WRITTEN SUBMISSION FROM THE SCOTTISH FUNDING COUNCIL TO THE PUBLIC AUDIT COMMITTEE, DATED 5 JANUARY 2015

Dear Mr Henry,

Auditor General for Scotland (AGS) section 22 report: “The 2012/13 audit of North Glasgow College: governance and financial stewardship”

Thank you for your letter of 1 December 2014, to which I am replying on behalf of our Chief Executive as he is currently on annual leave.

Before I respond to your specific queries I think it is worth noting that this merger was one of a programme of 10 mergers covering 27 institutions. This was achieved over a period of 18 months – the first of the mergers in the programme took place in October 2012, the last in April 2014. Our early post-merger evaluations of these mergers has indicated that, in general, they are progressing well. SFC supported this merger programme with advice, brokerage and funding. However, in doing so we were working with autonomous institutions and recognised that each had its own circumstances.

Consistent with the need to ensure public value, we limited financial support to severances that would pay back their costs in a year. As the employer, colleges had the option to offer more from their own resources - albeit within the constraints of our severance guidance.

I have supplied detailed responses to each of your questions in your letter of 1 December 2014 below.

What communication took place between the SFC, the Scottish Government and North Glasgow College regarding its severance arrangements as well as the funding of severance packages

The SFC offer of grant letter for merger/voluntary severance costs was issued on 25 June 2013 to Alan Sherry, Ronnie Knox and Dr Bob McGrory, respective Principals of John Wheatley, North Glasgow and Stow colleges.

This letter indicated that one of SFC’s key conditions of grant was that the overall payback period relating to Voluntary Severance funded by SFC was one year or less. However SFC also recognised that some individual claims might be in excess of a year’s salary due to pension strain costs and/or payment in lieu of notice, and indicated a willingness to apply some flexibility.

SFC received a voluntary severance claim on 11 October 2013 from John Russell, Chair of the Board of Management for North Glasgow College, which included payments for the Principal and Vice Principal in respect of their severance packages. These payments significantly exceeded a one-year payback period and also exceeded the flexibility SFC was willing to apply. SFC then wrote to John Russell (and the other two college chairs) on 24 October 2013 setting out the boundaries of our flexibility and advising amounts claimed for individual posts should not exceed a one year payback (excluding pension strain and on-costs) by more than 10%. This

10% cap was then applied to the SFC contribution made to the North Glasgow College Principal's and Vice Principal's severance packages which had been previously agreed by the College.

This was an operational matter for SFC and no discussions took place with the Scottish Government.

What assurances, if any, the SFC had given North Glasgow College regarding the funding of the severance arrangements

See above

What guidance the SFC provided to Colleges, and North Glasgow College in particular, on the interpretation of SFC guidance on the costs (such as pension enhancements, pension fund costs and gardening leave) that would be covered by the college merger support funding (and a break down by college of any costs which were subsequently met by colleges after the SFC declined to provide funding under that fund)

During the period of merger planning SFC Outcome Agreement Managers and other SFC staff were in regular contact with their colleges to discuss interpretation of SFC guidance on the costs that would be covered by college merger support funding. This happened both at formal Partnership Board meetings and at one-to-one meetings with senior staff of the individual colleges. In addition, our funding conditions were outlined clearly in the relevant offers of grant to the colleges for merger support.

While we have an analysis of all funding which we provided to colleges to support the merger programme, we do not currently have a complete set of information on merger-related costs which colleges self-funded. This is because colleges did not always include self-funded costs in their funding requests to us and the actual amount of self-funded costs will have naturally varied from colleges' original projections.

What guidance the SFC provided to colleges undergoing the merger process (like North Glasgow College) on severance arrangements

SFC expects colleges to comply with its severance guidance, which is available on the SFC website. This guidance reflects the key principles of good practice namely:

- policy/procedure on severance approved by Board
- severance payment based on contractual entitlement
- clear Value for Money business case especially where payment exceeds contractual entitlement
- robust governance, usually through the college's remuneration committee, around severance schemes and individual payments
- internal audit to periodically review processes for determining severance schemes and payments with the external auditor reviewing compliance with the college's policy/procedure (with advice in advance for complex cases)
- consult SFC's Chief Executive where payment outwith approved scheme or high profile etc.

