

Appendix i – The Economic Case - Extract from Shetland Islands Council Full Business Case, 05 December 2018

1. The Economic Case

1.1 Introduction

This section of the FBC documents the wide range of options that have been considered in response to the scope identified within the Strategic Case, and the methods used to select the preferred option.

1.2 Critical success factors

The critical success factors (CSFs) for the project were agreed as follows:

- 1) Develop a financially sustainable model for delivery of tertiary education, research and training in Shetland
 - Establish the most cost effective way to deliver the services in Shetland
 - Reduce the level of annual subsidy from Shetland Islands Council
- 2) Maintain and enhance quality standards in all aspects of service delivery
 - Ensure ability of services to meet quality requirements set by government and service delivery partners
- 3) Maximise future income
 - Ability to achieve income targets from students, learners, research and business services
 - Ability to respond quickly to income generating activity
- 4) Commit to a single clear, consistent and effective voice for the tertiary sector in Shetland
 - Develop a targeted business development and marketing strategy for the sector, with clear targets for growth and engagement
 - One clear, strong and focused voice at regional and national tables
- 5) Maintain local tertiary education, research and training presence, and build strong relationships with resource enablers and strategic partners
 - Maintain physical presence in Shetland
 - Build strong relationships with external organisations vital to the successful delivery of services

- 6) Simplify governance arrangements, and ensure the retention and attraction of appropriately skilled staff
- Ensure appropriate management structure
 - Developed simplified governance structure for the sector

The Critical Success Factors are considered to be essential in the context of the project achieving the strategic objectives detailed in the Strategic Case.

1.3 The long-listed options

The long list of options developed as part of the options appraisal were as follows:

Table 3.1 Summary of long list options and findings

Options		Definition
1	Do Nothing	No further action is taken to change governance, management and funding arrangements of Shetland College, NAFC Marine Centre and/or Train Shetland.
2	Status Quo	Maintain existing governance, with joint management posts regularised, joint strategic plan adhered to and joint curriculum developed as per interim arrangements. Requirements for operational efficiencies would continue.
3	Create a single tertiary education, research and training centre within the Council ('Host SIC')	NAFC Marine Centre becomes part of the Council. Employment of staff is transferred, and all assets and liabilities are taken on by the Council.
4	Create a single tertiary education, research and training centre within UHI ('Host UHI')	Shetland College, NAFC Marine Centre and Train Shetland transfer from existing arrangement to organisational and operational control of UHI. Staff, governance and management transfer to UHI.
5	Create a single independent tertiary education, research and training centre, which is part of the UHI network ('Host NAFC')	Creation of independent organisation comprised of operations of Shetland College, NAFC Marine Centre and Train Shetland, which is part of the UHI network, with SFTCT as the 'host' organisation.
6	Create a single independent tertiary education, research and training centre, which is part of the UHI network ('New College')	Creation of a new, independent organisation comprised of operations of Shetland College, NAFC Marine Centre and Train Shetland, which is part of the UHI network.
7	Shetland College and Train Shetland remain within SIC as part of Education & Families Committee; NAFC Marine Centre remains as is	Strategic oversight of Shetland College and Train Shetland is more closely aligned with SIC Children's Services. NAFC remains as per status quo.
8	Provide only minimum amount of tertiary education, research and training in Shetland	No further investment from SIC in tertiary education, research and training. UHI and SFC fund only basic services.
9	Provide no tertiary education, research and training in Shetland	Disestablishment of Shetland College and Train Shetland by the Council. Core funding to NAFC Marine Centre discontinued.

1.4 Short-listed options

Prior to scoring the options against the Critical Success Factors, a brief scoping exercise was carried out against each option. This judged whether or not each option was capable of achieving the basic aims of each Critical Success Factor, how this impacted on achievability and affordability, and whether or not each option could demonstrate a fit with the business needs and strategic objectives as described in the Strategic Case.

