

## Accounts Commission Findings

### The Highland Council in respect of the Caithness Heat and Power project

Following consideration in June 2010 of a report by the Controller of Audit on The Highland Council in respect of the Caithness Heat and Power project, the Accounts Commission directed the Controller of Audit to undertake further investigations. The Commission accepts this report by the Controller of Audit as fulfilling that direction.

The Accounts Commission recognises that the Caithness Heat and Power project was established as the result of a commitment to deliver an innovative and sustainable energy system that was anticipated to bring benefits to the local community. The project appears to have gained strong local momentum and in 2004 the Council established the project as an arms-length community enterprise. The Commission notes that the Controller of Audit's report shows that the Council's total commitment to the project stands at around £13.8 million.

The Commission finds, however, that the Council failed to establish effective governance arrangements and clear lines of accountability for those officers involved in the project. The elected member on the Board of the project company was not sufficiently supported in his role - a role which required him to be clear about how to balance his responsibilities as a director of the arms-length company with the need to ensure that the Council had an accurate and comprehensive picture of the situation.

The Commission finds that there was a lack of appropriate risk management by the Council. This was the case from project inception in 2002 through to the formation in 2004 of the company set up to deliver the project and, crucially, at the point in 2006 when the company decided to procure gasification technology.

The Council did not monitor progress effectively and failed to ensure that appropriate control mechanisms were in place to manage potential risks. These should have been central to the oversight of the project, particularly as it involved exposure of significant public funds.

The failure to establish appropriate arrangements for governance of the Caithness Heat and Power project was a corporate failure by the Council. Ensuring that robust arrangements were in place to manage risks to the Council was particularly important given the way the Council's devolved structure operated during the early years of the project. Within that corporate responsibility, the Commission attaches considerable importance to the role that those officers who have specific statutory positions in councils have in promoting and enforcing good governance.

The Commission accepts the conclusions of the Controller of Audit that, in particular, the former chief executive and the director of finance should each have done more to ensure effective governance of the Caithness Heat and Power project in the period from its early years through to the time of reports to the Council in October 2006 and April 2007. This was particularly the case given the innovative nature of the project and the accompanying risks. The former chief executive was made aware of concerns but did not take sufficient action to ensure that these were effectively addressed. The director of finance should have pursued more vigorously the concerns that he had raised with the former chief executive. In these particular respects, the Commission finds that the performances of the former chief executive and the director of finance did not fulfil the responsibilities placed on them.

The Commission recognises that, since deciding in August 2008 to take ownership of the company, the Council has been addressing the difficulties in governance and financial stewardship and has taken action designed to avoid a similar position developing again.

The Commission notes that it is not, at this point, possible to determine how the project will progress or the extent of any loss of public funds. The Commission notes that the external auditors will continue to keep matters under review and will report as appropriate. The Commission requests the Controller of Audit to provide it with a further report at an appropriate point, identifying for the Commission and the public the financial consequences of the project.