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News release

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All councils can learn from Highland power project failure

A scheme to provide heat and power to homes in Wick has landed The Highland Council with a final bill of £11.5 million.

Caithness Heat and Power was set up as an arm's length company by the council in 2004 but ran into major problems and had to be taken back into council ownership four years later. A highly critical report for the Accounts Commission in June 2010 revealed fundamental failings in the way the project was structured and managed. A second report in February 2011 identified serious weaknesses in governance and accountability. At that time, the council estimated that the total cost of its involvement in the project would be £15.4 million.

In its findings released today the Commission says all councils can learn from the project. It is essential that any new arm's length external organisation has robust governance and accountability arrangements from the outset with clear lines of responsibility for councillors.

The project originally started off in 2002 as a community venture to provide wood-fired heat and hot water to homes in Wick. But it hit early problems. Risks were not identified, warnings went unheeded and checks or controls on spending were inadequate.

The Commission said it was encouraged by the council's efforts to sort out the legacy of the project and reduce overall costs. Equipment and assets were sold to a private company which now provides services to more than 160 homes. The Council had also reviewed its approach to arm's length organisations

Accounts Commission chair Douglas Sinclair said: "Arm's length external organisations can be an option for delivering council services but only if the necessary safeguards are built in from the start.

"Caithness Heat and Power was an example of how not to do this. Serious deficiencies in the governance of the project have led to significant loss of public money.

"Highland Council has learned an expensive lesson but there are lessons for all councils to learn from this project"

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Notes to editors

1. The report with the Accounts Commission's findings is available on the Audit Scotland website.
2. Earlier reports from June 2010 and February 2011 are available [here](#).
3. The Accounts Commission for Scotland checks how well Scotland's councils perform. It operates independently of local and central government.
4. Audit Scotland provides services to the Accounts Commission for Scotland and carries out work as directed by the Accounts Commission.