

The Highland Council
Audit & Scrutiny Committee
20th November 2013

Agenda Item	8
Report No	AS/39/13

Caithness Heat and Power – Update Report

Report by Director of Finance

Summary

This report provides the Council with:

- I. Updated expenditure figures incurred by the Council on Caithness Heat and Power (CHaP);
- II. Details of the known ongoing risk remaining with the Council;
- III. Advice that Audit Scotland has undertaken a Follow Up statutory audit on the Council's involvement with CHaP for consideration at the Accounts Commission meeting on 12th December 2013; and
- IV. The Governance arrangements agreed with Audit Scotland for responding to their report and the Accounts Commission findings.

1. Background

- 1.1 This report provides an update to the Council on its involvement with Caithness Heat & Power (CHaP). The update covers the following 4 issues:
- I. An update on the costs incurred by the Council on CHaP;
 - II. An outline of known continuing ChaP risks carried by the Council;
 - III. An Update on Audit Scotland's involvement on auditing and reporting CHaP issues; and
 - IV. The Governance arrangements for dealing with Audit Scotland's report and the Accounts Commission findings.

Each of these issues is addressed in the following sections of the report.

2. Update on Costs incurred by the Council on CHaP

- 2.1 In December 2011 it was reported to the Council that it would be possible to provide a clearer report on the costs and receipts associated with decommissioning of CHaP after all the phases of the auction, disposing of CHaP assets, had been completed.
- 2.2 At the auction, Ignis Energy Ltd ("Ignis") acquired some of the former CHaP assets and has been successfully providing energy supplies to customers

since May 2012. These customers included a significant number of customers who previously received their energy supplies from CHaP.

2.3 As the phases of the auction have now been completed and the project has been in a stable position for over a year, it was felt that the significance of a number of risks on the project have reduced and it is now a reasonable time to update the costs incurred on CHaP by the Council.

2.4 The table below shows the costs incurred by the Council as at September 2013 and compares these to the figures previously reported to the Council on 28 October 2010 and 12 May 2013 :

	Estimate in Feb 2011 £m	Actual Net Exp. as at Sept 2013 £m	Variance £m
Committed in Nov 05	1.6	1.6	0
Advances to CHaP	5.0	5.3	0.3
Premature redemption of lease	4.0	3.4	(0.6)
Procurement costs	0.3	0.3	0
Other net costs incurred by the Council	0.0	0.4	0.4
Provision for repayment of grants	2.9	0	(2.9)
Total project expenditure	13.8	11.0	(2.8)
Restatement costs	1.6	0.5	(1.1)
Total Expenditure	15.4	11.5	(3.9)

2.5 As at September 2013, the Council had incurred net expenditure of £11.5m on CHaP which is a reduction of £3.9m from the previously reported figures. This reduction is mainly down to:

- I. the removal of the provision to repay grants of £2.9m; and
- II. the lower than expected cost of reinstatement which was due to

a smaller number of properties requiring restatement works.

- 2.6 The expenditure figures do not include the cost of senior officers working on the project.
- 2.7 There is approximately £0.2m of outstanding debt due from former CHaP customers which the Council is currently pursuing. If this amount is recovered, it would be offset against the advances cost of £5.3m which would reduce the total cost accordingly.

3. Ongoing Risks remaining with the Council

- 3.1 The known ongoing risk remaining with the Council is the risk that Ignis should discontinue to provide the energy supplies to customers in Council houses. Whilst the risk of such an incident occurring is currently viewed as being low, if it should ever occur the Council would have to incur the costs of reinstating heating supplies to these Council houses.
- 3.2 To mitigate or partly mitigate the cost of this risk, a sum of £400,000 is currently included within the Council's earmarked balances. The requirement for the earmarked balance to remain in place will be assessed at the end of this current financial year.

4. Audit Scotland Report

- 4.1 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 provides a final report identifying the financial consequences of the project.
- 4.2 Representatives from Audit Scotland interviewed Council officials on 19th and 20th August 2013 and prepared the Follow Up statutory report on the Council's involvement with CHaP. This Follow up statutory report will be issued on 4th December 2013 for consideration at the Accounts Commission meeting on 12th December 2013.
- 4.3 The Audit Scotland report cannot be discussed in detail until it is released on 4th December 2013. Audit Scotland issued a draft of their report to the Council's Chief Executive to check for factual accuracy and no comments or amendments were required to be made to the draft report.

5. Governance Arrangements for dealing with the Audit Scotland Report and Accounts Commission Findings.

5.1 In terms of governance, the Council has agreed the following procedure and timetable with Audit Scotland:

- I. A report is submitted to the Council's Audit & Scrutiny Committee on 20th November 2013 informing the Council of the Follow Up statutory audit on CHaP;
- II. The Audit Scotland report will be submitted to the Accounts Commission on 4th December and the Council will receive a copy of the final report. As the Audit Scotland report is a statutory report the Council has a legal obligation to issue a copy of the report to each Member. Arrangements have been made to ensure the statutory report is issued timeously to all Members;
- III. The report will be considered by the Accounts Commission at its meeting on 12th December 2013 with the Commission's findings being issued to the Council; and
- IV. A report will submitted to the Council meeting on 13 February 2014 outlining the Council's response to these findings and seeking approval to issue the Council's response to the Accounts Commission.

5.2 Members are asked to note the procedure and timetable outlined above.

6. Other Issue to be addressed

6.1 As previously mentioned, the recovery of outstanding amounts due from CHaP customers remains ongoing. The total amount outstanding is currently estimated to be £0.2m.

7. Implications

7.1 Resource implications – as outlined in para 2.4 of the report.

Risks – as outlined in Section 3 of the report.

There are no changes to the Legal, Equalities and Climate Change/Carbon Clever implications and consequently they remain as outlined in previous reports on CHaP.

8. Recommendations

The Committee is asked to Note:

- I. The amount of expenditure incurred by the Council on CHaP and the variances from previously reported figures;
- II. The known ongoing risk carried by the Council;
- III. That a Follow Up statutory audit report on CHaP has been prepared by Audit Scotland;
- IV. The Follow Up statutory report will be published on 4th December and that a copy will be issued to all Council Members;
- V. That the Follow Up statutory report will be considered at the Accounts Commission meeting on 12th December 2013;
- VI. The procedure and timetable on governance for dealing with the report and findings; and
- VII. The issue of recovering the amounts outstanding from CHaP customers remains ongoing.

Signature: Michael W Fraser

Designation: Finance Manager Partnerships & JV

Date: 4th November 2013

Background Papers:

Draft Follow – up statutory report on CHaP prepared by Audit Scotland

Previous Council Reports on CHaP