

## UHI North, West and Hebrides

### Risk Update Report – Key Risks Impacting on the College

30/10/2023

#### 1. Purpose

This paper provides an overview of key risks impacting on the merged college at present, ahead of the facilitated Risk Workshop for the Board on 3 November 2023.

Following this risk workshop, risk mapping will be completed, and presented to the next Audit and Risk Committee on 22 November 2023 in the format agreed at the previous ARM committee meeting on 16 August 2023.

#### 2. Risks to the College Sector in Scotland

The Auditor General's annual briefing paper [Scotland's Colleges 2023 \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/publications/scotlands-colleges-2023) was published on 7 September 2023. The paper focuses on the significant and increasing risks to the financial sustainability of the college sector. Recognising that Scotland's colleges have a vital role for learners and local communities, the paper describes a college sector at a point of critical risk where it maybe unable to deliver its core mission for students, communities and employers, unless significantly reformed. The paper charts key risks, strategic reviews recently published and intended steps by Scottish Government as communicated to date. The following areas should be noted by the committee:

1. There has been a significantly increased risk to **financial sustainability** since 2022, with 9 colleges reporting an adjusted operating deficit in AY2021-22, compared to 3 in the previous year.
2. There has been a **reduction in Scottish Government funding** by 8.5% in real terms between 2021/22 and 2023/24, while the sector's costs have increased with inflation (staff and non-staff costs, including energy costs and interest rates).
3. **Rising staff costs** representing colleges' biggest financial pressure (accounting for circa 70% of all costs), requiring effective and affordable workforce planning. Significant pressure from pay awards and pension costs. The outcomes of national job evaluation for support staff will further increase costs, once (and if) completed and implemented. Colleges are required to self-fund planned staff restructuring schemes involving reduction of staff-related costs. Some colleges are considering cutting more than 20% of workforce in order to become financial sustainable, potentially significantly changing their current offer and operations.
4. **College's estates and infrastructure** was highlighted as a further significant risk, with a 321m gap in funding for lifecycle and backlog maintenance. Whilst SFC had published a college infrastructure strategy in autumn of 2022, a new 10-year college infrastructure investment programme will not be published till autumn 2024. Within this area, the risk of significant investment requirements in the digital infrastructure and achievement of public sector net zero targets was highlighted.

5. **Continued impacts from the Covid-19 pandemic on colleges had severely impacted on non-SFC income sources and pursuit of commercial opportunities.** On average, colleges rely for circa 75% of their income on SFC core funding, with main sources of non-SFC income coming from tuition fees and other education contracts (i.e. apprenticeships).
6. Due to a combination of Brexit, Covid-19 pandemic and demographic profile, colleges also have **difficulties in attracting and retaining students and staff**, with HE recruitment figures (HNC/D, but also undergraduate degree) having fallen (insert SFC figures for 21-22). This situation has led to increased competition within the tertiary sector, including between colleges, from some universities and from private training providers. Ongoing workforce reduction and change programmes have an adverse effect on staff wellbeing and the student experience.
7. If colleges are forced to significantly reduce their range of courses offered, reduce student capacity or close centres, then there is **significant and unequal risk for access to opportunity** for students from deprived areas, or from rural, remote and island communities.
8. **Recent strategic reviews** commissioned by Scottish Government have recommended significant changes how the sector operates (Building on [SFC's Tertiary Review](#); [Purpose and Principles](#) of post-school education; [Withers Review of Skills Landscape](#); [Hayward Review of Qualifications and Assessment](#)), bringing both challenges and opportunities:

The Scottish Government has announced that there will be a new national model of public funding for all colleges, universities, apprenticeships and training, including funding allocation to priorities strategic outcomes and deliver best value for public investment. It has not yet said when the new model would take effect. The government has also indicated it will take greater control of national skills and qualification planning, although it is unclear as yet how this will be taken forward or by when.

The Audit Scotland paper makes no specific recommendations for action, other than highlighting the urgent need to plan for change now to make best use of available funding to assure future sustainability, with a call to Scottish Government and SFC to act to collaborate with and support college leadership.

