

**CORRESPONDENCE FROM THE PUBLIC AUDIT COMMITTEE TO THE  
CABINET SECRETARY FOR EDUCATION AND LIFELONG LEARNING, DATED  
30 APRIL 2015**

On 14 May 2014 the Public Audit Committee began its scrutiny of the Auditor General for Scotland (AGS) report entitled *The 2012/13 audit of North Glasgow College: Governance and financial stewardship*.

As you may be aware in that report the AGS explained that there was a lack of transparency around the process of agreeing the severance arrangements for the Principal and Vice-Principal of the college. The AGS stated that—

"The college did not retain the evidence needed to provide assurance that the arrangements were subject to the appropriate scrutiny and approval. As a result it is unclear whether those charged with governance - in this case- the college's Board of Management- considered that the associated costs would provide value for money."<sup>1</sup>

Since then the Committee has considered a range of written evidence from Glasgow Kelvin College<sup>2</sup> and from the Scottish Funding Council. Most recently on 11 March 2015 we considered a response from the Scottish Funding Council which explored the action that SFC can take in relation to those colleges which depart from their guidance or are subject to poor internal or external audit reports. Having considered that response we agreed to write you with our concerns about the issues which arose at North Glasgow College.

In addition to the evidence provided to us we have also considered the Scottish Funding Council's recent publications of the:

- Financial Memorandum with Fundable Bodies in the College Sector (hereafter referred to as the FM); and
- Code of Good Governance for Scotland's Colleges (hereafter referred to as the Code of Good Governance).

We have also taken evidence on the Auditor General for Scotland report entitled *Scotland's colleges 2015*. We note with concern that that report also concludes that in terms of the college merger process "While most severance was managed in accordance with good practice, auditors found several weaknesses on how two colleges processed senior staff severance payments, whilst another four fell short of good practice".

This suggests to us that there are wider lessons to learn in managing the severance process either as part of a sector wide reorganisation or at individual public body level. In that regard our comments should be viewed in terms of the college sector as well as future mergers in other public sector organisations.

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<sup>1</sup> paragraph 15, *The 2012/13 audit of North Glasgow College: Governance and financial stewardship*.

<sup>2</sup> On 1 November 2013 North Glasgow College merged with John Wheatley College and Stow College to form Glasgow Kelvin College.

From the outset the Committee's ability to hold to account those responsible at North Glasgow College for the issues which arose has been frustrated by the lack of evidence to demonstrate the process and justification by which significant severance arrangements were agreed to; and by the fact that North Glasgow College no longer exists.

Another exacerbating factor was that there was little external scrutiny of the decision making process of the College until the external audit process was underway after financial year end. By that time the relevant agreements had been in place for some time and the College had already been merged. As a consequence the Committee has had to focus its scrutiny on those measures which will prevent this circumstance happening again.

**We acknowledge that colleges (as with other central government bodies) will now be required by the Scottish Public Finance Manual (SPFM) to seek approval from the Scottish Funding Council for severance schemes and for any exceptional payments. We also note that the Funding Council's FM now requires any special severance payments in excess of £1000 to be approved by the Scottish Funding Council (SFC) except where they are provided for as part of a SFC approved severance scheme.**

**We would however welcome confirmation of what action the Scottish Government might take in relation to any college which does not meet the requirements of the SPFM in relation to approval of severance arrangements or exceptional payments.**

We note from the AGS report on Scotland's colleges 2015, that one of the key purposes of the SFC is to "lead and support change" in further and higher education. Whilst we recognise that the SFC's guidance on governance arrangements and compliance activities has been strengthened, there remain areas where lessons do not appear to have been fully learned.

We would therefore welcome your response on the following issues and Committee recommendations. We have also provided this letter to the Scottish Funding Council so that they may also respond to the Committee's concerns.

#### Remuneration Committee

As part of its response to the issues in the AGS report, Glasgow Kelvin College commissioned its external auditor, Scott Moncrieff, to review the issues raised in the AGS report.

That report (hereafter referred to as the Glasgow Kelvin review) identified the following key reasons for the absence of relevant documents and records of the Remuneration Committee when it considered the Principal's severance arrangements:

- the Remuneration Committee had not met for a number of years;
- the Committee has no specified management support;

- the College had no policy on severance arrangements that required compliance with the SFC guidance;
- The Committee was unaware of SFC guidance that set out the requirements for documentation, decision making and record keeping and this guidance was not highlighted to the Committee.

This is a worrying finding which suggests that the Remuneration Committee members (including the Chair) were largely unsupported and unaware of their responsibilities in relation to considering severance arrangements as set out in the SFC guidance.

