The Committee will meet at 9.00 am in the Adam Smith Room (CR5).

1. **Decision on taking business in private:** The Committee will decide whether to take items 3 and 5 in private.

2. **The 2016/17 audit of New College Lanarkshire:** The Committee will take evidence on the Auditor General for Scotland’s section 22 report from—

   Dr Linda McTavish CBE, Chair, Lanarkshire Regional Board;

   Martin McGuire, Principal and Chief Executive, Iain Clark, Vice Principal, Resources, and Derek Smeall, Vice Principal, Strategy and Corporate Performance, New College Lanarkshire;

   Dr John Kemp, Interim Chief Executive, Scottish Funding Council.

3. **The 2016/17 audit of New College Lanarkshire:** The Committee will consider the evidence heard at agenda item 2 and take further evidence from—

   Caroline Gardner, Auditor General for Scotland;

   Mark MacPherson, Senior Manager, Audit Scotland;

   Lucy Nutley, Director, Public Services Audit, Mazars.

4. **Post-legislative Scrutiny: Biodiversity and Biodiversity Reporting Duties (in private):** The Committee will consider a draft report.

5. **Work programme:** The Committee will consider its future work programme.
The papers for this meeting are as follows—

**Agenda Item 2**

Note by the Clerk PAPLS/S5/18/18/1

PRIVATE PAPER PAPLS/S5/18/18/2 (P)

**Agenda Item 4**

PRIVATE PAPER PAPLS/S5/18/18/3 (P)

**Agenda Item 5**

PRIVATE PAPER PAPLS/S5/18/18/4 (P)

PRIVATE PAPER PAPLS/S5/18/18/5 (P)
Public Audit and Post-legislative Scrutiny Committee
18th Meeting, 2018 (Session 5), Thursday 28 June 2018
2016/17 audit of New College Lanarkshire

Introduction

1. At its meeting on 7 June, the Committee took evidence from the Auditor General for Scotland on the section 22 report on 2016/17 audit of New College Lanarkshire.

2. At today’s meeting, the Committee will take evidence from—

   - Dr Linda McTavish CBE, Chair, Lanarkshire Regional Board,
   - Martin McGuire, Principal and Chief Executive, Iain Clark, Vice Principal, Resources and Derek Smeall, Vice Principal, Strategy and Corporate Performance, New College Lanarkshire; and
   - Dr John Kemp, Interim Chief Executive, Scottish Funding Council.

3. New College Lanarkshire has provided several written submissions and these are attached at the Annexe A. The documents are—

   - a paper providing information on the College’s structure, specifically the number of posts at particular levels, staff numbers and the impact of the voluntary severance scheme since merger;
   - a paper giving a number of highlights from the learning and teaching team;
   - a copy of an audit report conducted by Wylie and Bisset on the due diligence process undertaken at the time of Coatbridge College merging with New College Lanarkshire, which provides further information on some of the financial matters relating to Coatbridge that have already been referred to in brief. Certain information has been redacted from this document for data protection reasons.

4. The EIS/FELA branch at New College Lanarkshire have also sent in a written submission and this is attached at Annexe B.
Management Structure
At merger, there was a significant reduction in the number of management posts. This streamlined senior management arrangements, reduced duplication in support areas and reprofiled the teaching staff structure to match with the six teaching faculties proposed.

At the point of merger:

- **SMT posts** (those considered Assistant Principal level and above) reduced from 17 FTE to 11FTE, representing a 35% reduction in posts at this level. This alone generated a salary saving in excess of £450,000 before employers’ costs. A further planned reduction as part of the recent voluntary severance scheme will see the number of SMT reduce to 8, saving approximately £250,000 before employers’ costs. Since merger and taking account of VS currently in progress, the number of SMT posts will have reduced by 52%;
- **Learning and Teaching Management Posts** i.e. those at Head of Faculty, Assistant Head of Faculty and Curriculum and Quality Leader have been maintained at a level required to deliver local curriculum provision across a multi-campus region. While there has been a slight drop in the number of posts at this level of 3.4% (2 posts), the profile of the posts that remain is different due to 14 legacy faculties/departments reducing to six.
- **Support Management Posts** i.e. those responsible for leading support teams or corporate services functions have reduced from 54 to 36 since merger, representing a decrease of 33% in management posts at this level.

In considering the College structure, it is important to recognise that while our senior management teams and support management teams have reduced, in terms of delivery of learning and teaching activity one of our teaching faculties is larger than one of our legacy colleges and some of our faculties are larger than some colleges currently existing in Scotland.

Staff Numbers
New College Lanarkshire employs approximately 1,000 staff across six campuses. The majority of our staff are based within our six faculties, with a number of support services providing cross-college functions.

Teaching Staff numbers have remained fairly consistent since merger. At merger, 14 lecturers were granted severance (10.16FTE) over the course of AY 2013/2014, in areas where the curriculum had reduced or was expected to reduce post-merger. However, we have continued to experience growth in some areas – particularly within the Faculty of Care and Science, Faculty of Business, Social Science and Sport and the Faculty of Engineering and Automotive and we have continued to recruit staff in these growth areas.

In the most recent voluntary severance scheme, 19 teaching staff have been granted severance (15.97FTE), with most of the accepted applications coming from two faculties – the Faculty of Computing and Creative Industries and the Faculty of Service Industries, where changing patterns of demand have created staffing inefficiencies.

Our staff turnover is low and voluntary severance is the main method that has been open to us in reprofiling our teaching staffing to address the effect of changing patterns of demand on required teaching staff numbers.

The College reports annually to SFC on staffing numbers and the next return will be for the 2017/2018 session and is due for submission in the autumn. This will show a reduction in teaching staff numbers due to the transfer of our prison learning centres to Fife College as the result of a retendering exercise undertaken by the Scottish Prison Service. Staff engaged at New College Lanarkshire in the provision of this activity transferred to Fife College on 1 August 2017.

