

Written submission from Glasgow Kelvin College to the Public Audit Committee, dated 8 October 2014

Dear Mr Henry

THE 2012/13 AUDIT OF NORTH GLASGOW COLLEGE: GOVERNANCE AND FINANCIAL STEWARDSHIP

I have enclosed a copy of the additional review task report which the Public Audit Committee requested that Glasgow Kelvin College commission as a consequence of the Audit Scotland report on Governance and Financial Stewardship at the former North Glasgow College. You should note that this report contains personal information with respect to individuals covered by the review.

As I previously informed the Committee this task was conducted by Scott Moncrieff following discussion with Audit Scotland.

I have also included the paper considered by the Board of Management of Glasgow Kelvin College on 22 September 2014. You will note from this report that the Board of Glasgow Kelvin College has requested its Audit Committee to consider the findings of the Scott Moncrieff report when reviewing both its internal and external audit plans.

In addition there is a section which sets out the governance arrangements at Glasgow Kelvin College which are intended to ensure that the highest corporate governance standards apply to the operation of its Remuneration Committee.

If you require any further information on these documents please do not hesitate to contact me or Chris Brown of Scott Moncrieff.

Yours sincerely

Alan Sherry
Principal

c.c. I Hodgson – Chair, Board of Management
M Forsyth – Chair, Audit Committee
C Brown – Scott Moncrieff
M McPherson – Audit Scotland

GLASGOW KELVIN COLLEGE

BOARD OF MANAGEMENT

**NORTH GLASGOW COLLEGE: GOVERNANCE OF SENIOR MANAGEMENT
SEVERANCE**

Report by Principal

THIS PAPER CONTAINS A FORMAL DECLARATION OF INTEREST

1. Introduction

Members will recall that at the June 2014 Board meeting they considered a report on the outcome of the Scottish Parliament's Public Audit Committee with regard to their concerns related to governance and financial stewardship at the former North Glasgow College. Members will also recall that it was agreed that Scott Moncrieff, the College External Auditors, should be engaged to conduct the review requested by the Chair of the Public Audit Committee. A copy of that Board paper is attached as appendix 1 for information.

The purpose of this report is to inform members of the outcome of the review conducted by Scott Moncrieff. C Brown of Scott Moncrieff is scheduled to attend this meeting of the Board to speak to his report which is attached as appendix 2.

This paper contains a formal declaration of interest from I Hodgson, A Robertson, E Robertson and D Weatherston as a consequence of their membership of the Board of the former North Glasgow College during the period covered by the review.

2. North Glasgow College Governance of Senior Management Severance

Set out below is the summary of the conclusions of Scott Moncrieff against the objectives for the review exercise which were agreed in advance with Audit Scotland. Appendix 2 also confirms those individuals that were interviewed to help inform the review process. Members should note that the former Clerk to the Board of North Glasgow College declined to participate in the review exercise.

Objective 1: To establish the reasons for the absence of clear and comprehensive documentation (including a business case) on the severance arrangements

In our opinion, the key reasons for the absence of relevant documentation and records of the Remuneration Committee when it was convened in 2013 to consider the Principal's severance arrangements were that:

- the Remuneration Committee had not met for a number of years;

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

It is impossible to know whether the fact that the Remuneration Committee was chaired by the Chair of the Board of Management made a difference to the process that was followed, but, in our view, having the Remuneration Committee chaired by another board member would have made it easier for the Committee to demonstrate a greater degree of independence, and would have made it more likely that the Committee would have reported its decisions to the full Board.

Objective 2: To establish the extent to which the Remuneration Committee and the Board took informed decisions on the severance packages given the absence of detailed minutes

Each of the three remuneration committee members interviewed as part of this review felt that they had appropriate, timely involvement in the decision making process.

In addition, all three of the Remuneration Committee members interviewed confirmed that the decisions of the Remuneration Committee were implemented. Therefore we have obtained assurance from this review that, although not reflected in Committee minutes and papers, the severance agreements offered to the Principal and Vice Principal were approved by the Remuneration Committee.

However we have received no evidence that the Remuneration Committee's decision was ever reported at a Board meeting. Reporting to the Board is a requirement of the SFC guidance on severance arrangements, the College's own Constitution and Articles and, in our view, good governance practice. This review has therefore confirmed the conclusion from our earlier audit that the governance applied to these agreements were inadequate.

Objective 3: To establish the reasons why all of the costs of the severance packages were not initially identified

The full costs to the College were not initially identified because of confusion in and/or misinterpretation of the guidance from the SFC on the costs that would be covered by college merger support funding. This resulted in approximately £424,000 of costs, which the College had assumed would be funded, as being unfunded, increasing the deficit incurred by the College in 2013/14. The unfunded costs comprised the Principal's pension enhancement, strain on the pension fund costs and the costs of "gardening leave".

