

23rd January 2013
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Dear Mr Clarke and Dr West

Scottish Code of Good Governance – Submission of Evidence

I am a member of the Court of the University of Dundee where I sit on the Finance and the Governance and Nominations committees. I have a longstanding interest in corporate governance and would like to draw the following issues to the attention of the Steering Group. I should however make it clear that the views expressed in this letter are mine and made as a private individual.

Standards of good practice existing outwith the Higher Education sector

I'm surprised that the background papers distributed to members of the Steering Group did not include the 2012 UK Corporate Governance Code (UK Code). This is particularly the case given that the SFC, in its annual financial memorandum, requires Universities to make a full compliance statement in regard to its requirements, in so far as they apply to the university sector, in their annual financial statements. I am disappointed that your issues paper makes no reference to the UK Code but focuses instead on the CUC Code which is less rigorous in its standards and guidance.

The UK Code is of course primarily intended as guidance for private sector listed companies. However Universities regularly assert their autonomy from government and cannot be considered to be wholly public sector organisations. Given this, it is I think reasonable to argue that the UK Code should be regarded as an appropriate starting point when devising a new Scottish Code rather than the outdated CUC code.

I would commend the structure of the UK Code, setting out for each topic: Main Principle, Supporting Principles and Code Provisions. This approach results in a very clear and easily understandable guide.

I would particularly like to draw your attention to some of the UK Code's provisions which are not well addressed in the CUC code, namely that:

- annual reports should identify the number of meetings of the board and its committees and individual attendance by directors (provision A.1.2);
- the board should identify in the annual report each non-executive director it considers to be independent. ... The board should state its reasons if it determines that a director is independent notwithstanding (the director):
 - has been an employee ... within the last five years ...
 - has served on the board for more than nine years ... (B.1.1);
- where a company releases an executive director to serve as a non-executive elsewhere, the remuneration report should include a statement as to whether or not the director will retain such earnings and, if so, what the remuneration is (D.1.2);
- the board should establish a remuneration committee of at least three independent non executive directors. In addition the company chairman may also be a member of, but not chair, the committee ... (D.2.1).

The reason I draw your attention to the above points is because there are a number of examples of poor practice by Scottish universities. For example:

- where attendance data has been published, there are several examples of members repeatedly attending only a single Court meetings in successive years, thus raising into question their commitment to the institution and the effectiveness of the nomination process;
- most universities in their annual reports equate 'lay' members as being 'independent'. However there are examples where members have served on governing bodies for over nine consecutive years, or continued serving after being Chair. Such members would not normally be considered to be 'independent' using widely accepted criteria;
- there have been examples of Principals being remunerated non-executive directors of listed companies with no disclosure being made either to the governing body or in the University's annual report. This is not to suggest that such external appointments are unacceptable, but that such appointments should be transparent;
- whilst the CUC guide permits the Chair of governing bodies to chair the Remuneration committee, this is not considered acceptable practice in the UK Code. I suggest that as the Chairs of governing bodies will have a close working relationship with their Principal it is not appropriate for them to chair the Remuneration committee. It's also notable that in some Universities Remuneration committees have members who, having either served for over nine years or been former Chairs, could be regarded as no longer being independent.

I would also draw your attention to the limited information available to the public about the members of governing bodies. Whilst some Universities publish biographical details on their web sites, many do not. I would suggest that all Universities be required to publish such information.

Disclosure of salaries of senior officers


The issues paper asks whether salaries of senior officers should be published annually by the SFC, as already happens for Principals.

It is noteworthy that Universities currently publish substantially less information regarding remuneration of senior staff than that disclosed by listed companies or Scottish local authorities. The amount of information given in Remuneration committee reports to governing bodies similarly contains little information about senior management. Furthermore universities, in some cases, have disregarded SFC requirements regarding publishing compensation information relating to former Principals.

The practice of awarding Principals 'bonuses' is relatively new and there is little guidance from the SFC or in the CUC code about what information should be published. In some cases Universities have awarded bonuses to a Principal but not disclosed this in their annual accounts, showing only a single total remuneration paid figure.

I would suggest that Universities should be required to publish in their annual accounts a remuneration report in the mandatory format required either of listed companies or Scottish local authorities – both are very similar in content. I attach as an example the remuneration report of Dundee City Council.