The report highlights the critical challenge for the college sector to maintain 'business as usual', focusing on managing its learning offer and securing positive outcomes for students, whilst managing complex transformational change to sectoral business model and finances.

### 3. UHI – Regional Partnership Risks

UHI 2024 was a programme of actions agreed in August 2023 by UHI Court, chairs and Principals to refresh UHI's strategy and to achieve greater alignment in partnership-wide operations and collaboration. The programme covered six workstreams. In August 2024, the programme had delivered on the following areas:

- Completed and actioned an HE curriculum review, the outcomes of which will now be implemented.
- Developed and had approved [a new partnership wide strategic plan](#) that sets the context for UHI until 2030.

- Made significant savings within UHI's executive office to ensure that its running costs are aligned to the current financial realities.
- Progressing multi partner procurement of core corporate systems to enhance functionality, procure more efficiently, standardise process and practice and provide for the foundations of single services.
- Gathered and analysed clear comparable baseline information on workforce and staffing costs that can be used to inform discussions around service configuration.

Whilst progress has been made, UHI 2024 has not yet sufficiently developed how partnership working in a more aligned system would operate in practice, including what efficiency gains could be secured and how these would be achieved across all partners working together in a new operating model.

While a target operating model is currently being developed, it remains to be finalised and agreed. Until then, individual academic partners are required to plan for their college financial sustainability independently from each other.

Given the immediate pressures of financial risks, several UHI partners including Executive Office are required to make workforce changes to address financial sustainability. There is currently uncertainty of impact of uncoordinated changes made by individual partners to the UHI 'eco-system'. For example, how functions within Executive Office correspond with and dovetail with the same functions delivered by academic partners; or, how single or shared services might be developed and delivered, and the partnership wide operational model for such shared services.

There has been no update to common partnership risk map yet, with common risks covering the following areas:

1. Achievement of target HE student numbers
2. Achievement of target FE credits
3. Poor reputation of institution
4. Disruption due to key staff
5. Non-compliance with statutory requirements
6. Governance failure
7. Financial failure/inability to achieve a balanced budget
8. College estate not fit for purpose
9. Academic quality is sub-standard
10. Poor student experience
11. Research outputs are sub-standard
12. Risk of malicious cyber attack
13. Failure to meet public sector duty for net zero

UHI North, West and Hebrides is required to integrate the common partnership risks in its risk map and risk register.

#### 4. UHI North, West and Hebrides Strategic Risks

The risks to Scotland's Colleges outlined in the Audit Scotland paper summarised above maps across directly to UHI North, West and Hebrides, although the college has an additional dimension of complex challenge and risk through merger integration.

The unique challenge facing the new college this year is dealing with the three-college legacy business, whilst delivering the current in-year core business to students and stakeholders, and in parallel planning and implementing transformational change of integrating three colleges into one through curriculum review, organisation design and developing integrated operations and policy, to achieve a balanced budget and plan for financial sustainability.