The Scott Moncreiff report outlines in some detail the severance payments that were made in respect of three members of the former North Glasgow College management team totalling £689,376. The report also confirms when the payments were approved and authorised. Glasgow Kelvin College is now hopeful that this more detailed review of events at the former North Glasgow College in relation to severance arrangements will provide the Public Audit Committee with assurance that the College and its auditors have investigated the issue as fully as possible.

An earlier draft of this report was considered by Audit Scotland in conjunction with the Principal and minor amendments in terms of phrasing were made to reflect their comments.

3. Glasgow Kelvin College

As members will be aware Glasgow Kelvin College has made clear its commitment to strong corporate governance and as such placed considerable emphasis in putting in place a framework to support the work of the Board and its Standing Committees. This included the Board approving terms of reference for Standing Committees (including the Remuneration Committee) and a scheme of delegation which clearly sets out the limits of delegated authority. Members will be aware that it is the Vice Chair of the Board of Management who acts as chair of the Remuneration Committee.

As a matter of course the minutes of all Standing Committees are routinely considered by the Board of Management to enable all members to be aware the operation of these committees. Furthermore the papers for all Standing Committees are published in the Board portal to enable all members to follow in detail, if they wish to do so, the work of the committees of which they are not a member.

To further support the Board in its commitment to the highest standards of corporate governance the Audit Committee recommended the inclusion of a review of corporate governance in both the External and Internal Audit plans which was approved by the Board. Members will consider the outcome of this work elsewhere on the agenda.

However it is proposed that the Board of Management request that the Audit Committee, supported by the independent Clerk to the Board, consider the Scott Moncreiff report at its next meeting in order ascertain if modifications are required to be made to the External and Internal audit plans.

4. Next Steps

As members will be aware the Scott Moncreiff report was commissioned as a consequence of a request from the chair of the Scottish Parliament Public Audit Committee. Therefore following consideration at the September Board meeting the College is required to submit appendix 2 to the Public Audit Committee in order that its findings can be further scrutinised by its members.

5. Resource Implications

There have been resource implications from the commission of this additional piece of work from Scott Moncreiff which was outwith the external audit contract. There may be further additional costs should the Audit Committee conclude that there is a

need to increase external and/or internal audit activity with regard to corporate governance.

6. Equality Impact

There are no equalities issues which arise as a consequence of this report.

7. Risk

There remains a risk of reputational damage to the College as a consequence of the findings of the Scott Moncrieff report.

8. Recommendations

Members are recommended to:

- i) note the contents of this report and its appendices;
- ii) note the findings with regard to Governance of Senior Staff Management Severance at the former North Glasgow College;
- iii) note the steps taken by Glasgow Kelvin College to put in place a system of corporate governance which is fit for purpose and conforms to the appropriate guidance issued by the Scottish Funding Council ,the Scottish Government and other relevant bodies;
- iv) request that the Audit Committee consider further the findings set out in the Scott Moncrieff report (appendix 2) supported by the independent Clerk to the Board; and
- v) authorise the Principal to forward this report and its appendices to the Scottish Parliament Public Audit Committee.

9. Further Information

Members can obtain further information on the contents of this report from Alan Sherry, Principal (asherry@glasgowkelvin.ac.uk) or Chris Brown, Scott Moncrieff (chris.brown@scott-moncrieff.com).

Members should note that this report will be placed on the agenda of Joint Consultative Committee in order that it can be considered by staff representatives.

AS/AMcK
September 2014

For Information and Approval

Glasgow Kelvin College

Board of Management

The 2012/13 Audit of North Glasgow College: Governance and Financial Stewardship – Update Report

Report by Principal

1. Introduction

Members will recall that at the May 2014 Board Meeting they considered a paper on a report by Audit Scotland on the governance and financial stewardship of the former North Glasgow College. Members will also recall that they were informed that the Audit Scotland report would be considered by the Scottish Parliament's Public Audit Committee on 14 May 2014.

The purpose of this paper is to inform members of the outcome of the deliberations of the Public Audit Committee.

2. The 2012/13 Audit of North Glasgow College: Governance and Financial Stewardship

The Public Audit Committee have recognised that concerns raised by the Auditor General with regards to a clear audit trail for, and transparency of, the severance arrangements for the Principal and Vice Principal of the former North Glasgow College was a matter for that institution and **not** Glasgow Kelvin College. Nevertheless the Chair of the Public Audit Committee has written to the College (appendix 1) requesting that it conduct a further review of the issues raised by the Auditor General in particular the Committee wished a further review of:

- i) the voluntary severance arrangements made for the Principal and Vice Principal of the former North Glasgow College;
- ii) the operation of the Remuneration Committee at the former North Glasgow College; and
- iii) the initial failure to identify the total costs of the severance packages.