Yours sincerely



Iain D M Wright

ANNUAL REMUNERATION REPORT

TABLE 2 – REMUNERATION OF SENIOR EMPLOYEES

Employee Name	Post Title	Salary, Fees & Allowances	Bonuses	Taxable Expenses	Compensation for Loss of Employment	Benefits Other Than in Cash	Total Remuneration 2010/2011	Total Remuneration 2009/2010
		£	£	£	£	£	£	£
David K Dorward	Chief Executive (wef 1/10/09, was previously Depute Chief Executive (Finance))	138,743	0	0	0	2,704	141,447	118,662
Patricia Mcllquham	Depute Chief Executive (Support Services)	105,217	0	0	0	0	105,217	98,746
Marjory Stewart	Director of Finance (wef 2/10/09, was previously Head of Finance)	97,782	0	0	0	3,026	100,808	92,697
Chris Ward	Assistant Chief Executive	84,045	0	0	0	0	84,045	81,994
Jim Collins	Director of Education	101,217	0	0	0	0	101,217	100,826
Alan Baird	Director of Social Work	101,217	0	0	0	0	101,217	98,746
Elaine Zwirlein	Director of Housing	92,625	0	0	0	0	92,625	90,364
Michael P Galloway	Director of City Development (wef 8/6/09, was previously Director of Planning & Transportation)	101,217	0	0	0	0	101,217	98,124
Ken Laing	Director of Dundee Contract Services	84,045	0	0	0	3,379	87,424	85,186
Stewart Murdoch	Director of Leisure & Communities	89,190	0	0	0	0	89,190	87,013
James K Laing	Head of Waste Management	77,166	0	0	0	0	77,166	75,283
Ged Bell	Head of Information Technology	77,166	0	0	0	1,464	78,630	77,750
Iain M M Martin	Head of Personnel	77,166	0	0	0	875	78,041	76,243
Total		<u>1,226,796</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,448</u>	<u>1,238,244</u>	<u>1,181,634</u>

TABLE 2 NOTES

1. Salary, Fees & Allowances figure for David K Dorward, Chief Executive, includes £6,002 Returning Officer fee in respect of the UK Parliament election in May 2010.
2. Salary, Fees & Allowances figure for Patricia Mcllquham, Depute Chief Executive (Support Services), includes £4,000 Depute Returning Officer fee in respect of the UK Parliament election in May 2010.
3. Figures for Benefits Other Than in Cash relate to participation in the Council's Contract Car Hire Scheme. The equivalent figures for 2009/2010 are included within Total Remuneration for that year.

ANNUAL REMUNERATION REPORT

TABLE 4 – SENIOR EMPLOYEES ACCRUED PENSION BENEFITS

Employee Name	Post Title	Pension as at 31 March 2011 £000	Pension Difference from 31 March 2010 £000	Lump Sum as at 31 March 2011 £000	Lump Sum Difference from 31 March 2010 £000	Pension Contribution 2010/2011 £	Pension Contribution 2009/2010 £
David K Dorward	Chief Executive (wef 1/10/09, was previously Depute Chief Executive (Finance))	65	10	183	23	25,667	21,412
Patricia McIlquham	Depute Chief Executive (Support Services)	41	2	115	3	18,725	18,268
Marjory Stewart	Director of Finance (wef 2/10/09, was previously Head of Finance)	34	4	92	7	18,090	16,713
Chris Ward	Assistant Chief Executive	23	2	60	1	15,548	15,169
Jim Collins	Director of Education	45	3	126	3	18,725	18,268
Alan Baird	Director of Social Work	40	2	111	2	18,725	18,268
Elaine Zwirlein	Director of Housing	29	2	78	2	17,136	16,717
Michael P Galloway	Director of City Development (wef 8/6/09, was previously Director of Planning & Transportation)	33	3	90	5	18,725	18,153
Ken Laing	Director of Dundee Contract Services	25	2	66	1	15,548	15,169
Stewart Murdoch	Director of Leisure & Communities	38	3	105	2	16,500	16,097
James K Laing	Head of Waste Management	32	2	90	3	14,275	13,927
Ged Bell	Head of Information Technology	23	2	63	2	14,275	13,927
Iain M M Martin	Head of Personnel	30	2	84	2	14,275	13,927
Total		<u>458</u>	<u>39</u>	<u>1,263</u>	<u>56</u>	<u>226,214</u>	<u>216,015</u>

TABLE 4 NOTES

1. Pension Contribution 2010/2011 figure for David K Dorward, Chief Executive, includes £1,110 contributions payable on Returning Officer fee in respect of the UK Parliament election in May 2010.