Impact of VS (Merger Scheme and 2017/2018 Scheme)
At merger, the voluntary severance scheme was operated by the three legacy colleges as independent organisations, with some central discussion between senior members of HR at each college. The aims of the merger voluntary scheme were two-fold – to reduce overall salary costs by approximately £3m and, in areas where existing structures were required or duplication of roles existed, to facilitate new arrangements and management structures. Both of these objectives were
achieved and, in their post-merger evaluations, SFC confirmed that the management team at New College Lanarkshire had operated the voluntary severance scheme appropriately.

For the 2017 scheme, the objective of which is to reduce costs, SFC have stipulated that there must be a 12 month payback period for each application accepted. In all cases, the College has demonstrated such a payback period to SFC and, where alternative arrangements are being put in place, these have been costed within the payback period.

Overall, across both schemes, 127 staff have left the College since merger having accepted voluntary severance. This breaks down as follows:

<table>
<thead>
<tr>
<th></th>
<th>SMT</th>
<th>Middle Management - Support</th>
<th>Middle Management - Teaching</th>
<th>Support Staff</th>
<th>Teaching Staff</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>All VS Schemes</td>
<td>12</td>
<td>19</td>
<td>18</td>
<td>46</td>
<td>32</td>
<td>127</td>
</tr>
</tbody>
</table>

The figures above show that, of all leavers due to voluntary severance, 75% were management and support roles.

Brian Gilchrist
Assistant Principal: Organisational Development
25 Jun 2017
New College Lanarkshire

New College Lanarkshire was formed by the merger of Cumbernauld College and Motherwell College in November 2013. Coatbridge College joined the new College in April 2014. The merger was in line with the Scottish Government's Reform of Post-16 Education and the College Regionalisation Agenda.

The College is one of the largest in Scotland and operates across Lanarkshire and East Dunbartonshire with campuses in Coatbridge, Cumbernauld, Motherwell, Kirkintilloch, Hamilton and Broadwood.

It has around 17,000 students enrolled on a mix of full-time, part-time, evening and commercial courses. It offers more than 800 courses across six faculties. It delivers programmes on the Scottish Credit and Qualification Framework (SCQF) from levels one to 10.

Dedicated to continuous improvement, the College has made investments in the latest technology and facilities across its campuses to ensure that students have the highest calibre of resources. Each campus has unique features, including the state-of-the-art recording studios and in-house radio station at Cumbernauld; modern hairdressing salons, brand new dental teaching facilities at Coatbridge; the MLOne training restaurant and a £2.3million Heavy Goods Vehicle Training Centre in Motherwell; plus leading sports facilities at Broadwood.

The College has a strong focus on skills, which underpins its new brand positioning of ‘Skillset For Life’. Whether it’s beauty or baking, sports or science, cars or computers, the College is focused on helping students turn a passion into their career.

In its first Education Scotland report published in May 2015, the College was rated ‘effective’, which is the highest grade that can be given to Colleges. Praise was given to the strong focus on quality across the College, with learning and teaching being central to the organisation. Staff commitment in ensuring learners have a positive and successful time during their further education was also commended.

<table>
<thead>
<tr>
<th>Academic Year</th>
<th>2015/2016</th>
<th>2016/2017</th>
<th>2017/2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Students studying at NCL</td>
<td>15,046</td>
<td>17,174</td>
<td>16,500 (Projected)</td>
</tr>
<tr>
<td>Full-time Equivalent places (FTE)</td>
<td>10,203</td>
<td>10,133</td>
<td>10,100 (Projected)</td>
</tr>
<tr>
<td>Credits Delivered</td>
<td>139,301</td>
<td>138,437</td>
<td>138,850 (Projected)</td>
</tr>
<tr>
<td>Student Success Rates (enrolments over 160 hours)</td>
<td>62.6%</td>
<td>63.2%</td>
<td>64.5% (Projected)</td>
</tr>
<tr>
<td>Student Satisfaction Rates</td>
<td>86%</td>
<td>86%</td>
<td>88%</td>
</tr>
<tr>
<td>Student Positive Destination Rates</td>
<td>94.8%</td>
<td>(Still to be published by SFC)</td>
<td>(Still to be published by SFC)</td>
</tr>
</tbody>
</table>
Selection of Learning & Teaching Highlights

2014/2015

Best in UK accolade at UK skills competition

In 2014, New College Lanarkshire won the coveted title of Best in UK for the second year running at WorldSkills UK, after 11 of its students brought home medals in their expert skills.

Students show global standard skills

Four students from New College Lanarkshire were selected for consideration to represent the UK at the world’s largest skills show, WorldSkills Abu Dhabi 2017.

The four formed part of the College’s overall medal winners at WorldSkillsUK in 2015, where six students were medaled and seven were highly commended – making New College Lanarkshire the third best performing institution at the competition. Two gold, two silver and two bronze medals were awarded to New College Lanarkshire competitors at The Skills Show in Birmingham NEC, recognising outstanding achievement in their chosen skill.

Student named ‘Best of Nation’

A student was recognised for his software skills at international competition, EuroSkills, winning ‘Best of Nation’ for achieving the highest score out of the competitors in the UK team. He also brought home a Gold medal from the competition, which is the largest skills competition in Europe.

£2.3m heavy vehicle facility launched

A state-of-the-art HGV training Centre launched at New College Lanarkshire’s Motherwell Campus in April 2015, designed to foster a new generation of heavy vehicle engineers. The Centre was officially opened by Roseanna Cunningham MSP, former Cabinet Secretary for Fair Work, Skills and Training.

College achieves top recognition

New College Lanarkshire received a positive report from Government body, Education Scotland, in May 2015. It received the highest grade possible in the review, which also highlighted the excellent practice in enhanced learning through motorsport. Praise was also given for the strong quality culture across the organisation, along with learning and teaching being central to the organisation.