The Principal, Vice Principal – Finance and Corporate Services, C Brown, Scott Moncrieff, and M McPherson, Audit Scotland, met on 5 June 2014 to consider the request of the Public Audit Committee. As a consequence Scott Moncrieff were commissioned to undertake further work as set out in the assignment plan as attached as appendix 2. Members should note that the focus of that work will be interviews with the former Chair, Principal and Clerk to the Board of North Glasgow College.

It is anticipated that Scott Moncrieff will report on the outcome of this task to the September 2014 Board meeting.

Members should also note that the Audit Committee held on 5 June 2014 was briefed by the Principal and C Brown of Scott Moncrieff on this matter and following discussion this approach was endorsed by the Committee.

Members should also note that the Principal was required to respond to the Chair of the Public Audit Committee by 18 June 2014 on the proposed action to be taken by the College. A copy of that response is attached as appendix 3.

3. Resource Implications

There will be an additional cost to the College for the Scott Moncrieff fee for conducting this task which is out with the scope of the external audit plan.

4. Equality Impact

There are no equalities issues which arise as a consequence of this report.

5. Risk

There remains a risk of reputational damage to the College as a consequence of the actions of those responsible for corporate governance at the former North Glasgow College.

6. Recommendations

Members are recommended to:

- i) note the contents of this report and its appendices;
- ii) note the contents of the correspondence from the Chair of the Scottish Parliament's Public Audit Committee (appendix 1);
- iii) endorse the Scott Moncrieff assignment plan as attached as appendix 2;
- iv) request Scott Moncrieff to present a report on the findings of their further review to the September 2014 meeting of the Board; and
- v) note the contents of the response provided to the Chair of the Public Audit Committee by the Principal (appendix 3).

7. Further Information

Members may obtain further information on the contents of this report from Alan Sherry, Principal, asherry@glasgowkelvin.ac.uk.

AS/HL
Glasgow Kelvin College
June 2014

Assignment Plan

Client:	Glasgow Kelvin College
Assignment:	North Glasgow College – Governance and Financial Stewardship
Background:	<p>At its meeting on 14 May 2014, the Scottish Parliament Public Audit Committee (PAC) took evidence from the Auditor General for Scotland (AGS) and Audit Scotland on a report that the AGS had prepared under section 22 of the Public Finance and Accountability (Scotland) Act 2000.</p> <p>The AGS report highlighted concerns about the lack of a clear audit trail for, and the transparency of, the severance arrangements for two senior members of staff at the former North Glasgow College.</p> <p>North Glasgow College merged with John Wheatley College and Stow College to form Glasgow Kelvin College on 1 November 2013. As a consequence, the Board of Glasgow Kelvin College received the AGS report. Following the PAC meeting, the Principal also received a letter from the Convenor of the PAC asking for confirmation of the scope of any action that the College was planning to take to address the issues raised in the AGS report.</p> <p>While the matter does not relate directly to corporate governance at Glasgow Kelvin College, the Board is committed to providing the PAC with the information it has requested. The Board also wishes to identify any lessons that can be learned which would improve still further corporate governance at Glasgow Kelvin College. The Audit Committee therefore agreed, at its meeting on 5 June 2014, to commission Scott-Moncrieff to undertake this review.</p>
Scope:	<ol style="list-style-type: none"> i. To further review the voluntary severance arrangements made for two senior staff at the former North Glasgow College ii. To further review the operation of the Remuneration Committee at the former North Glasgow College iii. To provide further information on why all the costs of the severance packages were not initially identified.
Review objectives and key lines of enquiry:	<p>The objectives of the review are to establish:</p> <ol style="list-style-type: none"> 1. The reasons for the absence of clear and comprehensive documentation (including a business case) on the severance arrangements <ol style="list-style-type: none"> a. Were the board and remuneration committee made aware of the college's voluntary severance scheme and the Scottish Funding Council (SFC) guidance on severance arrangements? b. Did the Remuneration Committee have written terms of reference? c. Did these, and/or the Board's scheme of delegation, specify the process the committee should follow? d. Was any advice on VS schemes sought from and/ or provided by SFC as part of merger support to the college followed? e. Did the fact that the Remuneration Committee was chaired by the Board chair have any bearing on the documentation and audit trail?