It is also disappointing to note that the SFC's Code of good governance does not appear to address any of the issues identified in the Glasgow Kelvin review, with little mention made of the role of the Remuneration Committee and its responsibilities. **We would welcome your views on the extent to which the SFC Code of good governance and the SPFM should explicitly set out the frequency with which College Remuneration Committees should meet as well as their role in considering severance arrangements (and the evidence base required to support such consideration).**

**We also seek your views on whether such a proposal should extend to all public sector Remuneration Committees.**

#### Role of secretariat support

The Committee recognises that a key part of the good governance and operation of any management Committee and Board is the secretariat support and advice it receives. This is especially important when the Committee or Board does not meet often. As noted above the Glasgow Kelvin review identified that the North Glasgow College Remuneration Committee had no specified management support and was unaware of SFC guidance that set out the requirements for documentation, decision making and record keeping. This guidance was not highlighted to the Remuneration Committee.

The Committee was disappointed to note that the former secretary to the Board of North Glasgow College declined to take part in the Glasgow Kelvin review. We are also disappointed that the SFC Code of good governance, whilst helpfully providing detailed guidance on Board Secretary duties, does not extend this guidance to the secretariat support provided to other College Committees.

**In considering the circumstances that arose at North Glasgow College, we recommend that it should be a SFC condition of funding that all College Committees have designated management and secretariat support. The responsibilities and professionalism expected of that support should also be set out clearly (along with access to appropriate training).**

#### Leadership

The Glasgow Kelvin review identified that it had received no evidence that the Remuneration Committee's decision, on the severance arrangements offered to the Principal and Vice Principal, was ever reported to the Board. This is a requirement of

the SFC guidance on severance arrangements. The Committee noted that the Chair of the Board was also the Chair of the Remuneration Committee. The Glasgow Kelvin review of North Glasgow College identified that, in view of the importance of a strong working relationship between the Chair of the Board and the Principal in order to work together effectively —

“the existence of such a relationship is likely to preclude the Chair of the Board from having sufficient independence to chair the Committee that determines the salary, terms and conditions and severance arrangements of the Principal.”

We agree with this view. It is concerning therefore to note that whilst the SFC Code of good governance states that the chair of the Board must not be a member of the Audit Committee, there is no similar requirement that the Chair of the Board must not chair the Remuneration Committee when it considers any of the Principal’s salary, terms and conditions and severance arrangements. **We recommend that this restriction should apply and we would seek your views on the extent to which it should be reflected in the SPFM and SFC guidance.**

As we have noted above we were frustrated by the knowledge that as a result of the merger North Glasgow College was abolished and none of those involved in the decision taking on severance payments remained in post. We have concerns that this issue could also arise in other areas of the public sector. **We seek your views on the extent to which senior post holders at Colleges (and those in Regional College Boards or Bodies) should be personally responsible for ensuring that the Board’s governance arrangements are sound and robust. In responding it would be helpful if you could confirm whether this approach is used by any other areas of the public sector.**

#### The role of the Scottish Funding Council

The FM sets out the responsibilities and accountability of the SFC as well as what institutions can expect of the SFC. In considering the action that the SFC can take when issues arise, we are concerned to note that aside from speaking with or writing to institutions (with any action the SFC expects that institution to take), the only other remedy would appear to be the suspension of some or all of its grants.

As noted to the Committee the SFC did not take this course of action in relation to severance payments—

“not least of all because of the eventual impact of such an action on students.”

Given the consequences of any financial sanction would most likely fall on students; we consider that, as was the case with North Glasgow College, it is less likely that the SFC will use this sanction. **We therefore recommend that the sanctions available to the SFC and the SG for noncompliance with the SPFM and the FM/Code of good governance should be reviewed.** Alternative sanctions should be considered such as the temporary and mandatory involvement of SFC staff or SG officials to support any failing College to comply with requirements.

**We also seek further information on the range of actions (and sanctions) that the Scottish Government could apply to any college, Regional College Board or Regional Body which does not adhere to the terms of the SPFM.**

Finally we have concerns about the process by which SFC guidance and arrangements on the merger process were communicated to Colleges by the SFC – principally by correspondence. We note the SFC’s response stating that SFC officials attended the merger partnership boards and when made aware of severance-related plans which may have been inappropriate, influenced to have these changed. However, this was a sector wide merger process – one of the largest reorganisations across the public sector – and as such we would have expected a more proactive approach to engagement would have been undertaken by the SFC to ensure that all college Boards understood their duties as well as the relevant SFC guidance and procedures. We note the AGS comment in paragraph 96 of the report entitled Scotland’s colleges 2015 that—

“The SFC issued guidance in 2000 on how colleges should deal with severance for senior members of staff but did not remind colleges of this guidance before the programme of mergers began.”

**We would therefore request your views on whether, in light of the issues at North Glasgow College and in the Scotland’s colleges 2015, the Scottish Government will review the support it and other agencies proactively provide to affected institutions on severance arrangements in relation to any future significant public sector mergers.**

I would be grateful if you could respond to the Committee by no later than **Friday 5 June**.

Should you require any further information please do not hesitate to contact the Clerk, Jane Williams on 0131 348 5390 or by email at [pa.committee@scottish.parliament.uk](mailto:pa.committee@scottish.parliament.uk).

Yours sincerely

**Paul Martin MSP, Convener**