The 2013/14 audit of Coatbridge College

Governance of severance arrangements

AUDIT SCOTLAND

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Contents

Governance of severance arrangements

Introduction

1. I have received the audited accounts and the auditor's report for Coatbridge College for the period ended 31 March 2014. The purpose of this report is to draw to Parliament's attention serious weaknesses in governance relating to the severance arrangements for senior managers and one other member of staff at the college.

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. Coatbridge College was one of three colleges that merged to form New College Lanarkshire, as part of the wider college reform programme in Scotland. Cumbernauld College and Motherwell College agreed to merge in January 2013. In February 2013, Coatbridge College agreed to join the merger, then withdrew later that month, before deciding to join again in August 2013. Cumbernauld College and Motherwell College merged in November 2013, and Coatbridge College joined in April 2014.

4. The merger resulted in a number of staff leaving the three colleges under voluntary severance. Thirty-three staff left Coatbridge College, at a total cost of £1.7 million, of which the Scottish Funding Council (SFC) contributed £1.3 million and the college contributed £397,945. The total severance cost for the Principal, five members of the senior management team and a member of staff within the Principal's office was £849,842. The Principal left the college on 31 October 2013, the member of staff in the Principal's office left on 31 January 2014 and the five senior managers left on 31 March 2014.

5. Due to delays in the preparation of the accounts by the college, and difficulties in securing information relating to the severance arrangements described above, the auditor was not able to conclude the audit until the end of March 2015. This meant that the accounts missed the statutory deadline for laying before the Parliament of 31 December 2014.

Context

6. In May 2013, I issued a joint report with the Accounts Commission, *Managing early departures from the Scottish public sector*, which set out a range of good practice principles that organisations should follow when designing, managing and monitoring their early departure, or severance, schemes (Exhibit 1). The circumstances of individual organisations will vary and it is up to those charged with governance to ensure that their organisation's early departure

schemes are tailored to their needs. However, the underlying principles of consistent policies, independent checks, value for money, and open reporting to the public apply to everyone.

Exhibit 1

Examples of good practice principles for early departure schemes

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

Source: Managing early departures from the Scottish public sector, Audit Scotland, May 2013

The auditor's opinion

7. The auditor gave an unqualified opinion on the college's accounts for 2013/14, but included an 'Emphasis of matter' paragraph, in which she drew attention to serious governance weaknesses in how voluntary severance arrangements for the Principal, the senior management team and staff were considered, implemented and reported; and the arrangements for senior staffing and salary approval.[1] In her annual audit report, the auditor highlighted weaknesses in governance relating to how those charged with governance handled the severance arrangements for senior staff (Exhibit 2).

8. The auditor also highlighted problems in securing all of the information necessary to conclude the audit. The college's preparation of the annual accounts took significantly longer than would normally be expected, and the auditor required the college to make a large number of adjustments to address errors in the accounts. The auditor reported that a lack of corporate knowledge and continuity created difficulties for the audit. These difficulties arose as a result of the departure of key staff at Coatbridge College. Staff at New College Lanarkshire had to pick up the work, but needed time to understand the systems and records before they could address the auditor's enquiries. These problems ultimately resulted in delays to the conclusion of the audit, the finalising of the audited accounts and the auditor's report, and to the preparation of this report.

[1] An 'Emphasis of matter' in an auditor's report refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

Exhibit 2

Extract from the auditor's report on the 2013/14 accounts of Coatbridge College

The College governance system has previously been assessed as robust by both us and internal audit and our observation had been that it operated well in practice. Work by internal audit, New College Lanarkshire and us has identified significant weaknesses in the operation of the governance system during 2013 and 2014. These weaknesses primarily stemmed from actions around how the voluntary severance arrangements for the Principal, the Senior Management Team and staff were considered, implemented and reported. No issues with voluntary severance governance arose in New College Lanarkshire. The weaknesses in governance included:

- The Principal making decisions he did not have authority to make
- Agendas and papers for Remuneration Committees either not being fully prepared or not kept
- Minutes for the Board and Remuneration Committee did not record fully the discussions and decisions made
- Minutes from Remuneration Committee meetings not being produced or reported to the Board timeously.

Source: Coatbridge College Annual Audit Report 2013/14 (paragraph 17)

Severance arrangements

There was a lack of clarity around the development, application and financial entitlements of the severance scheme for senior management

9. The proposed terms of the severance scheme for senior management were discussed at a meeting of Coatbridge College's Remuneration Committee on 28 January 2013. It is unclear who developed the terms but the terms included that senior management would receive a lump sum equivalent to 21 months' salary. The severance terms for the Principal were different. In addition to the 21 months' lump sum, it was proposed he would receive an additional three months' severance for taking the college successfully through to merger.

