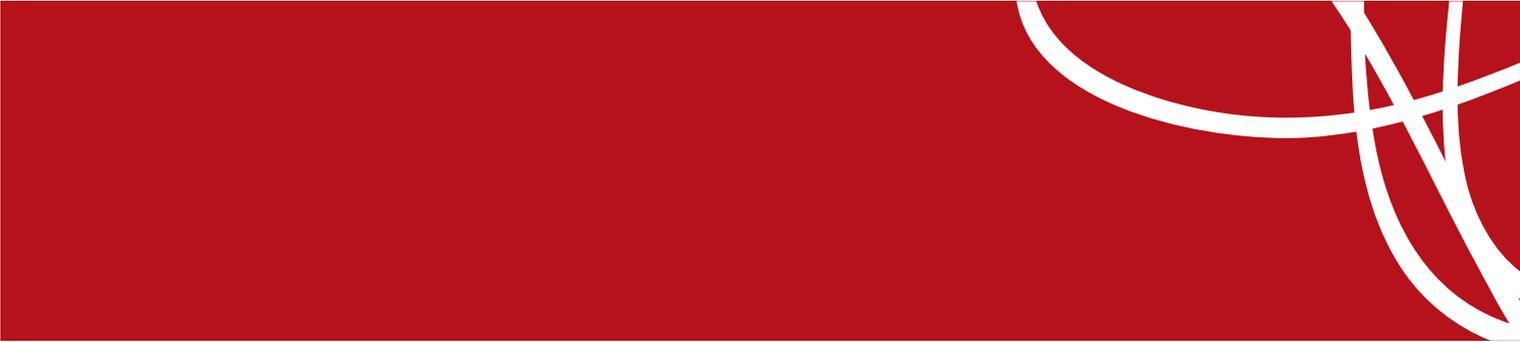


REVIEW OF SCOTLAND'S COLLEGES
Supporting Successful, Accountable Governance

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Introduction

The Review's Accountability and Governance Working Group has now completed its activity in terms of the remit given to it. As Chair of the Group, I am pleased to submit to the Core Group our final report. The remit and membership of the Working Group are shown at Annex A.

Summary of activity

Based in the findings of comprehensive research, conducted by the Executive and by independent consultants, and on the deliberations of the working group over many months, **we have decided to make 44 recommendations**. The Group met on eleven occasions, usually in a college. Many of the meetings incorporated a presentation by staff or students.

The deliberations of the Group were informed and assisted by comprehensive research on college governance by DTZ Consulting & Research. The essence of this research was benchmarking standards of governance in Scotland's Colleges against those of the independent Commission on Good Governance in Public Services: *Good Governance Standard for Public Services*¹. The principles and supporting principles included in the Standard are outlined in Annex B. In its research report, DTZ concluded that in general the standard of accountability and governance in Scotland's colleges is good.

The Group generally endorsed DTZ's recommendations. However, there were a few recommendations that encroached into matters of operational detail that the Group declined to adopt.

This was the first occasion the governance arrangements for an entire part of the Scottish public services has been benchmarked against this common standard of good governance for all public services. The executive summary of DTZ Consulting and Research's report to the Group, and a link to the full report, is attached as Annex C.

Boards of management

An early activity of the Group was to issue a questionnaire to the Chairs of college Boards of Management on the progress made over the previous 2 years in areas such as Board composition, training and the appointments process. The information gained brought a useful additional perspective to the experience and views of individual members of the Group.

The Group was asked, early in its work, to consider the possibility of removing the power of Ministers to give a direction to a Board. The Group recommended that Ministers exercise their power to exempt colleges from the 'charity test' contained in the 2005 Charities Act. The Group was unable, however, to reach an agreed view on the way forward, should Ministers be unable to agree such an exemption. Ministers ultimately decided to relinquish their power to direct a college Board, since it was clear that its retention would threaten the continued charitable status of colleges.

1 http://www.opm.co.uk/ICGGPS/download_upload/Standard.pdf

The Group makes a substantial number of recommendations on issues affecting college Boards, including appointments and the possibility of remunerating Board members. The Group considers that Board members should continue to be unremunerated.

Towards the end of the Group's work, Ministerial guidance on appointments to the Boards of public bodies changed, removing the cap on the period of membership. Taken with the research evidence from DTZ, which suggested that the current 12-year limit should not be reduced (indicating that views in the sector had evolved since the 2002-03 Review), the Group recommends that this issue should be considered further by the Scottish Executive and its partners as part of a comprehensive review, initiated by the Scottish Executive, aimed at simplifying the statutory provisions covering the constitution and proceedings of college Boards [Schedule 2 to the 1992 Act].

The issue of student membership of Boards was seen as crucial by the working group. This report suggests how student membership might be further strengthened.

Most, if not all, the issues considered by the group are very much 'work in progress'. Standards of governance in both the public and corporate sectors are constantly changing and developing. DTZ advised in its report that the number of bodies that scrutinise colleges should be rationalised. The group contributed to a submission by the Further and Adult Education Division of the Scottish Executive to the Independent Review of Regulation, Audit, Inspection and Complaints Handling of Public Services in Scotland. When it reports, I expect there will be important implications for the college sector from its recommendations. I am also aware that the Office of the Scottish Charities Regulator (OSCR) is reviewing college governance arrangements as part of its 'Rolling Review' of Scottish charities.

The Group expects most if not all of its recommendations to be taken forward by the Scottish Funding Council under 'Aim 7' of its *Corporate Plan 2006-09: Learning and Innovation: Helping to deliver Scotland's strategy for the future – Scotland's colleges, universities and Funding Council to be highly effective, world-class organisations*.

Audit Committee Report on Inverness College

Following publication by the Parliament's Audit Committee of its report on Inverness College,² the Review of Scotland's Colleges was asked by the Audit Committee to look at a number of issues which emerged from its own investigation. These included (a) the designation of college accountable officers; (b) interventions with colleges in difficulty; (c) Board member skills and experience; and (d) training. This report makes recommendations in all these areas.