NCL sweeps board at hospitality competition

Students and staff members from the Faculty of Service Industries won 10 prizes at the ScotHot trade show in Glasgow’s SECC in April 2015 for their skills in Hospitality and Professional Cookery.

Engineering and Automotive Faculty wins award

The Faculty of Engineering and Automotive received a prestigious industry award in November 2015. The Institute of the Motor Industry (IMI) announced New College Lanarkshire’s Motherwell campus as the Approved Centre of the Year at the Outstanding Achievers Awards 2015.

Security Apprentice named best in Lanarkshire

A securities apprentice from NCL was named Lanarkshire’s Apprentice of the Year at the Lanarkshire Business Awards in March 2015 – beating more than 30 hopefuls to take home the trophy.
2016

**College named Best in UK**

New College Lanarkshire has been named ‘Best in UK’ after winning 12 awards at national skills competition, WorldSkills UK – achieving the title for the third time in four years.

The College ranked top of the leader board at the competition held at The Skills Show in Birmingham NEC. The medal-haul included four gold, two silver, four bronze and two highly commended awards across eight different skills – bringing New College Lanarkshire ahead of its closest competitor by nine points.

**Student crowned Young Chef of the Year**

A City and Guilds Professional Cookery student was crowned Young Chef of the Year in the Rotary International’s Great Britain and Ireland national competition in April 2016, beating 5000 other young hopefuls to take the title.

**Students produce guide for refugees**

In March 2016, Legal Services students presented a legal guide for refugees at a Crown Office project attended by the First Minister and Lord Advocate. The booklet is now being given to refugees who enter the country to guide them on the laws of Scotland.

**Females in construction come out top**

Five female students on the College’s Construction Pre-Apprentice course ranked in the top 15 students of all the 90-plus trainees on the course.

**Photography success**

Five photography students won seven awards in 2016 at the prestigious British Institute of Professional Photography Student Awards 2016 – including a gold, silver and bronze award.

**Innovative football partnership launched**

A football performance partnership with Clyde FC launched in February 2016, offering football students the opportunity to be selected for the professional team while studying at College.

**Unique hospitality experience**

In March 2016 A BA Hospitality Business Management student was one of only 12 in Scotland to be selected by a major industry training body to attend one of the world’s best and oldest hospitality schools.

**Knock-out success at Knockhill**

In April 2016, a race car designed by Art and Design students and maintained and engineered by engineering students, made its debut at Knockhill Racing Circuit – winning its first race.
2017

College recognised for excellence by Quality Scotland

In August 2017, New College Lanarkshire achieved the first stage of Quality Scotland’s Levels of Excellence programme – a recognition scheme acknowledged all over Europe for organisations that are high-performing, have a culture of excellence, and are dedicated to continuous improvement.

BSc Dental degree launches at New College Lanarkshire

A university-validated degree in Dental Nursing launched at New College Lanarkshire in 2017 - the first of its kind for the Dental profession in the UK.

Student success at WorldSkills UK

In November 2017, New College Lanarkshire was again ranked in the top three institutions in the UK for skills provision after finishing coming third at WorldSkills UK and taking home an impressive one gold, three silver, one bronze medal and three medallions of excellence.

International success for WorldSkills champion

A New College Lanarkshire student and WorldSkills UK champion competed in the world’s largest skills competition, WorldSkills, in October 2017 – bringing home a Medallion for Excellence for her skills in Mechanical Engineering: Computer Aided Design.

College first in UK to offer BIM certification

Architectural Technology students from New College Lanarkshire were at the forefront of the industry in March 2017, as they took on a prestigious industry training course, Building Information Modelling: Principles Certification - the first college students in the UK to do so.

Student legacy at Hamilton Park Racecourse

A HNC Art and Design student unveiled her specially-designed mural at Hamilton Park Racecourse in May 2017, chosen from dozens of entrants after her class were invited to submit proposals for a one-off piece of art to feature in the grandstand tunnel.

Specialist security facilities unveiled at Kirkintilloch

A revamp of an existing college campus in Kirkintilloch in September 2017 changed the face of the Scottish Electronic Fire and Security industry, as we unveiled a specialist training hub.

Student engagement award for NCL

In March 2017, New College Lanarkshire won a prestigious Learner Engagement award at the national sparqs conference at Surgeons’ Hall in Edinburgh. They were awarded ‘Best initiative which has made the most impact on the enhancement of the student experience’ for the Be Engaged programme.
2018

College recognised for Quality achievement

In May 2017 the College achieved the European Foundation for Quality Management (EFQM) Commitment to Excellence 2-star status, awarded for continued quality improvement.

Dental awards success

NCL was named Dental Trainer of the Year at the 2018 Scottish Dental Awards, with one of our Assistant Heads of Faculty also named ‘Unsung Hero’.

Course leader named Photographer of the Year

The Curriculum and Quality Leader for Film, TV and Photography was named Photographer of the Year 2018 at the British Institute of Professional Photography Awards. Two of his students were also awarded medals for their photography work.

Best in Scotland for Hairdressing and Beauty Therapy

The College was named Best College in Scotland for Hairdressing and Beauty Therapy after winning 18 medals at the Association of Hairdressers and Therapists competition Scottish Heat in Feb 2018.

Student selected for Team UK at global skills contest

A Mechanical Engineering: CAD student was selected to represent the UK at Europe’s most important and prestigious skills competition, EuroSkills, which will take place October 2018.

Leading way in automotive skills

The College hosted eight of the best automotive apprentices in Scotland, who competed for a chance to be selected for WorldSkills UK. Overall winners were named as NCL students.

Apprentices secure place at national competition

In June 2018, four students came top of the leader board at IFSEC’s Engineers of Tomorrow competition in London – ranking them the top of all UK apprentices in Fire and Security skills.

Curriculum and Quality Leader named global industry influencer

Curriculum and Quality Leader for Built Environment and Securities was ranked in the top three of global influencers in the industry for 2018.