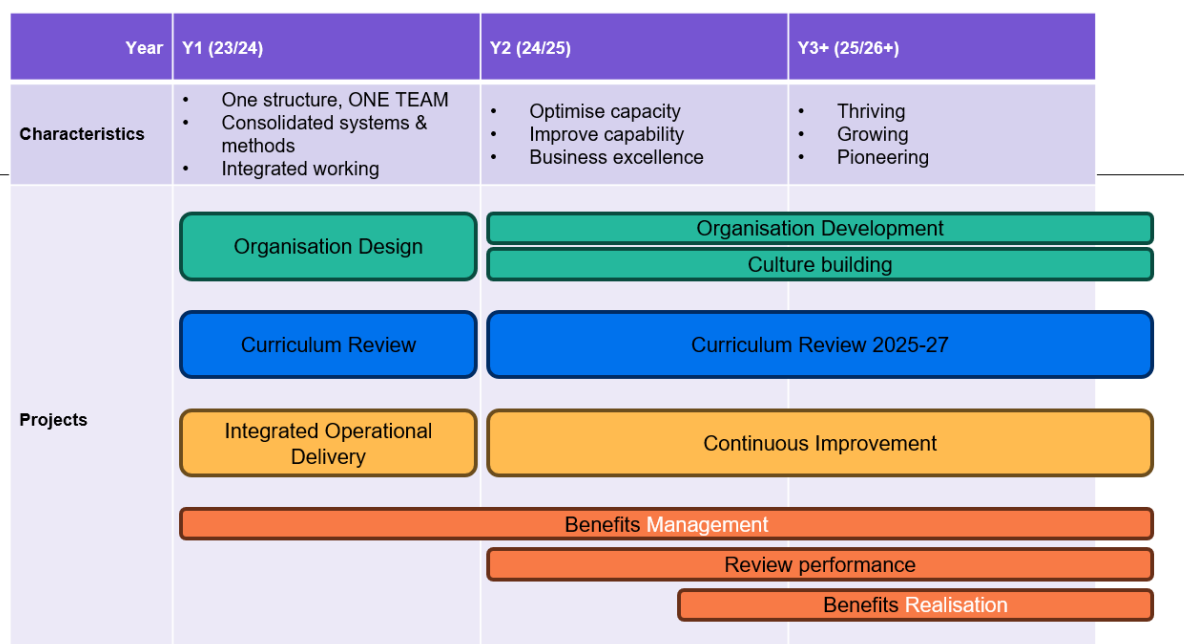


Figure 1 - UHI North, West and Hebrides Merger Integration Priorities

**A key risk for the new college is its capacity to deal with this level of complex change and to secure delivery of all aspects of the current integration programme in a relatively short timescale, with achievement of the planned financial sustainability outcomes key to fully unlock the other strategic objectives derived from the merger (see Appendix 1 for the college's current Strategic Statement).**

Several further risks that are linked to achieving financial sustainability should be pointed out here:

1. **Risk of spiralling staff related costs:** the issues here, including risk of unsustainable staff-related costs, are the same for the new college as for rest of the sector due to the requirement for all incorporated colleges to implement the outcomes of national bargaining. The potential outcome of the support staff national job evaluation is now five years overdue, with expectations that payback for outcomes is paid back to September 2018. The college has as yet not quantified the potential cost of this and impact on its financial sustainability plans, although SFC has retained funds for every college since 2018 as part of its annual funding allocations, based on a cost estimate which was undertaken prior to 2018.

2. There are **risks inherent to the organisation design programme** in terms of staff capacity to achieve the planned programme on time, staff morale impacting on progress as well as quality of outcomes for students and stakeholders; and risk to achieving all planned savings from the voluntary severance scheme. These risks, and associated opportunities of building on the talent and expertise of three colleges, have been mapped in more detail in a separate paper on the merger organisation design programme by Giles Huby for the Board on 8 November 2023.
3. The yet to be finalised **tertiary funding reform has potential risks to college's core income:** an area of specific concern is high volume (25%) of FE credits invested in school-college partnership delivery, which is a potential target in reforms to remove double funding for school pupils in receipt of college provision. The Minister has shared some key areas of concern in recent meetings, including reducing any double funding in the current learning landscape (issue highlighted for school-college partnership funding arrangements), and looking for a contribution from employers to skills and training delivered by colleges.
4. There is significant actual and emerging opportunity in the college's geographic operating area due to largescale economic developments in off-shore and onshore renewable energy; net zero developments in carbon capture and hydrogen; an emerging space industry with spaceport developments; the Inverness and Cromarty Firth free green port development; discrete projects within the Islands Growth Deal, together with strong industry and employer demand across almost all industry sectors seeking a skilled workforce. This represents key growth opportunities for planned curriculum, as well as research and knowledge exchange opportunities, and bespoke commercial training and collaboration opportunities through business development. A few risks could impact on realising these opportunities:
  - **A key risk is that the merged college will not be able to respond to these opportunities to turn them into actual projects by being distracted by the merger integration process for too long**, focusing on internal transformation only at the expense of external engagement, thereby risking key income generation to support financial sustainability.
  - There is also a key risk that focusing on reducing staff related costs only to achieve a balanced budget **erodes staff capacity required to exploit opportunities for commercial gain.**
5. A further risk is **losing key staff in the process of lengthy uncertainty over transformational change** outcomes in the context of organisation design and integrated operations, leading to merger not delivering on its anticipated strategic objectives, outcomes and benefits to stakeholders.
6. The college's estates carry the same issues as outlined in Audit Scotland briefing paper above, with the additional factor of the merged college having a hybrid estates model, combining a more traditional campus-based estate in Stornoway, Thurso and Fort William, with a network of much smaller community-based centres, distributed over a wide and diverse geography larger than Wales.

