

## The Highland Council

13 March 2014

Agenda Item	20
Report No	HC/71/13

### Caithness Heat and Power – Report on Findings issued by the Accounts Commission

#### Report by Director of Finance

##### Summary

This report advises the Council that:

- I. A Follow up statutory report on Caithness Heat and Power was published by the Accounts Commission on 4 December 2013; and
- II. Following consideration of the Follow up statutory report, the Accounts Commission issued their findings to the Council on 20 December 2013.

This report outlines the findings and recommends that the Council accepts them.

## 1. Background

- 1.1 The Controller of Audit reported to the Accounts Commission in June 2010 and February 2011 on the Council's involvement with Caithness Heat and Power (CHaP). At the time of the February 2011 report the CHaP project was ongoing and the Accounts Commission requested that the Controller of Audit provide a final report identifying the financial consequences of the project.
- 1.2 Representatives from Audit Scotland interviewed Council officials on 19th and 20th August 2013 and prepared a Follow up statutory report on the Council's involvement with CHaP. This Follow up statutory report fulfils the Commission's request for a Final Report and the report was issued on 4 December 2013 (a copy of the Follow up statutory report was issued to all Members on 6 December 2013). The Accounts Commission considered the Follow up statutory report at its meeting on 12 December 2013 and agreed to make findings on the report which were formally issued to the Council on 20 December 2013.

## 2. Procedural Issues

- 2.1 Following the issue of these findings by the Accounts Commission, the Council has to comply with a statutory procedure in order to consider and agree its response to the Commission. This statutory procedure includes the following summarised requirements:

- I. The Council has to publish a notice in a newspaper circulating in the area at least seven clear days before the Council meeting where the findings are to be considered. This notice, which is to include such details as the time and place of the meeting, was published by the Council on 3 March 2014.
- II. That only a meeting of The Highland Council can consider the findings issued by the Accounts Commission. This report to Council meets this requirement and Members are asked to note that the findings deal with the consequences of the project on the Council and do not identify any new cost or risk issues on the ChaP project itself. Consequently no decisions are required to be taken on the CHaP project.
- III. As soon as practicable after the Council meeting, the Council will:
  - a) Advise the Accounts Commission of the decisions taken on the findings; and
  - b) Publish a notice, approved by the Accounts Commission, containing a summary of the decisions taken. This notice is to be published in a newspaper circulating in the area.

The two actions outlined in point III. above will be addressed after the Council has considered and taken its decision on the findings.

### **3. The Accounts Commission's findings**

- 3.1 The Accounts Commission's findings are shown in Appendix 1 to this report but are summarised below.

The statutory follow up audit:

- I. Provides a summary of the previous Commission reports from July 2010 and February 2011 that highlighted wide ranging deficiencies in the Council's involvement in the Caithness Heat and Power project;
- II. Confirms that the Accounts Commission accepts the final cost to the Council is £11.5m and that this is a substantial and serious loss of public money which does not represent value for money for Council taxpayers.
- III. Indicates that the Council has learned an expensive lesson. The Accounts Commission does recognise the commitment shown and progress made by the Council in addressing the situation, in minimising costs and the Council's revised approach to dealing with arms length organisations (ALEO).
- IV. Identifies that this case provides useful learning points for all Councils,

particularly the need for robust governance and accountability arrangements for an ALEO in which roles and responsibilities are clear, particularly those of Councillors.

- V. Identifies that this case also highlights the need to ensure sound risk management; a full assessment of the skills required; and a rigorous option appraisal for initiatives that provide Council services.
- VI. States that the Accounts Commission will share these findings directly with all Councils.

#### **4. Council's Response to the Follow up statutory report and Findings**

- 4.1 The Council was fully involved in the compilation of the Follow up statutory report and a paper was submitted to the Audit and Scrutiny Committee meeting on 20 November 2013. This paper outlined the updated total cost of £11.5m incurred by the Council on Caithness Heat and Power and the Council's governance procedures for considering and responding to the Follow up statutory report. The Accounts Commission findings agree with this final total cost and generally the findings are in accordance with the Council's anticipated outcome of the Follow up statutory report.
- 4.2 The Audit and Scrutiny Committee on 20 November 2013 also considered a final report on the Corporate Governance of Arms Length External Organisations, and during discussion on this issue, Members stressed the importance of complying with best practice as identified by Audit Scotland in regard to the appointment of Council members to external organisations. The Committee agreed to implement changes that should minimise the risk of the issues that occurred on CHaP recurring.
- 4.3 The Council has already implemented a number of operational and governance changes arising from the lessons learnt from CHaP and these, along with the decisions made at Audit and Scrutiny on 20 November 2013, should address the weaknesses that occurred on CHaP.
- 4.4 Overall the Accounts Commissions findings are fair and reasonable. There are no specific recommendations within the findings, and there are no further specific actions to be taken by the Council. Consequently it is recommended that the Council accepts the findings and replies to the Accounts Commission accordingly.

#### **5. Implications**

- 5.1 There are no changes to the Financial, Risk, Legal, and Equalities implications and consequently they remain as outlined in previous reports on CHaP.
- 5.2 As Members will be aware Ignis Energy Ltd purchased some of the equipment formerly owned by ChaP and has been operating the district heating system since April 2012. This benefits the Council in terms of

reducing carbon emissions and assisting with the Council's Climate Change/ Carbon Clever initiative.

## **6. Recommendations**

It is recommended that the Council:

1. Notes that a Follow up statutory report has been compiled on Caithness Heat and Power;
2. Notes there are no further specific actions to be taken by the Council;
3. Considers and accepts the findings issued by the Accounts Commission; and
4. Issues a reply to the Accounts Commission and publishes the notice required to complete the statutory process.

Designation: Director of Finance

Date: 3 March 2014

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Background Papers:

1. Findings issued by the Accounts Commission
2. Follow – up statutory report on CHaP prepared by Audit Scotland
3. Previous Council Reports on CHaP

**Statutory Report: The Highland Council - Caithness Heat and Power**

**Commission Findings**

The Commission accepts the Controller of Audit's Report on The Highland Council – Caithness Heat and Power.

The Commission had previously considered reports in July 2010 and February 2011 from the Controller of Audit that highlighted wide-ranging deficiencies in the Council's involvement in the Caithness Heat and Power project. These reports identified serious weaknesses in governance and accountability. This current Report is in response to the Commission's request that the Controller of Audit provides a final Report on the financial position.

We accept the Controller of Audit's conclusion that the final cost to the council is £11.5m. This is a substantial and serious loss of public money caused by significant deficiencies in the governance of the project and patently, it does not represent value for money for the Council's taxpayers.

The Council has learned an expensive lesson in this case. The commitment shown and the progress made by the Council in addressing the situation and in minimising cost is recognised, as is its revised approach to dealing with arms length external organisations (ALEOS).

This case provides useful learning points for all councils, particularly the need for robust governance and accountability arrangements for an ALEO in which roles and responsibilities are clear, particularly those of councillors. We therefore take this opportunity to remind councils of our report published in June 2011 entitled *How councils work: an improvement series for councillors and officers - ALEOs: are you getting it right?* which provides advice on how ALEOs should be set up and managed.

This case also highlights the need to ensure sound risk management; a full assessment of the skills required; and a rigorous option appraisal for initiatives that provide council services.

The Commission will therefore share these findings directly with all councils.