Student-run café opens in Kirkintilloch

A newly opened student-run café opened in Kirkintilloch Town Centre to give students from the Faculty of Supported Learning a chance to learn life skills while gaining practical work experience.

Marketing Successes

The College was awarded two gold and a silver award at the 2018 College Development Network Marketing Awards, adding to its existing haul of three golds and a silver the previous year.
New College Lanarkshire

Internal Audit 2015-16

Review of Due Diligence Process
October 2015
The matters raised in this report came to our attention during the course of our audit and are not necessarily a comprehensive statement of all weaknesses that exist or all improvements that might be made.

This report has been prepared solely for New College Lanarkshire’s individual use and should not be quoted in whole or in part without prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any third party.

We emphasise that the responsibility for a sound system of internal control rests with management and work performed by internal audit should not be relied upon to identify all system weaknesses that may exist. Neither should internal audit be relied upon to identify all circumstances of fraud or irregularity should there be any although our audit procedures are designed so that any material irregularity has a reasonable probability of discovery. Every sound system of control may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas that are considered to be of greatest risk and significance.
Overview

Purpose of Review
The purpose of the review is to consider the financial due diligence report produced for the merger of Coatbridge College & New College Lanarkshire and to provide an assessment of how the principal financial aspects of the report compare to the post-merger position. This review forms part of our Internal Audit Plan for 2015/16.

Scope of Review
Our objectives for this review were to ensure:

- The post-merger position at New College Lanarkshire is in line with the financial due diligence report.

Our approach to this assignment took the form of discussion with relevant staff (see page 14) and review of relevant documentation (see page 16).

Limitation of Scope
The review does not consider severance payments as this has been covered by a separate review.

Sensitivity
We recommend that the College obtain legal advice prior to the report being made available in the public domain. The College should also consider the sensitivities of the report to ensure that it is suitable for publication. The contents of the report should also be checked for factual accuracy by the authors of the financial and legal due diligence reports. The report has not been checked for factual accuracy by the former management team of Coatbridge College.
Conclusion

Overall Conclusion

Our review has highlighted that there are a number of issues which have arisen post-merger which were not highlighted within the financial or legal due diligence reports prepared prior to New College Lanarkshire’s merger with Coatbridge College in March 2014. Our review highlights that as well as the financial position of Coatbridge College being materially different to that projected in the financial due diligence report, there have been a number of legacy issues which have arisen post-merger which have had an adverse financial effect on New College Lanarkshire. These issues have required senior management to spend significant time investigating and resolving the issues and as a result, have diverted them from their focus on taking the new merged college forward. Analysis of Coatbridge College’s financial position upon merger against the forecast position included within the financial due diligence report is included in section 3 of this report. Details of those issues arising post-merger can be found within section 4. The table below provides a summary of the financial impact of the issues highlighted in sections 3 and 4.
### Summary of Potential Financial Impact Due to Issues Arising Post Merger

<table>
<thead>
<tr>
<th>Description</th>
<th>Ongoing Costs</th>
<th>One-off Costs</th>
<th>Total</th>
<th>Due To</th>
<th>Latest Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difference in FinalPosition for 8 Month Period to 31 March 2014</td>
<td></td>
<td>£1,023,000</td>
<td>£1,023,000</td>
<td>Inaccurate estimation of costs</td>
<td>Deficit and reduced funds considered to be sunk costs</td>
</tr>
<tr>
<td>Legal Action Against the College – ^</td>
<td>- ^</td>
<td>-</td>
<td>-</td>
<td>Omission in DD process</td>
<td>No additional cost to college to date</td>
</tr>
<tr>
<td>ERDF Clawback</td>
<td></td>
<td>£206,245</td>
<td>£206,245</td>
<td>Omission in DD process</td>
<td>Additional costs considered to be sunk costs</td>
</tr>
<tr>
<td>Duart House Lease</td>
<td>£116,336*</td>
<td>£88,717</td>
<td>£205,053</td>
<td>Inaccurate estimation of costs</td>
<td>Additional costs considered to be sunk costs</td>
</tr>
<tr>
<td>Greenhills Industrial Estate Lease</td>
<td></td>
<td>£55,000</td>
<td>£55,000</td>
<td>Inaccurate estimation of costs</td>
<td>Additional costs considered to be sunk costs</td>
</tr>
<tr>
<td>International Business – Chinese Activity</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>Omission in DD process</td>
<td>No additional costs to college to date</td>
</tr>
<tr>
<td>Severance</td>
<td></td>
<td>£35,000</td>
<td>£35,000</td>
<td>Inaccurate estimation of costs</td>
<td>Additional costs considered to be sunk costs</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£116,336</strong></td>
<td><strong>£1,407,962</strong></td>
<td><strong>£1,524,298</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The figures above are an approximate calculation of the potential financial impact of the issues encountered.

~ - the final position of £1,023,000 is after the provision of £274,000 with regard to the potential legal action in relation to the issue. This provision may be reversed in the accounts for the period ending 31 July 2016 if the liability is covered by the College’s insurers.

- the College’s insurance premiums may increase as a result of the insurance claim.

* - based on two years occupancy with a difference of £31,668 per annum between the amounts stated in the financial due diligence and the amounts actually due as part of the lease agreement and approx. £26,500 per annum in rates, utilities and cleaning costs which were not included within the financial due diligence report.
In response to the Scottish Government’s regionalisation agenda for the further education sector in Scotland, the Boards of Management of Coatbridge, Cumbernauld and Motherwell Colleges discussed a merger of the three colleges into one single regional college, in late 2012. Initially it was anticipated that the three colleges would merge to create New College Lanarkshire however following a breakdown in these discussions, Coatbridge College decided to withdraw from the merger. An agreement of the merger of the Cumbernauld and Motherwell Colleges was then reached by their respective Boards on 21 March 2013 with an anticipated vesting date of 01 November 2013. This merger would create New College Lanarkshire. Coatbridge College were again invited to form part of New College Lanarkshire and on 06 August 2013, the Board of Management of Coatbridge College agreed to join New College Lanarkshire. Coatbridge College merged into New College Lanarkshire on 01 April 2014.