- any confidentiality agreement should have as the primary purpose to protect commercial interests and not merely serve as a gagging technique

In addition, our merger guidance issued to colleges includes further advice, from which I have copied a relevant extract below:

> "SFC may be able to provide strategic funding to support institutions through some of the necessary steps required to achieve merger or a strong federation. In the past this has been separated into pre-merger "enabling" funding and merger implementation funding (to deliver and implement the merger following a formal decision from Ministers). This should be discussed at an early stage with SFC.
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> "Recent experience suggests there are advantages to be gained by taking some important actions prior to Vesting Day (or prior to the final establishment of a strong federation). This most noticeably includes institutions enacting any required voluntary severance or voluntary redundancy schemes as soon as funds are made available. Typically, this will involve the use of some reserve funds and also SFC transition or strategic funds. Early consideration of the proposed staffing structure for the new institution is required, to ensure that decisions on applications for voluntary severance are prudent and will realise savings rather than incur replacement costs.
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> "By undertaking such actions at an early stage, there will be efficiency savings gained much earlier in the process. It will also ease the process of restructuring".

What specific involvement the SFC had with the three colleges undergoing the merger to form Glasgow Kelvin College in relation to the procedures and governance arrangements for agreeing severance packages

SFC senior staff attended all meetings of the Merger Partnership Board for North and East Glasgow with the Boards of each of the three colleges represented. The terms of the SFC merger support were discussed at these meetings. However, the procedures and governance arrangements were then followed up by each college individually (as the employers).

How the SFC has assured itself that the colleges that underwent the merger process followed the guidance in agreeing severance arrangements

SFC had follow up discussions prior to the submission of individual claims where additional clarification on procedures was requested as required. At this point SFC made specific reference to the guidance.

SFC's remit does not extend to employment/contractual matters between institutions and individual members of staff.

The extent to which the SFC assures itself that College Boards and Committees are properly supported and demonstrate good governance, record keeping and decision taking practices

SFC relies on internal and external auditor reports submitted with colleges' annual accounts for assurance that college boards and committees are properly supported and demonstrate good governance, record keeping and decision taking practices.

Respective external auditors for colleges, in compliance with the Public Finance and Accountability (Scotland) Act, also report by exception if in their opinion the Statement of Corporate Governance and Internal Control by the college does not comply with Scottish Funding Council's requirements.

What steps the SFC has taken to assure itself that newly merged colleges have in place policies on severance arrangements

From 1 April 2014 incorporated colleges have to comply with the terms of the Scottish Public Finance Manual (SPFM) (due to the reclassification of incorporated colleges). The SPFM requires colleges to seek approval from the SFC for any new severance scheme, changes to a previously approved scheme or any proposal to offer a payment which exceeds the terms of an approved scheme. SFC has already received a number of such requests, many for relatively small amounts.

Recognising the complexities of severance payments and the need for SFC to ensure consistency and high standards, we are currently developing specific guidance and templates to sit alongside the SPFM. So the role of SFC, in the case of incorporated colleges, has been strengthened significantly post-reclassification.

It should be noted that the Scottish Public Finance Manual does not affect the non-incorporated colleges, namely: Orkney, Shetland, West Highland, Sabhal Mor Ostaig and Newbattle Abbey.

How the SFC ensures that its guidance is distributed, acknowledged and adhered to by all colleges

SFC issues guidance to colleges and makes such guidance available on its website, as well as through specific correspondence with individual institutions.

Whilst SFC does not request a formal acknowledgment of awareness of its guidance from colleges, it does request colleges to provide written acceptance of any offers of grant.

I hope the foregoing gives you the information you need, but please do not hesitate to contact me if you think we might be able to help you with anything else.

Yours sincerely,

Martin Fairbairn
Senior Director – Institutions and Corporate Services