² The Audit Committee's report and the Scottish Executive's response can be found at <http://scottish.parliament.uk/business/committees/audit/reports2006.htm>

James Watt College

In February 2007, the Scottish Funding Council published the report of its Further Education Development Directorate (FEDD) on governance and management at James Watt College of Further and Higher Education,³ which identified failures of governance and management in that college. While the remit of the Working Group did not extend to examining arrangements in any particular institution, I am confident that adopting our recommendations would create the conditions where such difficulties are far less likely to arise in the future.

Conclusion

As Chair of the Accountability and Governance Working Group, and on its behalf, I commend this report and its recommendations to the ROSCO Core Group. In doing so, I wish to recognise the substantial contribution and effort made by all members of the Group, and by its Secretariat.

Aileen McKechnie

Chair

Accountability and Governance Working Group

June 2007

³ http://www.sfc.ac.uk/information/information_gmap/James%20Watt%20College%20FEDD%20report%20February%202007.pdf

Recommendations

1. MINISTERIAL POWERS OF INTERVENTION WITH COLLEGES

- 1.1 Ministerial power of direction** The issue was examined in the early stages of the Working Group's activities. This was made necessary by changes to charities law, and in particular the threat to the charitable status of colleges which resulted from the power of Ministers to give a Direction to a college Board. The Working Group was agreed on the importance of retaining charitable status for the sector, but was unable to reach a unanimous view on the need to retain the power. Noting that it had never been used (other than for administrative reasons), for which alternative methods are available, Ministers ultimately decided to revoke their power to give a Direction in order to remove any risk to colleges' charitable status.

Recommend that the Scottish Executive and partners keep the issue under review, in line with the commitment given by Ministers to the Enterprise and Culture Committee in March 2006.

ACTION: Scottish Executive

- 1.2 Other statutory and non-statutory interventions** The Working Group gave consideration to the revocation of Ministers' power to give a Direction. The group noted that neither the Executive's response to the Parliamentary Audit Committee's report on Inverness College, nor the DTZ recommendations, indicated any need for further interventions. In particular, the working group noted the effectiveness of the Funding Council's 'FE Development Directorate' [FEDD] and the positive references to the FEDD made by the Audit Committee. Recommend no change to the powers of statutory or non-statutory intervention in the affairs of colleges (other than the actions recommended elsewhere in this report).

2. SUCCESSION PLANNING

- 2.1 Succession planning** Recommend that guidance on succession planning, drawing on good practice in colleges identified by DTZ, is disseminated by ASC to the college sector.

ACTION: ASC

3. RECRUITMENT

- 3.1 Remuneration of Board members** DTZ advised in its report that the college sector undertake an independent review to investigate the remuneration for board members with the objective of maximising the quality and contribution of board members. The Working Group concluded that such a review was unnecessary as there was no consensus in the sector that this was a particular issue for board members. Also, the issue was examined in detail as part of the Executive's Review of Governance and Accountability, which reported in 2003, and it was agreed then that no change should be made. The Group did not consider there to have been any major changes in the relatively short period since that previous review which could lead to a different conclusion. The Group generally felt that the main issue was less about remuneration and more about the issue of 'feeling valued', and that other ways of demonstrating that college board members are valued should be pursued. Recommend that Board members should

remain unremunerated. Recommend that further consideration is given, however, to improving other ways of rewarding and valuing Board members.

ACTION: Scottish Executive

- 3.2 Nominations committee** Recommend that the Principal should not sit on the Nominations Committee.

ACTION: Scottish Executive, ASC

- 3.3 Organisations should offer more than one candidate for the Board to choose from** Considered, but recommend no change. ‘Good practice’ however should be highlighted in ASC guidance.

ACTION: ASC

- 3.4 Retain student and staff representation at current level** Recommend that the current level of student and staff representation (one academic staff, one support staff) remains unchanged [but see later recommendation on “Support for student Board members”]. Recommend that consideration be given to the development of a standard service level agreement for student sabbatical officers for those colleges that have them in order to establish a common understanding of the duties of a sabbatical officer.

ACTION: NUS Scotland, ASC

- 3.5 Tenure of Board members** Recommend that the Funding Council, along with other stakeholders, continues to review the tenure of Board members, taking account of recent changes to policy on public appointments. This should take place alongside a comprehensive review, initiated by the Scottish Executive, aimed at simplifying Schedule 2 to the 1992 Act. Recommend that Boards be given more flexibility to appoint ordinary board members for a period less than four years.

ACTION: SFC, Scottish Executive, ASC, STUC, NUS Scotland

- 3.6 Recruitment to Boards** The Association of Scotland’s Colleges conducted on behalf of the Working Group a survey of colleges to profile the membership of college boards. A copy of the analysis is at Annex D. Recommend Boards, in making appointments, should take account of full the range of criteria expected (eg skills, experience, equality, diversity).

ACTION: Scottish Executive, SFC, ASC

- 3.7 Recruitment process** Recommend no change to current ability of Boards to appoint their own members, or to the procedure for appointing the Chair.

4. INDUCTION

- 4.1 Board induction arrangements** Recommend that good practice guidance be developed by the ASC as an integral element of a wider training and development framework.

ACTION: ASC

5. TRAINING AND DEVELOPMENT

- 5.1 Ongoing development of Board members** Recommend development of a good practice framework by the ASC. Recommend that Chairs should have a role to review training needs of members. Recommend that SFC, working with other stakeholders and taking account of the success of SPARQS, develop a support mechanism for staff Board members building on, but avoiding duplication of, existing arrangements.

ACTION: SFC, working with ASC and STUC

6. BOARD STRUCTURE AND MEETINGS

- 6.1 Structure** Recommend that Boards be encouraged to review their structures and processes to optimise impact of members, noting that the contribution of members is voluntary and limited.

ACTION: Scottish Executive, SFC, ASC

- 6.2 Size and composition** Recommend no change to current size. Recommend no change to requirement that 50% should have a commercial/professional etc background, but that the Scottish Executive give Boards clarification of the potentially wide interpretation of that provision (eg that it can include local authority sector, charity and community sector, etc).

ACTION: Scottish Executive

- 6.3 Role of staff and student members** Recommend that training arrangements should emphasise the role of student and staff members (ie full Board members with identical responsibilities to others).