As part of the merger process, Coatbridge College engaged [REDACTED] to undertake financial due diligence work to assist with the merger. The financial due diligence report was prepared and presented to the Board of Management of Coatbridge College and the Board of Management of New College Lanarkshire in March 2014.
Forecast Income & Expenditure Account

Included within the financial due diligence report was a review of the College’s historical and forecast financial performance. This provided analysis of the income and expenditure account of Coatbridge College for the preceding three financial years (y/e 31 July 2011, 2012 and 2013) as well as analysis of the 8 month period ending 31 March 2014. Budgeted figures were used for the 8 months to 31 March 2014 due to the College’s accounts not being prepared at the time of the work being carried out.

<table>
<thead>
<tr>
<th>Income &amp; Expenditure Account for the 8 Months Ended 31 March 2014</th>
<th>Budgeted (£’000)</th>
<th>Actual (£’000)</th>
<th>Variance (£’000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SFC Grants</td>
<td>5,487</td>
<td>6,474</td>
<td>987</td>
</tr>
<tr>
<td>Tuition Fees &amp; Education Contracts</td>
<td>1,713</td>
<td>1,963</td>
<td>250</td>
</tr>
<tr>
<td>Other Grants &amp; Contracts</td>
<td>76</td>
<td>11</td>
<td>(65)</td>
</tr>
<tr>
<td>Other Income</td>
<td>637</td>
<td>590</td>
<td>(47)</td>
</tr>
<tr>
<td>Investment Income</td>
<td>4</td>
<td>2</td>
<td>(2)</td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td><strong>7,917</strong></td>
<td><strong>9,040</strong></td>
<td><strong>1,123</strong></td>
</tr>
<tr>
<td>Staff Costs</td>
<td>4,788</td>
<td>5,067</td>
<td>(279)</td>
</tr>
<tr>
<td>Exceptional Staff Costs</td>
<td>300</td>
<td>1,715</td>
<td>(1,415)</td>
</tr>
<tr>
<td>Other Operating Expenses</td>
<td>2,082</td>
<td>2,582</td>
<td>(500)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>726</td>
<td>678</td>
<td>48</td>
</tr>
<tr>
<td><strong>Expenditure</strong></td>
<td><strong>7,896</strong></td>
<td><strong>10,042</strong></td>
<td><strong>(2,146)</strong></td>
</tr>
<tr>
<td><strong>Total Surplus / (Deficit)</strong></td>
<td><strong>21</strong></td>
<td><strong>(1,002)</strong></td>
<td><strong>(1,023)</strong></td>
</tr>
</tbody>
</table>

With the passing of time, and with the finalisation and audit of the accounts for the 8 month period to 31 March 2014, it has become apparent that there are material differences between the budgeted figures reported within the financial due diligence report and those included within the final accounts. This can be seen from the table above.
From this comparison it can be seen that a surplus of £21,000 was forecast for the 8 month period to 31 March 2014 however through the audited accounts, it can be seen that the College actually incurred a deficit of £1,002,000 in the 8 month period to 31 March 2014. The main reason for this movement can be attributed to the significant uplift in exceptional staff costs. The budgeted figures included within the due diligence report included exceptional staff costs of around £300,000. The actual costs recorded through the audited accounts however amount to £1,715,000. It is noted that the uplift in SFC Grants of £987,000 was additional funding provided by the Scottish Funding Council to cover some of the exceptional staff costs resulting from the merger. An increase in staff costs of around £279,000 and other operating expenses of around £500,000 also impacted upon the figures.

**Forecast Cash Flow**

The financial due diligence report also states that Coatbridge College had forecast that it would have cash reserves of £1,131,000 as at 31 March 2014. Under the terms of the merger in which all of the assets and liabilities of Coatbridge College would become the assets and liabilities of New College Lanarkshire, this cash would transfer to New College Lanarkshire. Upon merger New College Lanarkshire inherited cash reserves of £781,000 from Coatbridge College. This does not include the cash impact of the matters noted within section 4 of this report.
In addition to the variances in the financial figures included within the financial due diligence report, there have also been a number of issues arising post-merger which have had a negative impact upon the assets and liabilities inherited by New College Lanarkshire upon its merger with Coatbridge College. Details of these issues are provided below:

**Legal Action Against the College**

In February 2015, the College received a writ in relation to legal action being taken by [name redacted] in pursuit of payment to the sum of around £225,000 (originally £152,775 with interest charged thereon at a rate of 8% per annum from 5 March 2010 until payment).

Following lengthy discussions with the insurers, the College have been informed that the claim will be covered by its professional indemnity policy. The insurers were initially reluctant to cover the claim at first as they claimed that there must have been prior knowledge of the claim prior to the writ being served and that this therefore constituted a late notification. Once however the College explained the merger process and the lack of staff continuity from the former Coatbridge College, the insurers confirmed that they will cover the claim, up to the insurance limit of £2m, with no excesses payable by New College Lanarkshire. The matter is now in the hands of lawyers appointed by the College’s insurers who are seeking to obtain an out of court settlement. The College has agreed to proceed on the basis that the settlement is the most economically advantageous settlement, contains no admission of liability and is completely without prejudice and publicity to ensure that the
reputation of the College remains intact.

Although it is improbable that this case will have any significant direct financial consequences for the College, it is worth noting that members of the College’s Senior Management Team have been required to spend time on the case. The Principal, Vice Principal – Resources and Assistant Principal – Organisational Development have all made significant time contributions to investigating the claims and dealing with the insurance provider and lawyers etc. As the case has yet to be fully settled, there remains a risk that the costs are not fully met by the insurers and that the case is made public and affects the College’s reputation.

