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## Press release

Embargoed until 00.01 hours, Wednesday 2 March 2011

### Highland Council failed to establish effective governance arrangements for innovative heat and power project

The Accounts Commission has considered a report on The Highland Council's Caithness Heat and Power (CHaP) project, which was run by an arms-length community enterprise. In its findings the Commission says the lack of appropriate risk management and effective governance arrangements for the project was a corporate failure by the council. It also highlights aspects of the performance of two senior officers in relation to governance.

The Highland Council established a not for profit company in 2004 to provide a heating system to 500 houses in Wick. The company failed to deliver its objectives and the project experienced technological and financial problems. The council's total commitment to the project including provisions stands at around £13.8 million. It has spent around £10.5 million so far but because the project is still ongoing the full cost and any losses cannot be determined yet.

The Commission says that there were weaknesses in the council's arrangements for oversight of the project. From the start there was a lack of appropriate risk management. The council did not monitor progress effectively and failed to ensure that appropriate control mechanisms were in place.

The Commission notes that the council has taken action to avoid a similar situation happening again. The structure of the council has also changed in recent years and there is now less emphasis on area-based decision making.

Chair of the Accounts Commission for Scotland John Baillie said: "The CHaP project was established as an innovative scheme to benefit the local community. Unfortunately the council's arrangements for managing its interest in the project were not as good or as effective as they should have been. However, The Highland Council has been addressing the difficulties in governance and financial stewardship and has taken action to avoid a similar position developing again.

"Many councils deliver projects and services through arms length bodies. The history of this project has important lessons for elected members and senior officers. Effective governance and risk management are always needed from the start to ensure best use of public money."

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#### Notes to Editors:

1. A statutory report is the means by which the Controller of Audit highlights audit issues to the Accounts Commission.
2. The Accounts Commission's findings are based on the Controller of Audit's report that was considered by the Commission at its meeting on 17 February 2011. It is available at { HYPERLINK "http://www.audit-scotland.gov.uk/about/docs/ac\_110217\_papers.pdf" }

An initial report from the Controller of Audit was considered by the Accounts Commission on 17 June 2010 is a public document and is available at { HYPERLINK "http://www.audit-scotland.gov.uk/work/local\_statutory.php" }. When they considered this report the Commission asked for a further report with more information about what happened.

3. The Accounts Commission for Scotland checks whether local authorities, fire and police boards spend public money properly and effectively. For more information about the Accounts Commission see { HYPERLINK "http://www.audit-scotland.gov.uk/about/ac/" }

4. Audit Scotland provides services to the Accounts Commission for Scotland and carries out work as directed by the Accounts Commission. Its reports are available at { HYPERLINK "http://www.audit-scotland.gov.uk/" }