The 2012/13 audit of North Glasgow College

Governance and financial stewardship

AUDIT SCOTLAND

Prepared for the Public Audit Committee by the Auditor General for Scotland
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Introduction

1. I have received the audited accounts and the auditor's report for North Glasgow College for the year ended 31 July 2013. The purpose of this report is to draw Parliament's attention to weaknesses in governance and decision-making relating to the early departure arrangements for two senior members of college staff.

2. I am submitting the accounts and the auditor's report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under section 22(3) of the Act.

Background

3. On 1 November 2013, North Glasgow College merged with John Wheatley College and Stow College to form Glasgow Kelvin College as part of the wider college reform programme. The merger resulted in a reduction in the number of senior staff across the three colleges. The Principal and Vice Principal of North Glasgow College accepted voluntary severance as part of the merger process.

The auditor's opinion

4. The auditor gave an unqualified opinion on the college's accounts.

5. However, the auditor highlighted that the college did not provide evidence that the severance arrangements for two senior members of staff - the Principal and Vice-Principal - had been subject to appropriate approval (Exhibit 1); nor did the college provide evidence that the costs had been assessed as providing value for money.

6. The auditor also found that the college's initial calculation of the costs of severance arrangements was incomplete. The initial calculation estimated costs of £867,634 for all of the severance payments resulting from the merger. However, this estimate did not include payments in lieu of notice, for accrued annual leave or to the pension fund resulting from the severance arrangements. The additional costs totalled £422,366 and contributed to a higher than anticipated deficit of £574,000 for the financial year ending July 2013. £243,656 of this related to payments for the severances of the Principal and Vice-Principal.

Exhibit 1

Extract from the independent auditor's report on the 2012/13 accounts of North Glasgow College.

From our review of the College’s corporate governance arrangements, with reference to “Guidance on severance arrangements to senior staff in Scottish further education colleges”, produced by the Scottish Funding Council and “Managing early departures from the Scottish public sector” produced by Audit Scotland, our audit work was directed to ensure that best practice in relation to Board review and approval of voluntary severance agreements, particularly those of senior post holders, was being applied. The guidance states that Board members should approve early departure schemes ensuring that proposals represent value for money as well as approving specifically proposals affecting senior managers to ensure that each application is independently authorised. We understand, from discussion with the previous Chair of the Board of Management of the College, that the proposed severance arrangements for both the then Principal and Vice Principal were considered by the Remuneration Committee and we have seen evidence of legal advice received by the committee in support of these proposals. However, the Remuneration Committee minutes and papers held by the College do not provide sufficient documentary evidence that the business cases for these severance proposals were discussed and approved. Nor was the minute of the Remuneration Committee submitted to the full Board for approval. A point has been raised in the Management Action Plan in Appendix 1.

Source: Annual External Audit Report to the Board of Management and the Auditor General for Scotland for the year ended 31 July 2013

Governance and decision-making

7. The Scottish Funding Council's guidance sets out a range of expectations around the approval of severance packages (Exhibit 2).[1]

Exhibit 2

Extracts from Scottish Funding Guidance

Paragraph 13: Colleges have a responsibility to use both public and any ‘private’ funds in a prudent way that achieves value for money.

Paragraph 14: 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. Colleges should ensure that formal reports of severance

[1] Guidance on severance arrangements to senior staff in further education colleges, Scottish Funding Council, January 2000 (Circular FE/03/2000). A further circular was issued in 2004, to update the thresholds that indicate whether a member of staff should be considered a member of senior staff (Circular FE/13/04).

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.

Paragraph 24: In general, public funds should only be used to meet contractual and other payments required by law. These obligations may include formally agreed severance schemes that are part of contractual terms and conditions and in the exercise of discretion granted to colleges by a specific scheme, such as pension enhancement within the limits set out in the relevant pension scheme rules. Exceptions to this general approach, which may be described as “being in the management interest”, need careful justification and colleges should be mindful of the comments on individual performance referred to in paragraph 23. However, where an exceptional arrangement is being considered, clear and comprehensive documentation must be prepared (and retained) that fully demonstrates how the cost of severance terms, beyond contractual obligations, provide (and are seen to provide) the best value for money.

Source: Scottish Funding Council

8. In May 2013 I issued a joint report with the Accounts Commission, 'Managing early departures from the Scottish public sector', which sets out a range of good practice principles (Exhibit 3).

Exhibit 3

Good practice

The main principles of good practice for early departure schemes

- Early departure schemes should be driven by the needs of organisations and their workforce plans.
- Alternatives to early departures should be considered such as redeployment, natural turnover and service redesign.
- There should be clear policies and procedures which are consistently applied.
- Proposals should be supported by business cases, showing the full additional costs of early departures and their anticipated savings.
- There should be restrictions on staff who have accepted an early departure package from being re-employed.
- Councillors or board members should approve early departure schemes, ensuring that proposals represent value for money.
- Councillors or board members should approve proposals affecting senior managers to ensure each application is independently authorised.
- Compromise agreements should not be used to limit public accountability, for example by trying to silence whistleblowers or by hiding the full cost of departures.
- Senior managers, as well as councillors or board members, should monitor progress to help ensure that planned savings are being made.
- Senior managers, as well as councillors or board members, should use lessons learned from past and existing schemes and apply these accordingly to future proposals.

- Organisations should be open in their annual reports and accounts about the costs of early departures and the savings they have generated.

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Source: Managing early departures in the Scottish public sector: Auditor General for Scotland and Accounts Commission, May 2013

9. The minutes of the college's Remuneration Committee of 3 June 2013 suggest that the committee was aware of the severance arrangements, but the college did not provide the auditor with evidence that the severance packages had been reviewed or approved by either the Remuneration Committee or the Board. The college also did not provide evidence that there had been an assessment of the value for money of the severance payments.

10. The SFC guidance also notes that 'There are few occasions where payment of salary in lieu of notice represents value for money. For senior staff, they should be expected to work their contracted period of notice unless other mutually agreed terms of notice suit all parties.'

11. According to the minutes of the Remuneration Committee of 3 June 2013, the committee agreed that the Vice Principal should be offered six months 'garden leave' on full pay after 31 October 2013, with the caveat that, if required by the new Board, he would continue to work for an extra specified period. No details are provided in the minutes of the basis for this decision, including whether it represented value for money.

12. I understand that the Principal was subsequently not required to work his notice period beyond 31 October. In this case there does not appear to be any minuted decision.

Conclusions

13. My report on managing early departures acknowledged that voluntary severance can provide a cost-effective way of managing overall employee numbers and costs. This is particularly important in times of budget cuts or public sector mergers, where there is a need to implement relatively quick changes in the workforce.

14. However, the report also highlighted that senior managers and board members should be fully aware of the costs and benefits when making decisions. Before approving any early departures, those charged with governance must ensure that they represent a good use of public money, and a clear audit trail should be retained.

15. In the case of North Glasgow College, there was a lack of transparency around the process of agreeing the severance arrangements. 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.