We note that the financial due diligence report prepared in March 2014, immediately prior to the merger of Coatbridge College into New College Lanarkshire, does not include any mention of this potential legal case. Section 16.1 – Litigation of the report states that “management has confirmed there is no current, pending or threatened litigation against Coatbridge College”. Correspondence from New College Lanarkshire’s lawyers confirms that senior management at Coatbridge College were aware of this potential litigation prior to the merger. We note that there is also no mention of the potential litigation in the legal due diligence report. In Section A of Section G within the due diligence report, it is stated that ‘we have not been advised of any material litigation matters for Coatbridge College’. For clarity, the authors of the due diligence report considered material items to be those in excess of £50,000.

**ERDF Clawback**

In September 2015, the College received notification from the Scottish Government that it was necessary for £206,245 of ERDF funding that had been awarded and paid to Coatbridge College to be recovered. The funding was originally granted to Coatbridge College for construction works undertaken at the Kildonan Street campus around 2011. Following a routine Article 62 audit in 2015, the Scottish Government had determined that two of the contracts awarded during these works had not been subjected to appropriate procurement processes and that these costs were therefore not eligible for ERDF funding. The cost of these contracts amounted to £691,003, and with an intervention rate of 29.8%, £206,245 would be recouped by the Scottish Government.

Within the Assets, Liabilities and Reserves section (section 9) of the financial due diligence report, it is claimed that “the ERDF claim of £518k has been submitted and should be validated and paid before the end of December 2013”. Senior Management at New College Lanarkshire however believe that Senior Management at Coatbridge College ought to have known that these two contracts had not been subject to the proper competitive tendering processes and that these costs would therefore have been ineligible for ERDF funding. There is also no mention
of any potential reclaim in the legal due diligence report.

This issue has required Senior Management involvement in order to investigate and resolve the position. As the College are no longer able to carry cash reserves, they have requested authorisation from the Scottish Funding Council to cover this shortfall of £206,245.

**Duart House Lease**

Since 2009, Coatbridge College occupied premises within Duart House, Strathclyde Business Park. These premises were used to house the College’s dental provision and were leased to the College by [name] for an initial period of 10 years commencing on 22 June 2009. The terms and conditions of the lease agreement included “break dates” which, provided the landlord is given 6 months written notice, would allow the College to “break” the lease on 22 June 2012 or 22 June 2015.

Details of Coatbridge College’s lease with [name] were included within the financial due diligence report (Section 9.2 – Tangible Fixed Assets). The financial due diligence report however reports that the lease has an annual rental charge of £92,000. The rental costs associated with the lease however amounted to £102,764 per annum with a service charge of £20,904 also payable under the terms of the lease. [name] were therefore due £123,668 from the College per annum. In addition the College was responsible for the payment of rates, utilities and cleaning costs, all of which amounted to around £26,500 per annum. The College’s total outlay for the Duart House premises was therefore around £150,000 per annum, an increase of £58,000 per annum over the originally quoted figure. The legal due diligence reports however that the rent for Duart House is £675,108 per annum (we assume this to be the outstanding rent for the duration of the contract). The legal due diligence also mentions that there is a service charge due however states that they understand that the current service charge is £64,000.

Following a detailed review of the New College Lanarkshire estate post-merger and the identification of space savings throughout the College’s campuses, a decision was taken to take advantage of the “break dates” included within the lease and notice was served on [name] that the College would vacate the premises, and “break” the lease in June 2015. Upon consideration of this decision, the College discovered that the terms of the lease included a clause which required the tenants to “make good” the leased premises to the satisfaction of the landlord. This resulted in the College being required to pay additional costs of £88,717 upon leaving the premises. Details of this clause were not included within the financial or legal due diligence reports.

**Greenhills Industrial Estate Lease**

Coatbridge College also had a lease in place for the rental of premises at Greenhills Industrial Estate from [name]. The College
occupied the premises from 17 August 2009 and used these premises to house its motor vehicle provision. This lease was signed and agreed by the former of Coatbridge College on 14 September 2009 and was due to expire on 16 August 2012. The annual rental for the premises amounted to £34,000 per annum. As far as the Senior Management Team at New College Lanarkshire are aware, the lease signed in 2009 was never renewed on expiry in 2012 and the agreement subsequently rolled on. No contract renewal has been located by either party.

Following the identification of efficiencies at College owned premises during the College’s post-merger review of the New College Lanarkshire estate, the Senior Management Team decided to vacate the premises at Greenhills and cancel the lease agreement. As the lease had expired in 2012 there were no direct exit penalties however it was found that there was a clause contained within the original lease agreement that required that the premises be restored to original build conditions at the tenant’s expense on termination of the tenancy. The financial due diligence report prepared for Coatbridge College made mention of the rental premises at Greenhills however made no mention of the conditions of the lease when exiting the premises. We do note however that the legal due diligence report specifies that ‘at the date of expiry the Tenant is to remove from and leave the Property in good and substantial repair and condition in accordance with the obligations imposed on the Tenant…the Tenant shall carry out, at their entire cost, the works necessary to put the Property into such repair and condition’.

On vacating the premises at Greenhills the College met with, who had intimated that the work required to restore the premises to original build condition would amount to around £75,000. Following lengthy negotiations, a process which has involved significant time commitment from members of the College’s Senior Management Team, have agreed to accept a full and final payment of £55,000 for the dilapidation works. This is a cost to the College which upon merger, was not anticipated nor expected and although mentioned in the legal due diligence report, was not quantified.

International Business – Chinese Activity

During the handover delivered by Coatbridge College staff in January 2014, New College Lanarkshire were informed that Coatbridge College had engaged in international activity with partner universities in India and China. At the time, New College Lanarkshire were informed that there were no binding contracts in place with the partners in India and that although there were no binding contracts in place for the activity in China, a ‘Memorandum of Understanding’ had been agreed with each of the partner Chinese universities. It was suggested by Coatbridge College that should New College Lanarkshire decide against continuing with the business in China, that these agreements were not formal contracts and were not legally binding on the College.