ACTION: NUS Scotland, STUC, ASC

- 6.4 Training for staff Board members** Recommend that all Boards should have a formal training programme for staff Board members, with a focus on core governance skills and behaviour.

ACTION: Scottish Executive, ASC, STUC

- 6.5 Restricted sessions at Board meetings** Recommend that Boards should exclude members only in exceptional circumstances (consistent with the statement of Board member responsibilities). Recommend that guidance be issued on this issue.

ACTION: Scottish Executive

6.6 Encouragement of co-option Recommend that Boards be encouraged to make greater use of their ability to co-opt members to committees of the Board, including members of staff, with a view to improving succession planning, broadening representation, providing expertise and learning from other colleges.

ACTION: Scottish Executive

6.7 Information to Boards Recommend that Boards seek to ensure the enhancement of the quality of information presented to boards, taking account of relevant issues identified in DTZ's report.

ACTION: Scottish Executive

7. BOARD PERFORMANCE

7.1 Sharing good practice Recommend that ASC establishes a broad based 'community of practice'-style group for accountability and governance issues, tasked with the identification and sharing of good practice. [NOTE The STUC view is that the group should be established by the Scottish Executive rather than the ASC.]

ACTION: ASC

7.2 Poor performance Recommend that Boards should have in place arrangements for evaluating their own performance, including that of individual members, committees and the Chair.

ACTION: Scottish Executive, SFC, ASC

7.3 Academic quality Recommend that all Boards are closely involved in issues of academic quality, taking account of existing successful examples in other colleges and specifically in the approval and monitoring of quality assurance and improvement strategies.

ACTION: Scottish Executive

8. RISK MANAGEMENT

8.1 Good practice Recommend that good practice in risk management be disseminated by the ASC, also highlighting the key role of the audit committee and other specialist committees. [NOTE The STUC consider that dissemination should be undertaken by the SFC or Audit Scotland, rather than the ASC.]

ACTION: ASC

8.2 Risk registers Recommend that Boards be encouraged to use a separate risk register for each significant capital project. Registers should also be kept under regular review.

ACTION: ASC, SFC

9. FINANCIAL MANAGEMENT

9.1 Annual financial cycle In its report DTZ advised that colleges' current annual financial cycle should be changed to one based on three years. The Working Group considered this and concluded that this was not appropriate. This was mainly because such an arrangement would only provide a longer planning horizon for part of the three-year cycle and it could reduce flexibility to respond to changes in the total quantum of funding. Recommend no change in annual financial cycle.

9.2 Board member training Recommend that Board members receive appropriate financial training.

ACTION: ASC

9.3 Treatment of pension liabilities The DTZ report highlighted concerns about the impact of the treatment of pension liabilities arising from colleges' participation in local government pension schemes prior to incorporation in 1993, given these now appear to have been under-funded. Recommend that the Funding Council review the implications for colleges.

ACTION: SFC

10. ACCOUNTABILITY

10.1 Possible statutory designation of college Accountable Officers The Working Group considered the designation of college 'Accountable Officers'. The Group recognised that college principals could be called to give evidence before the Audit Committee whether or not they were statutory accountable officers and that the Financial Memorandum between the Scottish Funding Council and colleges and universities imposes responsibilities on chief executives that are analogous to those of 'Accountable Officers'. Given that statutory designation by the Principal Accountable Officer of the Scottish Executive or non-statutory designation by the Scottish Funding Council would interfere in decisions that should properly be taken by the college board of management (namely the appointment of the principal), the Group concluded that principals should not be designated as 'Accountable Officers'. This was considered appropriate and sufficient. The Group learned that since the establishment of the Scottish Parliament in 1999, 'Dear Accounting Officer letters' no longer apply in Scotland. Recommend no change to current arrangements.

10.2 Role of college Accountable Officers Recommend that SFC issues clarification on the role of "Accountable Officers".

ACTION: SFC

11. BOARD MEMBER ENGAGEMENT

11.1 Good practice Recommend good practice be disseminated to colleges by the ASC, drawing on DTZ research evidence and the ROSCO desk research. [NOTE The STUC consider that all stakeholders should be involved in dissemination, and not solely the ASC.]

11.2 Visibility of Board members To improve the connectedness and visibility of Board members to external and internal stakeholders, recommend that visits, events and other communication opportunities should be employed.

ACTION: Scottish Executive, SFC, ASC

11.3 Awareness of staff and student views Recommend that events such as internal focus groups and conferences should involve Board member participation wherever appropriate.

ACTION: Scottish Executive, SFC, ASC

12. STUDENT REPRESENTATION ON BOARDS

12.1 Support for student Board member(s) Recommend that Boards be encouraged to consider the creation of sabbatical posts. Recommend that Boards be encouraged to invite a second student nominee to attend Board meetings to provide support to the existing student Board member. Recommend Boards approve dedicated administrative support to the student association and its President.

ACTION: Scottish Executive, NUS Scotland, SFC, ASC

12.2 Integration of student members: Acknowledging that student representatives have much shorter terms than other Board members, recommend that Boards bring the student member up to speed with all relevant issues as soon as possible.

ACTION: Scottish Executive, NUS Scotland

13. STAFF GOVERNANCE STANDARD

13.1 Development of staff governance standard: Recommend that the issue be remitted to the Scottish Executive's Roundtable Forum.

ACTION: Scottish Executive

ANNEX A

Accountability and Governance Working Group

Remit

The remit of the Accountability and Governance Working Group of the Review of Scotland's Colleges was to:

“provide Scottish Ministers with a robust evidence base and, where appropriate, informed recommendations for change, upon which sound decisions can be taken on how to fund and equip Scotland's colleges to meet future challenges and demands. In particular the review will build on the work of previous reviews and examine the arrangements for accountability and governance in incorporated colleges including:

- A. the broader regulatory landscape in which colleges operate, and the potential overlap of jurisdictions;
- B. whether Boards should be responsible for appointing their own membership, including the Chair of the Board;
- C. strengthening learner participation;
- D. enhancing the capacity of Board members;
- E. whether the Chair and other Board members should be remunerated;
- F. the length of Board membership for Chairs and staff representatives;
- G. the roles of, and relationships between, the Chair, Board and Principal to ensure maximum quality oversight, including the Board's ability to obtain independent advice and the roles, responsibilities and relationships of the Accountable Officer;
- H. whether there is a continuing need for powers of Ministerial intervention;
- I. the composition of Boards, including whether more needs to be done to ensure diversity and the current statutory requirement for 50% of Board members to have capacity in “industrial, commercial or employment matters or the practice of any profession”.