- f. What reasons can be provided for the absence of relevant documentation and records
2. The extent to which the Remuneration Committee and the Board took informed decisions on the severance packages given the absence of detailed minutes
 - a. Was the voluntary severance scheme approved by the Board?
 - b. Did the VS scheme provide guidance on process?
 - c. How were the severance payments authorised; when were the payments made; and by whom/on what authority?
 - d. Did the Remuneration Committee members feel they had appropriate, timely involvement in the decision making process?
 - e. Did the Board members feel they had appropriate, timely involvement in the decision making process and/or how were they informed of the Remuneration Committee's decision?
 - f. Why was it considered appropriate to provide ex-gratia benefits such as pension enhancement and 'gardening leave'?
 - g. Were the decisions of the Remuneration Committee implemented?
 - h. Who provided HR and legal advice to the committee?
3. The reasons why all of the costs of the severance packages were not initially identified.
 - a. What specific guidance was available to and used by the college regarding the costing of severance packages?
 - b. What guidance was provided regarding the funding available from SFC?
 - c. To what extent did the college follow this guidance. ie did the payments seem reasonable?

Approach:	<p>In addition to reviewing relevant documentation, the review team will seek to hold a number of interviews, including with the following</p> <ol style="list-style-type: none"> a. Former Chair of North Glasgow College b. Former Principal of North Glasgow College c. Former Clerk to the Board of North Glasgow College d. Former Director of Finance of North Glasgow College e. Former members of the Remuneration Committee of North Glasgow College who are now members of the Glasgow Kelvin College Board (two members) f. Former Board members of North Glasgow College who were not Remuneration Committee members and who are now members of the Glasgow Kelvin College Board (two members)
Key contacts:	<p>Alan Sherry – Principal, Glasgow Kelvin College</p> <p>Martin Walker – Assistant Director, Performance Audit and Best Value, Audit Scotland</p> <p>Mark MacPherson – Senior Manager, Performance Audit and Best Value, Audit Scotland</p>
Resources:	<p>Audit Manager – 8 days</p> <p>Audit Partner – 2 days</p>
Timetable:	<p>Fieldwork commences: 24 June 2014</p>

Fieldwork completed: 18 August 2014

Draft report issued for management responses by: 25 August 2014

Management responses to be provided by: 8 September

Report to be issued as final by: 15 September 2014

College Board meeting: End September 2014

Reporting format:

Narrative report setting out findings of review. Any subsequent action plan to be developed by Glasgow Kelvin College.

**Agreed by client
and date:**

Alan Sherry – Principal, Glasgow Kelvin College:

Some of the content in this report has been redacted by the Scottish Parliament in line with the requirements of the Data Protection Act 1998.



North Glasgow College

Governance of senior management severance

September 2014



Scott-Moncrieff
business advisers and accountants

North Glasgow College

Governance of senior management severance

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Conclusion

1. In August 2014 Scott-Moncrieff reviewed the governance at North Glasgow College of the severance agreements entered into between the College and the former Principal and Vice Principal shortly before the College merged with Stow College and John Wheatley College to form Glasgow Kelvin College.

Objective 1: To establish the reasons for the absence of clear and comprehensive documentation (including a business case) on the severance arrangements

2. In our opinion, the key reasons for the absence of relevant documentation and records of the Remuneration Committee when it was convened in 2013 to consider the Principal's severance arrangements were that:
 - The Remuneration Committee had not met for a number of years,
 - The Committee received inadequate management support,
 - The Committee was unaware of the SFC guidance on severance arrangements that set out the requirements for documentation, decision making and record keeping,
 - The College had no severance policy requiring compliance with the SFC guidance.
3. It is impossible to know whether the fact that the Remuneration Committee was chaired by the Chair of the Board of Management made a difference to the process that was followed, but, in our view, having the Remuneration Committee chaired by another board member would have made it easier for the Committee to demonstrate a greater degree of independence, and would have made it more likely that the Committee would have reported its decisions to the full Board.

Objective 2: To establish the extent to which the Remuneration Committee and the Board took informed decisions on the severance packages given the absence of detailed minutes

4. Each of the three remuneration committee members interviewed as part of this review felt that they had appropriate, timely involvement in the decision making process.
5. In addition, all three of the Remuneration Committee members interviewed confirmed that the decisions of the Remuneration Committee were implemented. Therefore we have obtained assurance from this review that, although not reflected in Committee minutes and papers, the severance agreements offered to the Principal and Vice Principal were approved by the Remuneration Committee.
6. However we have received no evidence that the Remuneration Committee's decision was ever reported at a Board meeting. Reporting to the Board is a requirement of the SFC guidance on severance arrangements, the College's own Constitution and Articles and, in our view, good governance practice. This review has therefore confirmed the conclusion from our earlier audit that the governance applied to this agreement was inadequate.