Following completion of the merger, New College Lanarkshire analysed the agreements in place and on investigation of memorandums, were
of the opinion that the terms agreed were ‘financially disastrous’. New College Lanarkshire were unable to locate any business cases which supported the figures agreed and were concerned that if the agreements were allowed to proceed, the activities would not be financially viable for the College. On this discovery, the College contacted the agents engaged in China and were informed of, and provided with contracts signed by both Coatbridge College and the partner universities. It was found that New College Lanarkshire was therefore legally bound to provide the services provided in these agreements. We note that there was no mention of these contracts in the legal due diligence report.

Following lengthy negotiations with the agents in China, the College has managed to modify the services which it will provide to its partner universities. We understand that the College are satisfied that the universities appear to be content with the changes in the services they will receive and have so far not indicated that they will enforce the original terms and conditions initially agreed by Coatbridge College. Although these issues now appear to be resolved and it is unlikely that there will be any financial impact, the renegotiation of these agreements has required a significant amount of senior staff time.

**Severance**

As stated under the Limitation of Scope on page 2, this review does not consider the implications of any severance payments as this has been covered by a separate review. We would however highlight that the issues arising as a result of the severance arrangements at Coatbridge College added significantly to the workload of members of the Senior Management Team at New College Lanarkshire including the Chair of the Board, Chair of the Audit Committee, Principal, Vice Principal – Resources and the Assistant Principal – Organisational Development. These issues also contributed to a £35,000 uplift in the College’s external audit fees for the audit of Coatbridge College’s financial statements for the 8 months ending 31 March 2014. There is also the possibility of additional audit fees to be incurred due to further involvement with the Public Audit Committee.
The table below details the actual dates for our fieldwork and the reporting on the audit area under review. The timescales set out below will enable us to present our final report at the next Audit Committee meeting.

<table>
<thead>
<tr>
<th>Audit stage</th>
<th>Date</th>
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<tbody>
<tr>
<td>Fieldwork start</td>
<td>27 October 2015</td>
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<tr>
<td>Fieldwork end</td>
<td>24 November 2015</td>
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<tr>
<td>Draft report issued</td>
<td>27 November 2015</td>
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<tr>
<td>Receipt of management responses</td>
<td>N/A</td>
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<tr>
<td>Final report issued</td>
<td>08 December 2015</td>
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<tr>
<td>Audit Committee (first draft)</td>
<td>10 December 2015</td>
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<tr>
<td>Audit Committee (final report)</td>
<td>29 February 2016</td>
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<tr>
<td>Number of audit days</td>
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We detail below our staff who will undertake the review together with the Organisation staff we shall require to speak to during our review.

**Wylie & Bisset LLP**

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<tr>
<th>Role</th>
<th>Name</th>
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<tr>
<td>Partner</td>
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<td>Manager</td>
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<td>Lead Auditor</td>
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<td>Partner</td>
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<td>Associate</td>
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<td>Assistant Manager - Internal Audit</td>
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**New College Lanarkshire**

<table>
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<tr>
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<tr>
<td>Key Contact</td>
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<tr>
<td>Vice Principal (Resources)</td>
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<td>Principal</td>
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<tr>
<td>Vice Principal: Strategy &amp; Corporate Performance</td>
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Wylie & Bisset appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and co-operation.
The following details the documentation that we reviewed during the course of our review:

- Financial due diligence report prepared by [redacted];
- Legal due diligence report prepared by [redacted];
- Various emails between the College and its insurers re the [redacted] case;
- Statutory accounts for 8 month period ending 31 March 2014;
- Emerging findings report from Scottish Government (ERDF funding);
- Lease agreement between [redacted] & Coatbridge College (Duart House Lease);
- Lease agreement between [redacted] & Coatbridge College (Greenhills Industrial Estate Lease);
- Various emails between the College and its international partners re the Chinese students.
**Purpose of Review**

The purpose of the review is to consider the financial due diligence report produced for the merger of Coatbridge College & New College Lanarkshire and to provide an assessment of how the principal financial aspects of the report compare to the post-merger position. This review forms part of our Internal Audit Plan for 2015/16.

**Scope of Review**

Our objectives for this review are to ensure:

- The post-merger position at New College Lanarkshire is in line with the financial due diligence report.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

**Limitation of Scope**

The review does not consider severance payments as this has been covered by a separate review.

**Audit Approach**

Our approach to the review has been:

- Review of the financial due diligence Report;

- Discussions with key staff to compare the position in the due diligence with the post-merger position.
Potential Key Risks

The potential key risks associated with the area under review are:

➢ The merged College is exposed to risks that were not flagged up in the financial due diligence report or are different to those flagged up in the financial due diligence report.

➢ The merged College are in a financially weaker position than that anticipated in the financial due diligence report.
The EIS/FELA Branch at New College Lanarkshire appreciates the opportunity to make you aware of the concerns of the teaching staff at New College Lanarkshire (‘NCL’) regarding the ongoing financial difficulties which the college is experiencing. Whilst we welcome this scrutiny and are relieved that the issues will be investigated, we are also concerned that our voice has not been heard.

Merger

As you are aware, NCL was formed as a result of the merger of Coatbridge, Cumbernauld and Motherwell College in 2013/2014. This was a difficult process and understandably, a very turbulent time for the staff involved. Whilst harmonisation of the pay and key terms and conditions was agreed at an early stage, there were concerns about the level of consultation with the trade unions in relation to the proposed new structure.

The EIS-FELA expressed its concerns at that time that the structure was top heavy and that there was insufficient support for the operational delivery of the curriculum. We could not at that time, and still cannot, see the need for the number of positions at a strategic level, particularly when there have been severe cuts to the staff on the ground who support the students and deliver the teaching function. The position of Curriculum and Quality Leader (‘CQL’) is particularly contentious, as it has an extensive remit, whilst the remit of the curricular posts above this are unclear and ill-defined. This is a source of conflict over what individual responsibilities are.