Membership

Aileen McKechnie, Scottish Executive (Chair)

Margaret McLachlan, Scottish Executive (Secretariat)

James Alexander, National Union of Students (Scotland)

Col Baird, Scottish Executive

John Cassidy, Scottish Trades Union Congress

Neil Cuthbert, Association of Scotland's Colleges

Suzanne Dawson, Chair of Borders College, representing ASC (substitute)

Mary Dignam, Scottish Trades Union Congress (replaced Fiona Farmer)

Martin Fairbairn, Scottish Funding Council (replaced Jennifer McLaren)

Fiona Farmer, Scottish Trades Union Congress

Ian Graham, John Wheatley College, representing ASC

Brian Hay, Edinburgh's Telford College, representing ASC (substitute)

Marian Healy, Scottish Trades Union Congress (substitute)

Graeme Hyslop, Langside College, representing ASC (recurring substitute)

Jill Little, National Union of Students (Scotland) (replaced James Alexander)

Linda McKay, Forth Valley College, representing ASC

Jennifer McLaren, Scottish Funding Council

Ian Macpherson, South Lanarkshire College, representing ASC (replaced Sandy Watson, Angus College)

George Reid, Scottish Executive

Sandy Watson, Angus College, representing ASC

Annex B

PRINCIPLES AND SUPPORTING PRINCIPLES OUTLINED IN 'GOOD GOVERNANCE STANDARD FOR PUBLIC SERVICES'¹, INDEPENDENT COMMISSION ON GOOD GOVERNANCE IN PUBLIC SERVICES, 2004

1. Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users

- 1.1 Being clear about the organisation's purpose and its intended outcomes for citizens and service users
- 1.2 Making sure that users receive a high quality of service
- 1.3 Making sure that taxpayers receive value for money

2. Good governance means performing effectively in clearly defined functions and roles

- 2.1 Being clear about the functions of the governing body
- 2.2 Being clear about the responsibilities of non-executives and the executive, and making sure that those responsibilities are carried out
- 2.3 Being clear about relationships between governors and the public

3. Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour

- 3.1 Putting organisation into practice
- 3.2 Individual governors behaving in ways that uphold and exemplify effective governance

4. Good governance means taking informed, transparent decisions and managing risk

- 4.1 Being rigorous and transparent about how decisions are taken
- 4.2 Having good quality information, advice and support
- 4.3 Making sure that an effective risk management system is in operation

5. Good governance means developing the capacity and capability of the governing body to be effective

- 5.1 Making sure that appointed and elected governors have the skills, knowledge and experience they need to perform well
- 5.2 Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group
- 5.3 Striking a balance, in the membership of the governing body, between continuity and renewal

¹ http://www.opm.co.uk/CGGPS/download_upload/Standard.pdf

ACTION: ASC

6. Good governance means engaging stakeholders and making accountability real

- 6.1 Understanding formal and informal accountability relationships
- 6.2 Taking an active and planned approach to dialogue with, and accountability to, the public
- 6.3 Taking an active and planned approach to responsibility to staff
- 6.4 Engaging effectively with institutional stakeholders

Annex C

Report of Research by DTZ Consulting & Research

EXECUTIVE SUMMARY OF REPORT BY DTZ CONSULTING & RESEARCH

AVAILABLE FROM

Report

<http://www.scotland.gov.uk/Publications/2007/02/05093435/0>

Research Findings

<http://www.scotland.gov.uk/Publications/2007/02/05093416/0>

Research Aims

1. DTZ Consulting & Research was appointed to undertake research on Accountability and Governance as part of the Scottish Executive's Review of Scotland's Colleges (RoSCo), with the aim of identifying good practice in accountability and governance by learning from current practice in Scotland's colleges and from the experience of other public and private sector organisations. The aim of the research was also to inform public policy; identify implications for funding decisions; and inform consideration of changes to the accountability and governance arrangements for colleges and for Board member training and development.

Overview of Accountability and Governance

2. **Overall Assessment** – in support of our conclusions from the desk research, the DTZ Team's assessment is that, in general, the standard of accountability and governance in Scotland's colleges is good. However, practice has ranged from 'average' to the 'very good', indeed 'exemplar' in some cases. Our assessment has been made against the good practice principles and standards specified in the 'Good Governance Standard'⁴.
3. **Good Practice** – based upon the case study colleges that were assessed to have above average Board performance, the following strengths were identified:
 - **Skills of Board members** – a good skills mix and an extensive range of business and community experience. However, the actual calibre of governance displayed by Board Members is difficult to determine from an assessment of this kind;
 - **Commitment of Board members** – this is, generally, found to be relatively high for non-remunerated posts. Where there have been problems of commitment this usually relates to LEC Board Members, where they are in place. We conclude this may reflect the fact that there is no competitive screening for such positions, but a nomination from the LEC's 'Skills and Learning Directorate';

⁴ In 2004, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Office for Public Management established an Independent Commission on Good Governance in Public Services under the Chairmanship of Sir Alan Langlands to develop a common code and a common set of principles for good governance across the public services. In January 2005, the Commission published "The Good Governance Standard for Public Services" which builds on the Nolan Principles by setting out six core principles of good governance for public bodies, each of which has its own supporting principles.