**Estates related risk points to ‘fitness for purpose’ of the college’s learning environments, in terms of:**

- a. health and safety
- b. specialist facilities
- c. digital infrastructure for 21<sup>st</sup> century learning
- d. lifecycle and backlog maintenance costs
- e. utilisation and commercial income generation
- f. ability to invest into net zero requirements for the public sector

The college will need to develop a model of learning delivery which provides the right balance of general learning environment, digital learning estate, place-based specialist learning resources, that is in the right place and that is connected in the right way.

Estates risks have a direct correlation to student recruitment, curriculum and community-facing risks, all of which impact on the risk of financial sustainability.

7. As has been shown in the first three months of operations, communities in the college’s operating area are highly sensitised to the prospect of changes that the newly merged college may make. (Examples: reaction to proposed curriculum change in North Uist; proposed takeover of Kilchoan centre by community under Community Empowerment Scotland Act).

There is a **significant reputational risk to the college should it get its change programme wrong**, impacting potentially on the college’s ability to recruit local students or engage in community or business partnerships as planned.

## 5. Recommendations

The Audit and Risk Management Committee is asked to

- note the contents of this paper
- discuss the key risks presented impacting on the college

Appendix 1 – UHI North, West and Hebrides Strategic Statement

# Strategic Statement

UHI North, West and Hebrides, February 2023

## Summary

UHI North Highland, UHI Outer Hebrides and UHI West Highland will merge in August 2023 to form UHI North, West and Hebrides, subject to Scottish Government approval.

By coming together, UHI North Highland, UHI Outer Hebrides and UHI West Highland will create an anchor institution of scale and impact within UHI, and the region, supporting 9000 students and 600 staff across 19 learning centres and campuses stretching across the North and West Highlands, Skye and Outer Hebrides.

Merger will create a more sustainable organisation with combined capacity and resource to grow the curriculum, research, and innovation; develop existing and new partnerships to support employers address skills gaps and retain, attract, and nurture talent; and become more responsive to the social, cultural, and economic opportunities in our regions.

## Our vision

To be an anchor institution for the region – a connected, flexible and sustainable learning organisation, opening doors to a world of opportunities.

## Our mission

To connect rural and island Scotland, pioneering distinctive education and research opportunities to enable our students and communities to shape their future in a changing world.

## Our values

- + **Trust:** We take pride in what we do. We are highly trusted by our students, staff and partners. We are recognised for our leadership and dedication to deliver more for all whom we serve.

- + **Integrity:** We take responsibility for all that we do, assuring transparency and accountability. We ensure people are at the heart of everything we do and that our organisation operates in collaboration and openness, with an ethos of dignity and respect for everyone.
- + **Excellence:** We are ambitious for our learners, our staff, our college and our communities. We drive innovation, aim to be sector leaders, and benchmark our performance on national and international standards.

## Our behaviours

- + **Be bold.** We are confident in our ability to transform tertiary education for our region, connecting individuals and communities to learning and education.
- + **Be agile.** We encourage new ways of thinking, supporting our people to explore new ways of thinking and doing things, responding and adapting quickly through research and innovation.
- + **Be collaborative.** People working together are at the heart of everything we do. We value our ability to collaborate through a diverse workforce, where every voice matters.