All this change without proper consultation and planning inevitably led to stress and low staff morale. Many new managers are inexperienced in staff management and have received no training. New working practices are imposed not agreed with staff.

There is a perception now among academic staff that Faculty Management are not interested in staff and that the CQL position is a buffer between the lecturing staff and Management, who feel that their concerns are not addressed. Many staff have little confidence that the organisation will get any better and do not feel valued.

There is concern that agreements reached with Senior Management are not reflected in the attitudes and behaviour of Faculty Management who do not seem to be held accountable for breaching these agreements.

Current Financial Situation

With regard to the current deficit, our Principal, Martin McGuire, had made the staff aware that there were financial pressures on the college due, he maintained, to under-funding by the Scottish Funding Council but despite repeated requests by the EIS/FELA, he would not provide details of the deficit which would be shown in the accounts for 2016/2017 or of the budget for the current year 2017/2018. When we asked for current figures we were told to wait until the published accounts came out.

The impact of the financial difficulties on the daily operations created an extremely stressful working environment and has led to strained relationships at all levels. Teaching workloads are unmanageable, and conflicts arise daily over job roles and related tasks. Staff absences, often due to stress-related illnesses, can lead to further stress on remaining staff. Several CQLs, who line-manage the lecturing staff,
have either left the college or stepped down due to lack of support and workload issues. Existing experienced staff are often unwilling to apply for these posts, if they are filled, leading to costly external recruitment. Posts are not always filled and the existing CQLs are expected to take up their workload. This has led to more staff stepping down or leaving.

Following months of speculation but no information we were informed that the Scottish Funding Council had agreed to a Voluntary Severance scheme to reduce our wage bill. We were very concerned about this as we felt that what we needed was investment in staff, particularly at the lower operational levels, and asked to meet with representatives of the Board of Management to express our concerns.

Much of the apparent deficit shown in the accounts is attributed to a failure to budget for the costs associated with the National Bargaining Agreement. It appears that the Auditor General is saying that this was a legitimate expense but that the failure to budget for it appears to have masked the true position regarding the sustainability of the college. This raises questions about both the budget scrutiny processes, at Board of Management level and by the Scottish Funding Council, and the way in which the Scottish Funding Council decides on what is an appropriate level of funding. How is the sufficiency of funding assessed? How are the needs of students and employers identified? How is quality measured? Will we be expected to budget to repay the deficit? If so, will additional funding be provided to cover the re-payment or will we be under-funded until it is paid off?

The discussion which took place at the Scottish Parliament Public Audit and Post-Legislative Scrutiny Committee on June 7th gave us cause for concern about the measures which may be taken to address our apparent deficit and the impact on the staff and students that these could have. The Auditor General indicated that so far five Business Scenarios have been submitted to the Scottish Funding Council to ensure our future sustainability. We have no knowledge of the content of these scenarios and have not been involved in the consultation about their potential impact. Without this information, we cannot assess the impact which these measures will have on our working conditions, working relationships and more generally on the health and wellbeing of our members, who are understandably very concerned.

National Bargaining

We are currently in dispute with Management over a proposal to implement the new National Bargaining conditions which reduce our weekly teaching commitment from 24 to 23 hours. The Management proposal involves reducing every class by 5 minutes, which means in effect that lecturers would continue to teach 24 credits but will do so in 23 hours. This reduces the teaching time from 36 to 34.5 hours for every unit taught. This puts more strain on the lecturing staff, who will have to try to teach the same amount of content in less time and students, who will lose valuable teaching time. It will have an adverse impact on quality but costs the college nothing.

Management has acknowledged the negative impact which this proposal will have on staff and students but maintains that due to restricted funding from the Scottish Funding Council, it cannot afford to implement National Bargaining in such a way
that it would reduce our workload. This raises concerns about commitment to the national bargaining process, on the basis that Management has not budgeted for the costs of implementing the harmonisation of wages and now is refusing to accept the associated costs of implementing the reduction in weekly teaching hours.

We are further concerned by the statements by the Auditor General regarding a potential management re-structure and potential review of the number of campuses from which we operate. Both these measures have the potential to significantly impact on our members. We have a right to be included in these discussions, along with our counterparts in the Support Staff Unions. We would require full financial information prior to engaging in these discussions, including the Management accounts and details of the number and salary levels of current staff. We would also require a risk assessment of the impact that any proposed measures could have on the health, safety and well-being of staff. Our working environment in NCL is already very stressful because of our Management’s difficulties in devising an appropriate budget which allows us to provide educational opportunities to our community at an acceptable professional standard. This has resulted in increased class sizes, fewer administrative staff and restricted resources. We fear that this could deteriorate further due to measures taken to address an alleged deficit, which could be caused by a lack of appropriate funding and/or the poor financial decision-making within our college.

**Future sustainability**

We met with two members of the Board of Management; Linda McTavish CBE, Chair of the Lanarkshire Board and Keith Fulton Chair Resources and General Purposes Committee on 11th December 2017, to discuss issues related to the launch of the Voluntary Severance scheme and made them aware that there were hidden costs which were not being considered because so many members of the teaching staff were doing additional work due to the under-funding. This is not sustainable. We asked that the Board address these workload issues and received assurances that ‘the Board would discuss this with Management and seek best endeavours around future activities.’ We are very disappointed that the response has been to attempt to increase our workload further as indicated above through the implementation of the November 2017 NJNC Agreement. The teaching staff at NCL needs sustainable funding for the college and assurances that the funding will be used to ensure that our workloads are manageable, the operation of the curriculum is supported, and we are able to maintain and improve quality standards for the benefit of our members and students.

We welcome this investigation into the financial planning and cost base of NCL and hope that future budgets will be set with due regard to the needs of the staff and students.