- **Understanding of governance** – with the exception of the student Members (for whom the often short duration of such Board positions can be limiting) Board Members' understanding of governance is good. They understand their role is as an independent governor not as a representative from another organisation. The only exception to this is staff Board Members who often adopt a strong representational role on behalf of their Union;
 - **Challenger role** – from sitting in on a number of Board meetings, there is good evidence that Boards provide constructive challenge to the Principal and SMT; and
 - **Team working** – the Boards do work as teams and there is evidence of networking and informal communication outside the formal Board meetings and sub-committees.
4. **Poor Practice** – as a counterpoint to the above good practice there are areas where the performance of a number of Boards needs to be improved, including:
- A recognition of the importance of **succession planning** and how this can facilitate recruitment, induction and the performance of Board members;
 - A more professional and **in-depth induction** process that is integrated into the training and development system;
 - Although recruitment is, in general, handled well, LEC nominations are not subject to a **competitive screening process**;
 - The inclusion of the Principal in the appointments process for Board Members is bad practice and needs to be addressed;
 - **A greater time commitment** from Board Members in areas such as more regular attendance at Board meetings, participation in college events, the reading of board papers and attendance at training events; and
 - The **quality of information presented to Boards** could be enhanced in a number of colleges – in particular there is a tendency to produce too much information with little attempt to present this in a prioritised and professional presentation.
5. **Scope for Improvement** – in summary, this review has highlighted that although Board performance is relatively good, there is scope to make a significant improvement if a number of the development areas highlighted in this study are addressed. These relate to the structure, systems and procedures of accountability and governance – changes which will further improve the execution of Board governance, and help move the whole sector to the standards of the exemplar colleges we visited. A summary of each of the chapters of the report and the recommendations is set out below:

Succession Planning, Recruitment and Skills

6. **Succession Planning:** Unlike recruitment, there is no systematic approach to succession planning across the Scottish college sector. However, there were a number of examples of good practice that could be built upon and shared within the sector, particularly:
 - Co-opting unsuccessful candidates on sub-committees or college academic boards
 - Use of 'shadow' Board Members – particularly for student and staff Members
 - The proactive development of Board Members for future chairing responsibilities – either for the main Board or sub-committees.

7. Given the 'thin' market for good calibre board members (see section 2.3 on Recruitment) effective succession planning is all the more important in the college sector, as benefits include:
 - A more secure pipeline of Board Members with consequential lower governance risk
 - A faster and more cost-effective recruitment process
 - A better planned and more effective approach to the filling of positions such as the Chair of the main Board and Chair positions for sub-committees; and
 - Board Members that are further up the learning curve on both governance and the college sector prior to taking up appointments.

It is recommended that good practice guidance in succession planning is developed and is disseminated to the college sector.

8. **Recruitment:** The college sector applies a suite of recruitment methods that are fit for purpose including open advertisement, proactive targeting, internal networking and reserve candidates. Good practice examples include:
 - The collaborative open recruitment exercise undertaken by the Lothian colleges
 - The engagement of colleges with short listed candidates in a social setting, e.g. lunch/dinner, to familiarise candidates with the Board and the college;
 - The skills audit and proactive targeting of skills gaps.

9. The only bad practice issues identified relate to: the engagement of the Principal in the appointments process; and there is also a widely held misconception by Boards that they have to accept candidates from external nominating bodies (specifically LECs) without any screening and competitive selection process.

10. In terms of tenure, the majority of colleges would like to retain a maximum tenure period of 12 years for flexibility in retaining high calibre Board Members, particularly where there is a small and/or dispersed pool of good quality applicants.

11. Our recommendations on recruitment are as follows:

- A sector-led independent review to investigate the pros and cons of remuneration for Board Members to maximise the quality and contribution of Board Members and to assess impact on easing any skills gaps. Remuneration of all Board members is not recommended, not least due to constraints of charitable status. Options for remuneration might include the Chair only or the Chair and Chairs of sub-committees and guidance should also be given on levels of remuneration, should such an option be deemed appropriate.
- The Principal should not sit on the Nominations Committee, nor be involved in any way with the work of the Committee and the nomination of candidates for approval by the Board.
- For external organisations nominating Board Members, specifically LECs, they should be encouraged to put forward more than one candidate and they should be assessed objectively along with other applicants.
- Given the importance of having ‘representation’ from within the staff and student bodies, the process of seeking elected Members from these internal stakeholder groups and numbers should be maintained: one Board Member from the student body and two from the staff (one academic and one support).
- The tenure of Board Members should be retained at a maximum of 12 years. A staggered system of appointments is recommended incorporating the use of split four year terms: for example, an initial two year term, followed by four years, etc.

12. **Recruitment Outcome and the Skills Mix:** A number of colleges in the survey highlighted specific difficulties in recruiting Board members including specific skills’ gaps such as legal and computing /IT; ensuring gender balance; and meeting disability and ethnicity objectives. Overall there was a very good mix of skills across college Boards in Scotland and a balanced age profile, although there is an imbalance in gender profile in favour of males. We recommend that in reviewing Board profiles, the whole range of criteria – skills, experience, and equality and diversity considerations are considered.

Induction, Training & Development

13. **Induction:** Good quality induction is critical to the integration and development of Board Members. Unfortunately, many colleges are still focused on a simplistic one-day event. However, a number of examples of good practice were identified:
 - Role shadowing and co-option to sub-committees and academic groups prior to appointment;
 - Buddy system once appointed – examples include one-to-one links between Board members and SMT and with academic departments;
 - Provision of a high quality induction pack;
 - Site visits to departments, both academic and support (as part of an on-going development programme for Board Members);
 - Co-ordination (where possible) of board appointments to enable Board Members to attend the Board away-day/residential sessions;
 - Sitting in on all sub-committees as an observer during the first few months to ‘sample’ the range of responsibilities at sub-committee level.
14. Given the inadequate standards of induction highlighted later in Section 3, it is recommended that good practice induction guidance be developed and disseminated to the sector as an integral element of a wider training and development framework.
15. **Training & Development:** More than 50% of college Chairs identified that there was scope for improvement in ‘the provision of on-going training and development support’. Particular issues facing the college sector are:
 - The ‘lack of time’ for training and development – or more accurately the opportunity cost for Board Members with full-time jobs attending training events;
 - The infrequency of training events run by ASC. A suggestion was put forward to develop a collaborative training programme with Leadership Foundation for Higher Education;
 - The failure of Board Members to take personal responsibility for reviewing and addressing their training and development requirements on a regular basis
 - The lack of appraisal reviews for individual Board Members to better understand their performance and identify any training and development needs
 - The longer term issue of on-going development support for Board Members relating to changing policy context, guidance from SFC, etc., is critical – beyond the induction process which tends to concentrate on governance skills;
 - The particular training and development needs of staff and student Board Members should be recognised.