## Our key themes

- + **Anchor institution.** Support economic regeneration; enhance research, commercialisation, and internationalism; attract, retain and nurture talent; and become a sector leader for tertiary education.
- + **Resilience and sustainability.** Remain financially sustainable, ensure a resilient service and networks; develop the workforce and empower staff; a fair work employer
- + **Innovative tertiary education.** Curriculum growth in renewables, engineering, aquaculture, Gaelic language, and digital education. To become a national leader for lifelong learning. Availability of multi-location flexible programmes.
- + **Excellent student experience.** Increased student satisfaction, access to wider social opportunities, enhanced and flexible learning offer, active student voice.
- + **Thriving communities and place.** Multi-purpose flexible estate; ingrained in communities; community learning; supporting population growth; working towards net-zero communities; local provision for local requirements.
- + **Enhanced research.** Regional projects; growth in specialisms; research led teaching/curriculum development; impact case studies invested in place; internationalisation of research.



- + **Impactful economic investment.** Increased and focussed business development; coordinated projects of scale (including ScotWind, Opportunity Cromarty Firth, North Highland/Moray Space Centre, Decarbonisation/Net Zero); enterprising communities.
- + **Enabling culture.** Online access to language degrees, training of secondary school teachers, Nordic culture development, investment in community.

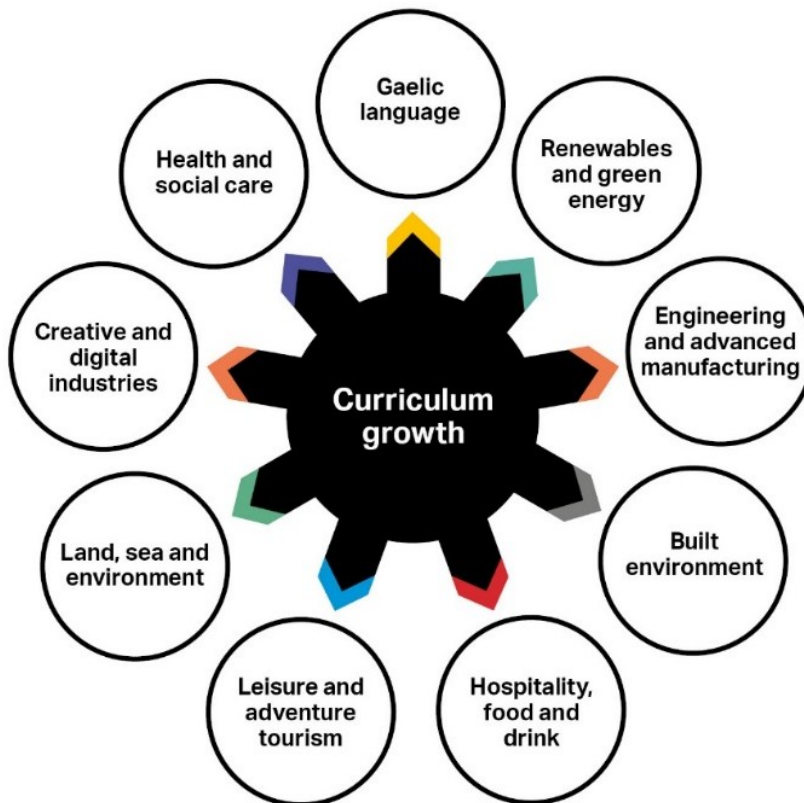
## Strategic goals, benefits and measurements

Strategic goal	Benefits	Measurements
+ <b>To become a financially sustainable, joined up organisation</b>	<ul style="list-style-type: none"> <li>+ Longevity of college</li> <li>+ Continued access to tertiary education across region</li> <li>+ Equality of opportunity and experience across region</li> </ul>	<ul style="list-style-type: none"> <li>+ Financial key performance indicators</li> <li>+ Ability to invest</li> <li>+ Ability to fund multi-year capital investment programmes</li> </ul>
+ <b>To grow curriculum, particularly in key areas that link with our research and commercial opportunities (blue and green economies/Gaelic language)</b>	<ul style="list-style-type: none"> <li>+ Increased learning offer</li> <li>+ Widened access through multi-modal delivery model</li> <li>+ Up to date, relevant curriculum for communities</li> <li>+ Being a credible choice for local, regional and international students</li> <li>+ Increased alignment to Scottish Government priorities and regional needs.</li> </ul>	<ul style="list-style-type: none"> <li>+ Increased student numbers at all levels, including apprentices.</li> <li>+ More upskilling, short courses and continues professional development opportunities</li> <li>+ Increased international students.</li> <li>+ Increased unregulated income and funding focussed on skills development/alignment.</li> </ul>
+ <b>To grow research and knowledge exchange through connecting our current</b>	<ul style="list-style-type: none"> <li>+ Increased research income</li> <li>+ Enhanced research profile</li> </ul>	<ul style="list-style-type: none"> <li>+ Increased number of full-time equivalents submitted to REF2027</li> </ul>