Objective 3: To establish the reasons why all of the costs of the severance packages were not initially identified

7. The full costs to the College were not initially identified because of confusion in and/or misinterpretation of the guidance from the SFC on the costs that would be covered by college merger support funding. This resulted in approximately £424,000 of costs, which the College had assumed would be funded, as being unfunded, increasing the deficit incurred by the College in 2013/14. The unfunded costs comprised the Principal's pension enhancement, strain on the pension fund costs and the costs of "gardening leave".

Background

8. At its meeting on 14 May 2014, the Scottish Parliament Public Audit Committee (PAC) took evidence from the Auditor General for Scotland (AGS) and Audit Scotland on a report that the AGS had prepared under section 22 of the Public Finance and Accountability (Scotland) Act 2000. The AGS report had been informed by Scott-Moncrieff's Annual Audit Report as North Glasgow College's external auditors for the year ended 31 July 2013.
9. The AGS report highlighted concerns about the lack of a clear audit trail for, and the transparency of, the severance arrangements for two senior members of staff at the former North Glasgow College.
10. North Glasgow College merged with John Wheatley College and Stow College to form Glasgow Kelvin College on 1 November 2013. As a consequence, the Board of Glasgow Kelvin College received a copy of the AGS report. Following the PAC meeting, the Principal of Glasgow Kelvin College also received a letter from the Convenor of the PAC asking for confirmation of the scope of any action that the College was planning to take to address the issues raised in the AGS report.
11. While the issues raised in the AGS report do not relate to corporate governance at Glasgow Kelvin College, the Board of Glasgow Kelvin College is committed to providing the PAC with the information it has requested and to identifying any lessons that can be learned which could improve still further corporate governance at Glasgow Kelvin College. The Audit Committee therefore agreed, at its meeting on 5 June 2014, to commission Scott-Moncrieff to undertake this review.
12. The review was carried out in August 2014 and reported to the Board of Glasgow Kelvin College on 22 September 2014.

Scope, objectives and approach

Scope

13. The scope of the review was:

- To further review the voluntary severance arrangements for the two senior staff at the former North Glasgow College.
- To further review the operation of the Remuneration Committee at the former North Glasgow College.
- To provide further information on why all the costs of the severance packages were not initially identified.

Review objectives

14. The review had three key objectives. These were to establish:

- 1) The reasons for the absence of clear and comprehensive documentation (including a business case) on the severance arrangements.
- 2) The extent to which the Remuneration Committee and the Board took informed decisions on the severance packages given the absence of detailed minutes.
- 3) The reasons why all of the costs of the severance packages were not initially identified.

15. Each of these review objectives is addressed in the Findings section of this report.

Approach

16. In addition to the documentation reviewed and discussions held as part of our earlier external audit work, we interviewed the following individuals as part of this review.

Contact	Role
John Russell	Former Chair of North Glasgow College
Ronnie Knox	Former Principal of North Glasgow College
Alan Sherry	Principal of Glasgow Kelvin College
Irving Hodgson	Former member of the Board and Remuneration Committee of North Glasgow College , and current Chair of Glasgow Kelvin College
Alan Robertson	Former member of the Board and Remuneration Committee of North Glasgow College, and current Board member of Glasgow Kelvin College
David Weatherston	Former member of the Board of North Glasgow College, and current Board member of Glasgow Kelvin College

17. The former Secretary to the Board of North Glasgow College was also given the opportunity to participate in the review but declined to do so.

18. We are grateful to all members of the College board, management and staff who were interviewed or provided evidence for this review.

Findings

Objective 1: To establish the reasons for the absence of clear and comprehensive documentation (including a business case) on the severance arrangements

Were the board and remuneration committee made aware of the college's voluntary severance scheme and the Scottish Funding Council (SFC) guidance on severance arrangements?

19. The Board was made aware of the voluntary severance scheme, however we can find no evidence that either the Board or, more importantly, the Remuneration Committee, were made aware of the SFC guidance on severance arrangements to senior management in Scottish further education colleges. This guidance was first issued in 2000 and updated in 2004.
20. Paragraph 12 of the 2000 guidance states that "Colleges should have a clear policy statement on severance". Paragraph 14 states that "When agreeing individual cases of premature retirement or a severance package, colleges should delegate the task to their Remuneration Committee (or its equivalent), or to a specific committee set up for that purpose. Delegation must be within a specific remit, have full compliance with the college's policy on severance matters and with clear boundaries as determined by the Board of Management."
21. Paragraph 15 of the guidance states that "Remuneration Committees (or their equivalent) should oversee severance arrangements. They should do so in the context of a policy that sets out general principles covering all severance packages as suggested in paragraph 12 above."

Did the Remuneration Committee have written terms of reference?