16. DTZ recommends that the whole training and development area be reviewed with the aim of developing a good practice framework for the 'on-going development' of Board Members. Specific recommendations include:
- Giving greater recognition to the time commitments required from Board Members if training and development is to be delivered effectively i.e. being honest about the actual time commitments required (with possible implications for remuneration)
 - Provision of an integrated governance training programme by ASC and LFHE
 - The performance of individual Board Members should be appraised annually, with any training and development needs being identified and addressed
 - The development of a bespoke support mechanism to meet the unique training and development requirements of both staff and student Board members
 - A revamp of the ASC Guide to reflect the recommended changes.

Roles & Responsibilities

17. Respective roles and responsibilities between the Board members and executive teams are well understood. While there is variable practice on information provision, Board members are usually sufficiently skilled to work with Principals to improve the quality of information and reports where required. Other points raised were:
- Clarity in decision-making and delegation to Committees and Executive Teams is helped through the production of an explicit scheme of delegation.
 - Board members commonly raise the issue of being bogged down with bureaucracy and micro-level KPIs. This appears to be at the cost of having an appreciation for the quality of outcomes and overall impact of the college's work in the wider community.
 - There is some confusion over the 'representative role' of student and staff Board members, which can give rise to tensions.
 - Some colleges have appointed independent clerks to the Board, and this can complement the traditional internal Secretary role filled by a college employee.
18. DTZ has few recommendations to make in respect of Board roles and responsibilities, as colleges appear to be working in line with good governance standards. However, we recommend that specific **training is required for staff Board members** in particular to ensure their role at Board level is understood, i.e. not to work at Board level in representing the best interest of staff, but to provide a staff perspective for the benefit of the good governance of the college as a whole. While this principle is also true for student Board members, we did not find the confusion to be so marked for students' role, possibly due to provision of training through Student Participation in Quality Scotland (SPARQS).

Board Structure & Meetings

19. Board sub-structures and the number of meetings vary. The model of inclusion of staff and students on the Board is valuable when the role is properly understood and supported. However, there is a tendency to adopt a 'representational' approach. The use of restricted sessions appears to be common. Recommendations include the following:
- Boards should aim for an efficient structure that enables sufficient scrutiny, while making the most of volunteer members' limited time and ensures strategic rather than micro-management.
 - Board size should certainly not increase above 16. If there was to be any move to change the structure of Board numbers there should be a modest reduction in size. However, the scope to reduce size is very limited due to the significant number of sub-committees that have to be serviced (an average of 6 per college).
 - As noted in section four, it is not good governance to adopt a representational model for staff and students, and efforts should be made through training to ensure absolute clarity over their respective roles on the Board.
 - The use of restricted meetings should be minimised to nurture Board trust and cohesion. DTZ's working knowledge of other sectors (HEIs and Housing sectors in particular) suggests that while not unknown, restricted Board meetings are uncommon. While it is recognised that there may be occasional restricted sessions, these should certainly be exceptional rather than the rule to ensure that trust between all Board members is nurtured. It is recommended that the college sector develop a consistent policy with regard to the use of restricted meetings, specifically:
 - The Board subjects that make restricted meetings appropriate; and
 - The Members of the Board that should be excluded during a restricted session.
 - It is good practice to have Board involvement in setting and monitoring academic and quality standards, and some Boards have recently restructured to achieve this at committee level.

Evaluation of Board Performance

20. In respect of **Board performance**, we have found that:
- Self-evaluation of Board performance is the norm (92% of colleges). This typically occurs at the Board away-days or residential sessions, and can involve an external facilitator. There is also evidence that the ASC checklist is used.
 - Self-evaluation of individual Board Members is much more limited (25% of colleges). Again, colleges can use external specialists. Effective follow-up on training and development implications is critical.

- Peer review of the Chair is the exception rather than the rule (just two colleges claim to review their Chair's performance). DTZ believes that a 360° appraisal of the Chair is good practice and should be introduced across the sector. This reflects the critical importance the Chair plays in the establishment and delivery of good governance.
21. DTZ recommends that good practice guidance be submitted to Boards recommending that Chairs and Chairs of Sub-Committees be subject to peer review (see also recommendations for enhancement of the Community of Practice under dissemination of good practice below).
 22. **Powers to Address Poor Board Performance** are currently limited, as set out in Schedule 2 of the Further and Higher Education (Scotland) Act 1992. It is also understood that OSCR intends to scrutinise college constitutions to ascertain whether a trustee who has not acted in the interests of the charity can be dismissed. It is not clear that the current provisions enable such action. Therefore, we recommend that powers of college Boards be strengthened to enable them to address performance problems with Board Members more quickly and effectively than current legislation permits.

Strategy, Risk and Finance

23. **Strategic Planning & Monitoring** - we have found effective strategic planning systems and a good level of engagement of Board Members with the Strategic Planning of the college. These processes are supported by away days which help to inform/revise draft strategic plans, but also allow interaction between academic and support staff and the college Board of Management. Board Members also appear to be very aware of the need to focus on monitoring of strategy and operational plans to ensure the college remains on-track. DTZ has no specific recommendations in this area.
24. **Risk Management** – in general, the majority of Chairs believe that they have 'effective' or 'very effective' risk management processes (80%). Furthermore, their effectiveness in addressing highlighted risks is assessed to be even stronger at nearly 90%. The case studies supported these findings, with Boards treating the risk management process very seriously. This was evidenced by the range of good practice that was identified. The objective is to encapsulate and share this good practice.
25. DTZ recommends that good practice in risk management be disseminated throughout the college sector. This should draw upon the following good practice findings:
 - The role of Audit Committees and the specialist sub-committees in delivering risk management is absolutely critical;
 - The use of separate risk registers where significant capital projects introduce a new area of risk;

- Risk registers need to be regularly reviewed, calling upon the sub-committees and executive/senior management team expertise, produced in a format that is simple for non-specialists to understand, perhaps using “traffic light” colour coding;
- Communication of Performance Indicators – either in real time (say via a college intranet) or regular distribution, a short list of the key PIs that are of critical importance to the college, such as recruitment, retention, WSUMs against target and key financial PIs against budget (e.g. cashflow position, as treasury issues are critical), should be communicated.