<p><b>specialisms and developing them alongside our region's potential</b></p>	<ul style="list-style-type: none"> <li>+ Upskilling of staff and local communities</li> <li>+ Growth of knowledge exchange</li> </ul>	<ul style="list-style-type: none"> <li>+ Increased postgraduate research students.</li> <li>+ Increased staff engaged in postgraduate research supervision.</li> <li>+ Increased number of publications in peer review journals</li> <li>+ Increased funded knowledge transfer projects/innovation vouchers.</li> <li>+ Increased number of applied research funding applications that are net-zero.</li> <li>+ Heightened impact of research outputs</li> <li>+ Increased number of applied research funding projects</li> <li>+ Increased professional recognition for staff e.g. Fellows, Senior Fellows, Principal Fellows</li> </ul>
<p><b>+ To have cohesive and responsive business development teams who can respond effectively and purposefully to opportunities of scale</b></p>	<ul style="list-style-type: none"> <li>+ Coordinated, responsive networks across the region</li> <li>+ Multi-region teams who cross collaborate to provide training solutions and knowledge exchange in multiple locations</li> <li>+ Single point of contact for key industry stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>+ Increased non-regulated income</li> <li>+ Enhanced reputation</li> <li>+ Enhanced stakeholder relations/satisfaction</li> <li>+ Increased offering in industry specific skills</li> <li>+ Improved engagement with employers/employees for curriculum development</li> </ul>

	<ul style="list-style-type: none"> <li>+ Resource to identify opportunities and respond proactively</li> </ul>	
<ul style="list-style-type: none"> <li>+ <b>To enhance the student experience through connecting our sites, resources, communities and multi-location programmes</b></li> </ul>	<ul style="list-style-type: none"> <li>+ Increased student retention</li> <li>+ High student satisfaction</li> <li>+ Inward migration</li> <li>+ More viable programmes</li> <li>+ Enhanced student culture</li> </ul>	<ul style="list-style-type: none"> <li>+ Improved student survey results</li> <li>+ Increased completion and progression rates</li> <li>+ Increased student numbers.</li> <li>+ Improved leaver destination data</li> <li>+ External quality reports/endorsements</li> <li>+ Increase numbers of underrepresented learners</li> </ul>
<ul style="list-style-type: none"> <li>+ <b>To have resilient team structures and depth of resource to address changing priorities, opportunities and economic difficulties.</b></li> </ul>	<ul style="list-style-type: none"> <li>+ Efficiency in services through specialist teams</li> <li>+ Efficient and consistent processes for students</li> <li>+ Efficiency and resilience through combined resource, reduced dependences</li> <li>+ Joint delivery of curriculum by diverse teaching staff</li> <li>+ Capacity within curriculum to focus on new and innovative ways of delivering learning</li> <li>+ Service improvements</li> </ul>	<ul style="list-style-type: none"> <li>+ Increased curriculum offer</li> <li>+ Improved staff wellbeing</li> <li>+ Increased staff progression</li> <li>+ Increased student satisfaction</li> <li>+ Increased staff CPD</li> </ul>

## Learning/training growth opportunities



## Enabling strategies and operational plans

- + Tertiary Curriculum Strategy
- + Gaelic Language Strategy and Plan
- + Learning, Teaching and Enhancement Strategy
- + Student Experience and Engagement Strategy
- + Research and Knowledge Exchange Strategy
- + Business Development and Growth Strategy
- + Communication and Marketing Strategy
- + People and Culture Strategy
- + Estates, ICT and Infrastructure Strategy
- + Finance (including Procurement) Strategy

The above strategies will be supported by year one operational plans.