10. In January 2013, the Principal, five members of the senior management team and a member of staff in the Principal's office also received a pay rise of three per cent, backdated to August 2012. They received a further pay rise of two per cent in August 2013. Both of these pay rises were the same as those given to all staff in the college. In addition, the Principal was given a further three per cent in January 2013, 'in recognition of his leadership role', again backdated to August 2012. The pay rises were included in the calculation of severance payments. The Principal left on 31 October 2013 and was also granted six months' pay in lieu of notice. While there is evidence to suggest that the pay rises were considered and approved by the Remuneration Committee, only the decision to award the two per cent rise to all staff was recorded in the minutes.

11. The Remuneration Committee did not consider the minute of the 28 January 2013 meeting until its meeting on 23 October 2013. At the October meeting, two of the five committee members who had been present at the January meeting registered their disagreement with the minute, specifically the scheme parameters that had been agreed for senior management. One committee member indicated that she had not had enough information at the time to allow her to make the decision. However, the minute was agreed by a majority of those present. All members present agreed with the minute in respect of the Principal's severance.

12. The minutes of the Remuneration Committee for January 2013 indicated that the aspiration was that this scheme would be extended to all staff at the college. When the Coatbridge College Remuneration Committee met on 23 October 2013, it agreed to revise the terms of the severance scheme, reducing the maximum lump sum element to 13 months for all staff, including the senior management team. These terms were in line with the arrangements being applied at both Cumbernauld College and Motherwell College. However, the final payments to the five members of the senior management team and the member of staff in the Principal's office included additional payments that meant the severance payments exceeded the terms agreed by the Remuneration Committee on 23 October 2013. There is limited evidence of the reasons for these additional payments and of the decisions to award them. Further detail is provided below.

The college did not provide the Remuneration Committee with business cases in support of the severance packages or for salary enhancements for senior staff

13. There is no evidence that the Remuneration Committee or the Board were provided with detailed business cases setting out the costs and justification for severance payments to the Principal, five members of the senior management team or the member of staff in the Principal's office. The payments also included payments for accrued annual leave which the auditor could not verify. The total cost of the severance payments associated with accrued leave for the Principal, five members of the senior management team and the member of staff in the Principal's office was £41,183, for between 14 and 27 days per person. Other members of college staff also received such payments.

14. Following the departure of the Principal on 31 October 2013, the Depute Principal took on the role of Principal. The position of Depute Principal was not filled, with the Depute Principal's responsibilities distributed amongst the senior management team. These staff, along with the member of staff in the Principal's office, received salary enhancements of around ten per cent for these additional responsibilities. They received these salary enhancements until they formally left. The member of staff in the Principal's office left on 31 January 2014 and the four members of the senior management team left on 31 March 2014. The enhancements were included in severance calculations. The Remuneration Committee did approve the enhancements, although there is no record of a business case to support them.

15. Three of the five other members of the senior management team were on sick leave for several months leading up to their formal departure date. In March 2014, the remaining two members of the senior management team received further salary enhancements of £4,000

each, intended to reflect the additional contribution made during the period the others were absent. These enhancements were backdated to February 2014 and were also included in the calculation of their final severance payments.

16. In addition to the above, one of the members of the senior management team received a salary uplift of around ten per cent in May 2013. Emails held by the college suggest this was to reflect a re-evaluation of the post, but there is no documentation setting out how the post was evaluated. The member of staff in the Principal's office also received a separate increase of around 19 per cent in January 2013. This increase was approved by the Principal and was intended to reflect 'additional responsibility in relation to regionalisation', but there is no record of what these additional responsibilities were.

17. Finally, in addition to the above, six of the seven members of staff received payments in lieu of notice, ranging in value from one to six months' salary. The remaining member of staff also received an additional payment, but the reason for the payment was not documented.

The Chair and Principal of Coatbridge College did not provide the college's Remuneration Committee with advice provided by the SFC

18. The Scottish Funding Council's (SFC) guidance sets out a range of expectations around the approval of severance packages (Exhibit 3).[2]

Exhibit 3

Extracts from Scottish Funding Council guidance on severance arrangements to senior staff in further education colleges

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 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

[2] *Guidance on severance arrangements to senior staff in further education colleges*, Scottish Funding Council, January 2000 (Circular FE/03/2000). The SFC issued a further circular 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).