26. **Financial Management** – in DTZ’s view college financial management appears to be rigorously pursued by Board Members and the strength of the audit culture, the external pressure on funding and the business background of many members has helped significantly in this regard, in keeping it at the forefront of thinking. This is supported by the views of the stakeholders consulted and the survey of college Chairs, of whom >90% believe that they are either ‘effective’ or ‘very effective’ in monitoring and controlling college finances. The main constraint facing colleges is the annuality of SFC funding and the problems this presents in managing their business.

27. We make the following recommendations in respect of financial management:

- There was a very strong view expressed from the college sector to change the current annual financial cycle to one based on three years and DTZ endorses this as a key recommendation of this study.
- As part of the induction process it is recommended that new Board Members are offered specific training to fully understand the financial systems, ‘jargon’ and acronyms in use in the college sector and the nuances of its supply-led approach (often difficult for Board Members with a private sector background to grasp); and
- The implications of how the External Auditor appointed by Audit Scotland is going to treat pension liabilities is one of the key concerns of colleges. It is recommended that SFC review any implications for the colleges and, in particular, to identify the extent of differential impacts and how they are reported.

Accountability & Engagement

28. **Accountability:** There is clarity amongst Boards and college Principals as to the ‘Accountable Officer’ responsibilities of the Principal to SFC, as per the Financial Memorandum. However, there was less clarity over the legal Accountable Officer status which resides with the Chief Executive of SFC and his subsequent accountability to the Scottish Parliament.

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29. In relation to public sector scrutiny, there was an overwhelming response that the level of scrutiny in the college sector is excessive in terms of:
- The number of organisations involved in scrutiny;
 - The fact that these organisations are not perceived to be ‘joined-up’, with significant consequential inefficiencies for the sector in terms of resources tied up in duplicated and non-productive tasks; and
 - The manner in which failings in governance are pursued. It tends to be an ‘all or nothing’ approach so that when a serious problem is identified the level of investigation is disproportionate.
30. A number of recommendations are made regarding accountability:
- Consideration should be given to the circulation of Accounting Officer Letters to Principals; and
 - There should be a rationalisation in the number of bodies which scrutinise the college sector. It is recommended that the various bodies to whom colleges are accountable need to engage with each other, as with the Convergence Steering Group, and ideally agree a standard set of PIs that satisfies all and have one annual collection exercise conducted, and thereafter share that information, with the aim of reducing the bureaucratic burden on colleges.
31. **Engagement** – engagement with internal stakeholders (staff and students) is stronger than for external stakeholders, such as the wider community, local employers and the self-employed. However, there are development issues facing Board engagement across all stakeholder groups:
- Ensuring that governors are sufficiently knowledgeable about, and up-to-date with, the college’s core activities and the wider college sector is a key issue for colleges
 - Communication between the Board and the staff is typically through line management channels to the senior management team and the Principal and via the college intranets for minutes and agendas, excluding restricted items. College principals typically provide regular debriefings to staff. In general, this seems to work well.
 - Engagement with learners is particularly problematic due to the difficulty of securing a student Board Member and this appears to us to be especially acute where students’ associations and class representative structures are weak.
 - There is also a need to provide training and support for staff Board Members to better understand their role and how best to add value;
 - Community engagement is generally weak and various means have been attempted to address this, ranging from using professional PR consultancy to wider engagement in community planning; and

- Business engagement is typically at an executive or departmental level, where the college is customer facing. However in a number of colleges, Board Members with particular expertise have been assigned to advisory boards or for departmental/institute liaison.

32. It is recommended that good practice in stakeholder engagement be disseminated to the college sector, drawing on the evidence from DTZ's research and the wider desk review. Examples of good practice include:

- Improving the 'visibility' of Board Members to internal stakeholders via Departmental visits, attendance at college events, and communication via the college Intranet and newsletter;
- Listening to staff and students' views, through focus groups or conferences held periodically, is an effective way to broaden and devolve college governance;
- Provision of a formal training programme for staff Board Members as part of the induction process, with a focus on core governance skills and behaviour;
- Support for the student Board Member which can include the following: provision of sabbatical posts to support elected (student President) Board Members; co-opted Vice-Presidents to provide moral and practical support to the President; providing dedicated administrative support to the Student Association and President;
- Holding regular presentations by staff at board meetings to develop Members' understanding of the college; and
- Engaging professional PR and communications specialists to work with the Board in the development and implementation of a communications strategy for external stakeholders.

Future Drivers & Implications

33. We conclude that the following key challenges face the college sector:

- It is clear from case study evidence, that from a board perspective, concerns regarding constrained funding will remain, in the short-term at least, the key driver for college strategy. It is our view, informed by stakeholder and college consultees, that this concern will drive requirements for increased focus on economies of scale, either through collaborative delivery of provision, shared services and economies in sharing staff development, or through college-led, rather than SFC-directed, mergers;
- Inter-Board working will become more significant;
- Boards of management may become further imbued with professionalism and this may, against a backdrop of competitive recruitment for governors, give rise to consideration of remuneration in some form for board members;
- Demography will also be highly influential in driving trends in employment and changing the demand profile for college provision;

- The economic development role and value of the college sector will become more explicitly recognised leading to greater engagement in economic development;
- There will be greater emphasis on collaboration between colleges and HEIs, and between colleges and schools;
- There may be significant change within the structure of public sector organisations, along city-region lines, which may impact upon the colleges; and
- There will be a greater requirement for SFC and others to further reduce the bureaucratic burden faced by Boards, as “trust in the sector’s capabilities grows”.

