12.8m by his company (Connective Energy) financed by Gravis to refinance the company. It is also planned that claims against a guarantor with a potential value of up to £4m will be transferred to the Security Trustee for the benefit of KKV and Invest NI. It is unknown how much may ultimately be received, but KPMG have included £2m in their Valuations.

On the basis of the Gravis offer completing and a claim for £2m being settled, the total proceeds available for distribution to KKV and Invest NI would amount to c£14.5m after costs. This is considered to be the most optimistic outcome and would result in KKV receiving repayment of c£10.25m first ranking debt along with 60% of the excess above c£10.25m i.e. a further £2.55m. In this scenario Invest NI would receive £1.7m.

The sales process has been more protracted than originally envisaged and KPMG have advised that they are nervous that there will be further price erosion on the current indicative offer. There also remains a significant risk that the company will be unable to avoid Administration.

5.4 Interim conclusion on sales process

The sales process is ongoing and the outcome is very uncertain. An offer to refinance the company has been received, which is not materially below the KPMG valuation. KPMG have significant experience in this sector and are considered to offer the best opportunity to maximise the proceeds from a sale/refinance of the company. However, they have expressed their nervousness that there will be further price erosion on the current indicative offer. There is potential that Invest NI may receive a relatively small return, but there is significant risk attached to this and there may be insufficient proceeds for Invest NI to receive anything. Invest NI is correctly taking independent legal advice during this process.

6.0 Hypothetical outcome if Invest NI had participated on a 60/40 basis throughout

Following the initial 60/40 facility SQN/KKV provided funding at various stages in proportions greater than their initial 60% contribution. This “excess” funding, including interest roll up is expected to amount to c£10.25m by mid-December, when a refinance is targeted. Analysis indicates that Invest NI’s position would have been worse if the net proceeds are less than £10.25m and it had participated at 40% in all funding rounds. Invest NI’s position would be the same if net proceeds are above £10.25m. See Annex A for further details.

6.1 Conclusions on hypothetical outcome

Invest NI would not have gained financially by participating in all of the funding rounds. In certain plausible outcomes, Invest NI’s return would have been lower if we had participated.

Sale completes mid-December **Annex A**

Assumptions £8.3m super senior provided by SQN with roll up = c£10.25m.

If we had participated at 40%, this would have been £3.32m cash and c£4.1m with roll up. We would have maintained pari passu with SQN/KKV.

The table below shows the different returns that could result from different overall proceeds.

Proceeds	£14.5m	£12m	£10.25m	£8m	£6m
Invest NI return with £10.25m super senior	£1.7m	£0.7m	£0	£0	£0
Invest NI return if pari passu	£5.8m	£4.8m	£4.1m	£3.2m	£2.4m
Additional investment to be pari passu	£4.1m	£4.1m	£4.1m	£4.1m	£4.1m
Net return if pari passu	£1.7m	£0.7m	£0m	£(0.9m)	(£1.7m)
Difference between scenarios	**£0**	**£0**	**£0m**	**£(0.9m)**	**(£1.7m)**

This indicates that Invest NI's position would have been worse if we had participated and the overall sales proceeds are less than £10.25m. At proceeds above £10.25m, our net position would be the same whether pari passu or ranking behind SQN/KKV.

Sale delayed by a further three months

If sale delayed by a further three months and £500k additional funding is provided, the super senior debt would increase to c£11m.

Proceeds	£14.5m	£12m	£11m	£8m	£6m
Invest NI return with £11m super senior	£1.4m	£0.4m	£0	£0	£0

Invest NI return if pari passu	£5.8m	£4.8m	£4.4m	£3.2m	£2.4m
Additional investment to be pari passu	£4.4m	£4.4m	£4.4m	£4.4m	£4.4m
Net return if pari passu	£1.4m	£0.4m	£0m	£(1.2m)	(£2m)
Difference between scenarios	**£0**	**£0**	**£0m**	**£(1.2m)**	**(£2m)**

In this scenario, Invest NI's position would have been worse if we had participated and the overall sales proceeds are less than £11m. At proceeds above £11m, our net position would be the same whether pari passu or ranking behind SQN/KKV.