22. Yes, the Remuneration Committee did have written terms of reference¹. These stated the remit of the committee as "The Committee will be responsible for reviewing and determining salary, terms and conditions of appointment and, where appropriate, determining severance payments, for the Principal."

Did these, and/or the Board's scheme of delegation, specify the process the committee should follow?

23. The Remuneration Committee terms of reference and the Board scheme of delegation outlined the process the committee should follow but did not go into detail. The membership of the Committee consisted of Lay Members (i.e non-executive board members) only. One of the details not covered by the terms of reference was to specify the College officer with responsibility for providing support to the Committee.
24. The role of Secretary to the Board was contracted to an external individual who, we understand, was a qualified Chartered Secretary. The Secretary to the Board attended the Remuneration Committee meetings at which the Principal and Vice Principal's severance were discussed. We would not have expected the Secretary to the Board to be responsible for providing all of the professional advice and guidance that the Committee may have required. However we would have expected the Secretary to the Board to support the Committee chair in ensuring that the Committee carried out its remit effectively, including helping to obtain adequate professional advice and guidance where necessary. The former Secretary to the Board declined to accept an invitation to participate in this review.

¹ See Appendix 1 – North Glasgow College Remuneration Committee terms of reference

25. The Committee was required by its terms of reference to “meet on an “as and when required” basis, but at least once per annum”. We understand that, prior to May 2013, the committee had not met for a number of years. We understand that this was because the Principal had been offered the same percentage salary increase as all other members of staff, which was approved by the full Board without the need for a separate Remuneration Committee meeting.

Was any advice on VS schemes sought from and/ or provided by SFC as part of merger support to the college followed?

26. We have no evidence that the College sought, or were provided with, specific advice from SFC on VS schemes as part of merger support, other than the extant guidance on severance arrangements referred to above.

Did the fact that the Remuneration Committee was chaired by the Board chair have any bearing on the documentation and audit trail?

27. In order to work effectively together, it is important for the Chair of the Board and the Principal to have a strong working relationship. In our view, 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.

28. It is impossible to know whether the fact that the Remuneration committee was chaired by the Chair of the Board of Management made a difference to the process that was followed, but, in our view, having the Remuneration Committee chaired by another board member would have made it easier for the Committee to demonstrate a greater degree of independence, and would have made it more likely that the Committee would have reported its decisions to the full Board.

What reasons can be provided for the absence of relevant documentation and records

29. In our opinion, the key reasons for the absence of relevant documentation and records of the Remuneration Committee when it was convened in 2013 to consider the Principal's severance arrangements were that:

- The Remuneration Committee had not met for a number of years,
- The Committee received inadequate management support,
- The Committee was unaware of the SFC guidance on severance arrangements that set out the requirements for documentation, decision making and record keeping,
- The College had no severance policy requiring compliance with the SFC guidance.

Objective 2: To establish the extent to which the Remuneration Committee and the Board took informed decisions on the severance packages given the absence of detailed minutes

Was the voluntary severance scheme approved by the Board?

30. Yes, the VS scheme was approved by the Board of Management.

Did the VS scheme provide guidance on process?

31. The VS scheme did not provide specific guidance on the process to be followed for the severance of senior management. This would have been one of the purposes of a severance policy, which, as noted elsewhere in this report, the College did not have. However, we understand that one of the Board members sought and received assurance that the VS scheme would be applied in the same way to all employees.

How were the severance payments authorised; when were the payments made; and by whom/on what authority?

32. The payments were made by East Dunbartonshire Council, then North Glasgow College's payroll provider, on the 28th October 2013. These were authorised by the Chair of the Board and were based on the approved compromise agreements as agreed by the remuneration committee. The Chair of the Board approved the payments on the 8th October, prior to the College's Finance Team including these in the monthly payroll submission to the Council. The individuals who were beneficiaries were not involved in authorising the payments.

Did the Remuneration Committee members feel they had appropriate, timely involvement in the decision making process?

33. Yes. Each of the three remuneration committee members interviewed as part of this review felt that they had appropriate, timely involvement in the decision making process.

Did the Board members feel they had appropriate, timely involvement in the decision making process and/or how were they informed of the Remuneration Committee's decision?