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: Guidance on severance arrangements to senior staff in further education colleges, Scottish Funding Council, January 2000 (Circular FE/03/2000)

19. In response to an enquiry from the college, the Chief Executive of the SFC wrote to the Chair of Coatbridge College on 24 January 2013. He highlighted that:

- There should be a general severance framework to which all severance arrangements should adhere, except in "very exceptional circumstances".
- Where an exceptional arrangement is being considered, clear and comprehensive documentation should 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.
- The SFC had not been supporting voluntary severance arrangements with payback periods in excess of one year, reflecting a general trend in the public sector; and he would strongly encourage the college to stay within these parameters. He acknowledged that such matters were ultimately a decision for the college's Board.
- Both internal and external auditors should be informed of any proposed exceptional settlements.

20. It is clear that the SFC had concerns about the proposed severance terms for the Principal and senior management team of Coatbridge College. The SFC reinforced its guidance to the college on several occasions:

- On 10 October 2013, the SFC wrote to the College Principal seeking assurance that the severance arrangement being offered to the college's senior management team was in accordance with good practice and represented good public value.
- On 16 October 2013, the SFC wrote to the Principal to request additional information, including details of governance processes around severance arrangements.
- The SFC's Chief Executive met with the college's Chair of the Board of Management and the Principal on 21 October 2013, to discuss issues around severance arrangements for the senior management team; and separately with the Chair only about severance arrangements for the Principal.
- On 22 October 2013, the SFC wrote to the College Chair to set out its expectations in relation to severance arrangements, referencing again the SFC's guidance and concerns about exceptional payments that had been highlighted in previous communications.
- On 23 October 2013, following the meeting of the Remuneration Committee, senior staff from the SFC discussed with the Board the terms of the severance packages offered to the Principal and senior management (the SFC was not present at the meeting of the Remuneration Committee). The SFC told the Board that it would not fund the Principal's package beyond 13 months, and that the college would need to meet the costs of any

payment above that. The SFC also indicated that if the Board did want to exceed 13 months, it would need to justify the decision to the SFC and formally record the reasons for the additional payment. The SFC again advised that the Board should seek the views of both the internal and external auditors and that those views should be incorporated into the report to the SFC.

- On 24 October 2013, the SFC wrote again to the (former) Chair and to the newly-elected Chair of Coatbridge College. The SFC emphasised its concerns about the terms the college was offering to the Principal. It also stated that the college should not commit to a deal that was in line with those terms until the Chair provided SFC with assurance that the arrangement was in accordance with good practice and represented good public value.

21. It is not clear from the available evidence whether all of the communications between the SFC and the Principal and the Chair of the college were shared with the Remuneration Committee and the Board. Where they are available, the minutes of meetings do not accurately reflect the advice provided by the SFC, detailed above. For example, the minutes of the Remuneration Committee meeting on 28 January 2013 record the following:

"The Chair noted that transitional support funding would be made available to the College as part of a merger process and thus the funding was not an issue at this time. The Chair also confirmed that he had spoken to Mark Batho, Chief Executive of the Funding Council and that these discussions [those of the Remuneration Committee] were in line with the Funding Council's guidance on severance arrangements for senior staff, and in particular, any potential arrangements in respect of the Principal."

22. It is clear that the terms being discussed by the Remuneration Committee were not in line with the advice of the SFC and so it appears that the Chair did not provide the Remuneration Committee with complete or accurate information about the advice provided by the SFC. The auditor also confirmed that she was not consulted at any time on the severance proposals. While it is possible that the Remuneration Committee may still have made the same decision, it should have been presented with the full facts to allow it to make an informed decision.

23. On 25 October 2013, the new Chair of the Coatbridge College Board wrote to the SFC to apologise that its advice had not been presented at the meeting of the Remuneration Committee on 23 October 2013.

Conclusions

24. My 2013 report on early departures recognised 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. 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 severance payments, those charged with governance must ensure that they represent a good use of public money, and a clear audit trail should be retained.

25. There were serious failings in the governance of severance arrangements at Coatbridge College. In particular:

- failure to meet the standards expected of public bodies in the use of public money and a lack of transparency in the decision-making process for voluntary severance arrangements
- payments were made that exceeded the terms of the college's severance scheme
- the proposed severance scheme for senior staff offered terms that were significantly higher than the SFC's guidance and the schemes of the other colleges that merged to form New College Lanarkshire
- the college did not retain sufficient evidence (minutes and business cases) that severance proposals, and salary enhancements, had been subject to a value for money assessment
- the absence of any evidence that the Remuneration Committee had access to the information and advice it needed to fulfil its responsibilities
- the fact that the Principal failed to take the steps needed to demonstrate that the inherent conflicts of interest were properly handled.

26. The poor decision-making and record-keeping has resulted in potentially unnecessary costs being incurred by the college and is likely to affect public perception of the quality of college governance.