Dissemination of Good Practice

34. The study brief requested guidance on ‘how best to disseminate good practice’. A wide range of good practice has been identified throughout the report and in some depth in Section 10. Our dissemination proposals represent the views of DTZ and they have not been ‘tested’ with the sector and, therefore, it is recommended that these proposals be discussed with the principal organisations that would have responsibility for dissemination, specifically the Scottish Executive, ASC, SFEU and SFC, and that an agreed Dissemination Plan is approved for roll-out. However, DTZ recommends a ‘layered approach’ to dissemination:

- **Level 1 – communication of report findings**, to ensure the findings of the ‘Review of Accountability and Governance’ are communicated effectively to the college sector and that there is clarity within the sector on the key findings of the review, and confirmation and further development of the key good practice recommendations that the sector would like to take forward. There are a number of approaches that may be taken:
 - issue of hard copy reports & publication on the Scottish Executive website;
 - holding a seminar in the college sector to which Chairs are invited to review the findings, possibly using break-out groups to review good practice topics;
 - a high level policy workshop to review high level accountability and governance good practice issues highlighted in this report, e.g. rationalisation of scrutiny and monitoring in the college sector; and
 - possibly providing bespoke feedback to the college sector through a report of the quantitative results with their position/ranking highlighted and/or bespoke feedback to the eight case study colleges – the latter being qualitative in nature.
- **Level 2 – preparation of ‘good practice pack’** to produce good practice guidance in an easy to communicate and user-friendly format. A publication complementary to, and supportive of, the ASC Guide, taking those good practice recommendations that the sector wishes to take forward, summarising them in a high quality folder format with inserts. In theory there might be one page per good practice theme, with the top half covering good practice guidance and the bottom half giving real life examples, such as:

- Sources of information on governance for Board Members;
- Risk register with traffic light system; and
- Model examples of sub-committee reports, colour coded for each of the committees, containing high quality management information and statistical presentation in a very user-friendly format.
- **Level 3 – training and development support** - to disseminate and embed good practice through training and development, through:
 - ASC/SFEU to embed good practice in their course provision; and
 - Establish communication channels between ASC and the Leadership Foundation for Higher Education (LFHE), to assess the feasibility of integrated course provision across the university and college sectors to achieve economies of scale, and to exchange good practice for the benefit of both sectors.
- **Level 4 – continuous improvement** - to ensure that the momentum of this Review is maintained through a process of continual challenge to, and enhancement of, accountability and governance in the college sector and to ensure the sector is at the forefront of good practice. This might involve formation of an **enhanced 'Community of Practice' (CoP)**, built upon the current model involving Secretaries to the Board, to take ownership and lead the on-going development of good practice in accountability and governance. It is recommended that representation also includes Chairs of Boards and be drawn from those colleges that are demonstrating good practice and where there is real commitment to lead from the front and exchange good practice. A number of specific initiatives might be pursued by such a group:
 - Chairs sitting in on other college Boards to share good practice – this could work both ways: an exemplar Chair helping a struggling Board; or the Chair of a struggling Board attending a good practice Board.
 - Chairs from good practice colleges presenting at events, seminars or annual meetings of ASC
 - Regional task groups being formed to share good practice and learn from each other such as in the good practice model in the Lothians where colleges collaborate in recruitment of Board Members and board member development;
 - Sectoral task groups being formed to share good practice and learn from each other – for example those with an agri-rural focus; or those with a specialist focus such as the Glasgow city centre colleges, etc; and
 - Creation of an electronic 'notice board' via a CoP extranet to enable Board Members to share experience across the college network as part of a process of continuous improvement, on a restricted access basis. For example, via this medium, it would be possible to post 'Accountable Officer' circulars from the Scottish Executive.

Annex D

Results of Survey of Lay Composition of Scotland's
Incorporated colleges, July 2006¹

Return: 39 incorporated colleges (100%)

Age

Age Range	Colleges	Pre-92 UK HEIs ²	Post-92 UK HEIs	All UK HEIs
Over 70	5 (1%)	56 (7%)	8 (2%)	64 (5%)
60 to 70	93 (22%)	365 (45%)	154 (31%)	519 (40%)
50 to 60	175 (40%)	268 (33%)	201 (41%)	469 (36%)
40 to 50	128 (30%)	106 (13%)	103 (21%)	209 (16%)
Under 40	29 (7%)	16 (2%)	25 (5%)	41 (3%)
Total	430	811	491	1302

According to the Scottish Councillors 2003³ Report :

- less than 1% were under 30 years old;
- 2% were under 50 years old;
- 50% were aged between 45-59 years;
- 30% were over 60 years old.

Ethnicity

Six colleges each have one member of the board from an ethnic minority.

According to the Scottish Councillors 2003 Report just over 1% of councillors were from ethnic minorities, compared to 2% of the Scottish population in 2003.

Disability

Six colleges each have one member of the board with a disability.

According to the Scottish Councillors 2003 Report almost 9% of councillors had a disability or long-term illness.

¹ The survey did not include college principals, staff members or student members

² HEI figures from Committee Of University Chairmen (CUC) Report on Governance Questionnaire issued in January 2006
<http://www.shef.ac.uk/cuc/pubs.html>

³ Scottish Councillors 2003 Report - <http://www.scotland.gov.uk/News/Releases/2003/12/4697>

Gender

Gender ⁶	Male	Female	Total
Scotland's Colleges	74%	26%	430
Scottish Executive Public Appointments (October 2006) ⁷	64%	36%	644
FTSE 100 (November 2004) ⁸	91%	9%	983
FTSE 250 (November 2004) ⁹	94%	6%	1917
Scottish Councillors (December 2003) ¹⁰	78%	22%	1222

6 Comparable figures for HEIs are not available. CUC report from January 2006 states "more than 25% of HEIs have a lay membership which is more than 80% male".

7 <http://www.scotland.gov.uk/Topics/Government/public-bodies/public-appointments>

8 DTI Building better boards (<http://www.dti.gov.uk/files/file19615.pdf>)

9 DTI Building better boards (<http://www.dti.gov.uk/files/file19615.pdf>)

10 <http://www.scotland.gov.uk/News/Releases/2003/12/4697>

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