34. We have received no evidence that the Remuneration Committee's decision was ever reported at a Board meeting. One of the individuals interviewed as part of this review was a member of the Board but not of the Remuneration Committee of North Glasgow College. This board member expressed the view to us that the board had not been informed of the remuneration committee's decision. This board member was unaware that the Remuneration Committee had even met, and, we understand, had previously sought, and received, assurance at a board meeting that the voluntary severance scheme would be applied in a consistent manner to all college employees. This board member was therefore surprised to learn, from our external audit report, that the former Principal had received a pension enhancement as part of his severance agreement, as this benefit had not been provided to any other employee.
35. As mentioned above, the SFC guidance on severance arrangements states at para 14 that: "When agreeing individual cases of premature retirement or a severance package, colleges should delegate the task to their Remuneration Committee (or its equivalent), or to a specific committee set up for that purpose. Delegation must be within a specific remit, have full compliance with the college's policy on severance matters and with clear boundaries as determined by the Board of Management."
36. We understand that the Board Chair, as Chair of the Remuneration Committee, discussed with the Secretary to the Board whether the Remuneration Committee's decision needed to be reported to the Board. We understand that, arising from this discussion, the justification given for not reporting was a statement within the College scheme of delegation that "Each Committee may exercise and perform on behalf of and in the name of the Board, all the powers and duties of the Board in relation to the functions so delegated."² In our view, the purpose of this statement within the scheme of delegation is to emphasise

² See Appendix 2 – Extract from scheme of delegation, General delegations to committees, para 2.

that, in discharging their delegated roles, committees are not required to seek board approval for the decisions they take. However, it does not excuse committees from reporting those decisions to the Board. Indeed, such reporting is a basic principle of governance, so that the board can be assured that the delegated functions of each committee are being carried out in accordance with the scheme of delegation.

37. The North Glasgow College Constitution and Articles of Government, Annex 2 – Standing Orders for Regulating the Meetings and Proceedings of the Board, sets out in paragraph 9 the order of business at every board meeting. After considering the minutes from the last meeting (item d) and any business remaining from the last meeting (item e), the next item states: “f) minutes of Committees and Sub-Committees shall be submitted, held as read, and so far as not reported for information, be formally moved, and be held to be approved unless objections are taken to any portion thereof when so submitted.”
38. The SFC guidance on severance arrangements to senior management in Scottish further education colleges, para 14, requires that, after being approved by the remuneration committee, “Colleges should ensure that formal reports of severance packages, including all financial aspects, are made to the Board of Management although this may be carried out through the relevant finance or resources committee.”
39. It is important to emphasise that, in highlighting this issue, we do not express a view on the appropriateness of the severance agreement entered into with the former Principal. However, this review has confirmed the conclusion from our earlier audit that the governance applied to this agreement was inadequate as it did not meet the requirements of the SFC guidance on severance arrangements, the College’s own Constitution and Articles or, in our view, good governance practice.

Why was it considered appropriate to provide ex-gratia benefits such as pension enhancement and ‘gardening leave’?

40. The merger of the three legacy colleges created a need to rationalise all posts, including reducing the number of Principals from three to one. As the host college in the merger, North Glasgow College was the only college of the three that continued as a legal entity, changing its name to Glasgow Kelvin College from 1 November 2013. Both Stow College and John Wheatley College were abolished on 31 October 2013. In line with the spirit of the merger agreement, a joint decision was made by all three college boards that, rather than allowing the Principal of North Glasgow College to continue as the Principal of Glasgow Kelvin College, all three of the existing Principals would be given the opportunity to apply for the new Principal’s post. However this created a number of potential risks arising from the employment rights of the existing Principals and an expectation that there would be no compulsory redundancies.
41. According to all members of the Remuneration Committee interviewed, these issues were considered in some detail by the Committee. The Committee reached the view that it was essential for the effective integration and development of the new college that the new Principal be clearly seen as the sole leader of the college and that it would not be helpful for either of the other Principals to still be involved as part of the management team. However the only way this could be achieved was through negotiation with the existing post holders.
42. The Principal at Stow College [REDACTED] announced that he would not be putting himself forward for the new Principal’s position. The Principal of North Glasgow College was more than three years from the age he had intended to retire [REDACTED] and would have been well within his rights to continue as an employee if he had not been successful in being appointed to the new Principal’s post. This would have cost the new college approximately £150,000 - £160, 000³ per annum. After taking legal advice, the

³ The original figure provided has been redacted and replaced with £10,000 bandwidth.

Committee therefore agreed to offer the North Glasgow College Principal a pension enhancement as an inducement to retire early, on the basis that this would save money over the next few years and clear the way for a new Principal.

43. In relation to the 6 months gardening leave, the Remuneration Committee recognised that losing the College's two most senior leaders at a time of huge disruption for the College could create significant risk. We understand from discussion with all three Remuneration Committee members interviewed that the Committee insisted that the severance agreements for both the Principal and Vice Principal contained a clause that required them both to be available for a six month period from 1 November 2013 to assist the new Principal if required. The cost of the six month period of "gardening leave" therefore represented the cost of retaining these services. In the event, the new Principal did not require to make use of these services.

Were the decisions of the Remuneration Committee implemented?

44. Yes. All three of the Remuneration Committee members interviewed confirmed that the decisions of the Remuneration Committee were implemented. Therefore we have obtained assurance from this review that, although not reflected in Committee minutes and papers, the severance agreements offered to the Principal and Vice Principal were both approved by the Remuneration Committee.

Who provided HR and legal advice to the Committee?

45. Legal advice was provided by Miller Samuel and supported the decisions taken by the Remuneration Committee. We have no evidence that any specific HR advice was received by the Committee.

Objective 3: To establish the reasons why all of the costs of the severance packages were not initially identified

What specific guidance was available to and used by the college regarding the costing of severance packages?

46. The SFC guidance on severance arrangements for senior staff suggests that severance packages should be costed in the context of a policy that sets out general principles. It is unlikely that precise formulae can be devised to cover all senior staff in all circumstances. Nevertheless, the policy should set clearly the boundaries of delegated authority for relevant employees.

What guidance was provided regarding the funding available from SFC?

47. The College incurred restructuring costs of £1.29 million in the year and utilised £866,000 of Scottish Funding Council merger support funding to meet these costs. There appears to have been a lack of certainty over which costs of voluntary severance would be funded by the SFC. Within initial budget estimates prepared by North Glasgow College, it had been assumed that all VS costs would be funded. However SFC later confirmed that this was not the case.
48. The merger support funding did not cover strain on fund costs through the pension scheme i.e. the cost incurred in making good any shortfall in future pension contributions, the discretionary pension enhancement paid to the then Principal and certain payments in lieu of notice. The College therefore incurred costs of approximately £424,000 which were unfunded.

To what extent did the college follow this guidance? I.e. did the payments seem reasonable?

49. The only costs that could be construed as discretionary on the part of the College, i.e not clearly contractual costs, were the former Principal's pension enhancement and the six months post-departure "gardening leave" costs for the former Principal and Vice Principal. Both of these categories of cost are referred to in the SFC's guidance on severance arrangements. Paragraph 15 states that "a college might have a policy that where a severance payment is to be made, it should not normally exceed the statutory and contractual entitlement of the employee, plus a set enhancement of pension rights and the cost of out-placement counselling up to a fixed sum." Therefore, the guidance envisaged that pension enhancements might reasonably form part of a severance package.
50. In relation to the amount of pension enhancement, this was the amount required to enhance the pension entitlement from age 62 to age 65 and totalled £120,000-£130,000⁴.
51. The total costs incurred for the three most senior members of staff given voluntary severance are set out below⁵.

Cost	Principal £	Vice Principal £	HR Director £	Total £
Voluntary severance	£130,000-£140,000	£90,000-£100,000	£50,000-£60,000	£280,000-£290,000
Annual leave paid	0-£10,000	0-£10,000	0	£10,000-£20,000
6 months garden leave	£60,000-£70,000	£40,000-£50,000	0	£100,000-£110,000
Pension enhancement	£120,000-£130,000	0	0	£120,000-£130,000
Mandatory pension strain	0	0	£160,000-£170,000	£160,000-£170,000
Total	£320,000-£330,000	£140,000-£150,000	£210,000-£220,000	£689,376

52. The total costs to the College (salary, employer's pension contribution and employer's national insurance contribution) of continuing to employ the former Principal at his current salary for a further three years [REDACTED] would have been approximately £150,000 - £160,000 per year, i.e £450,000 - £480,000⁶.

⁴ The original figure provided has been redacted and replaced with £10,000 bandwidth.

⁵ The original figures provided have been redacted and replaced with £10,000 bandwidths.

⁶ The original figures provided have been redacted and replaced with £10,000 bandwidths.

Appendix 1: North Glasgow College remuneration committee terms of reference

Membership Criteria

The membership shall be a minimum of three in number and shall consist of Lay Members only, drawn from the convenorships of the committees.

The Chairman of the Board is a member of the Committee.

The Principal is not a member of the Committee, but may be asked to attend meetings at the invitation of the Committee.

There will be no staff members on the Committee.

Convenor of the Committee

The Board is responsible for appointing the Convenor of the Committee.

Quorum

The quorum shall be a minimum of three members.

Meetings

The Committee will meet on an 'as and when required' basis, but at least once per annum.

Remit

The Committee will be responsible for reviewing and determining salary, terms and conditions of appointment and, where appropriate, determining severance payments, for the Principal.

Appendix 2: Extract from the North Glasgow College scheme of delegation

General Delegations to Committees

There is delegated to each Committee of the Board all of the functions relative to

- The respective terms of reference of those Committees, and
- Any minute of the Board making a special delegation to a Committee.

Each Committee may exercise and perform on behalf of and in the name of the Board, all the powers and duties of the Board in relation to the functions so delegated.

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