The results of the scoping exercise are as follows:

Table 3.2 Summary of scoping exercise

	Option								
	1	2	3	4	5	6	7	8	9
	Do Nothing	Status Quo	Host SIC	Host UHI	Host NAFC	New	E&F	Minimum	No Provision
CSF1	x	x	?	?	?	?	x	?	x
CSF2	?	?	?	✓	✓	✓	?	?	x
CSF3	?	?	?	?	?	?	?	x	x
CSF4	x	x	?	✓	✓	✓	x	x	x
CSF5	x	?	✓	✓	✓	✓	?	x	x
CSF6	x	x	?	✓	✓	✓	x	x	x
Potential affordability	x	x	?	?	?	?	x	?	?
Potential achievability	?	✓	?	?	?	?	✓	?	?
Business need	x	x	?	✓	✓	✓	x	x	x
Strategic fit	x	?	?	✓	✓	✓	?	x	x
Summary	Discounted	Discounted	Possible	Possible	Possible	Possible	Discounted	Discounted	Discounted

Options 3, 4, 5, and 6 could all demonstrate either a potential or direct fit with the Critical Success Factors, potential affordability and achievability, and fit with the Strategic Case. For that reason, these options remained in the process at this stage and were subject to scoring against the Critical Success Factors.

As shown above, Options 7, 8 and 9 were considered to be unable to achieve some or all of the Critical Success Factors, and were unable to demonstrate affordability, achievability or a fit with the Strategic Case. For that reason, these options were discounted at this stage and not subject to the detailed scoring against the Critical Success Factors.

While Options 1 (Do Nothing) and 2 (Status Quo) were also unable to show achievements or fit with the above criteria, these options are important comparators for the remainder of the Business Case process, particularly the Status Quo, against which any preferred option must be judged. For that reason, these options remained in the process at this stage and were subject to scoring against the Critical Success Factors.

1.5 Options appraisal

In order to provide a ranking of options, a scoring mechanism was developed by the project team. This mechanism provided a score of 0 (low)-5 (high) based on the potential ability of each option to deliver against the Critical Success Factors.

Each Critical Success Factor contained two categories against which options were scored (with the exception of CSF2, which was weighted by a factor of 2 to bring the available score in line with the other CSFs).

The outcome of the detailed scoring process was as follows:

Table 3.3 Summary of initial scoring process

	Option					
	1	2	3	4	5	6
	Do Nothing	Status Quo	Host SIC	Host UHI	Host NAFC	New College
CSF1	0	0	3	4	10	10
CSF2	2	8	8	10	10	10
CSF3	2	6	2	8	10	10
CSF4	0	5	8	6	10	10
CSF5	6	6	7	8.25	10	10
CSF6	2	2	5.5	7	9	9
TOTAL	12	27	33.5	43.25	59	59

The scoring process demonstrated that two options from the shortlist were clearly preferable. These were:

- Option 5 – ‘Host’ NAFC
- Option 6 – New College

The preferred way forward identified by the options appraisal is a merger of Shetland College UHI, NAFC Marine Centre UHI and Train Shetland, outwith Shetland Islands Council. Two options were identified which were most suitable to realise this merger.

In line with Green Book guidance on using the Five Case Model, development of the Full Business Case requires that options appraisals be revisited, and “*the FBC must demonstrate that the conclusions of the economic appraisal...remain valid.*” This must take into account where “*new information affecting the ranking of the options may have become available.*”¹ For this reason, further information and recommendations arising from legal advice and diligence reports have been considered and factored into the revised options appraisal.

¹ Public Sector Business Cases – Using the Five Case Model; Green Book Supplementary Guidance, p.107

When considering an options appraisal, it is essential to ensure that all key considerations have been taken into account. The legal due diligence reports prepared by Anderson Strathern find no legal impediments to merger. However, the choice of governance arrangement leads to the requirement that certain other crucial factors be appraised. One of these crucial factors considered is the ability of the merged college to secure funding from the Scottish Funding Council for Further Education delivery. Anderson Strathern's report on legal due diligence includes the following statement:

“One of the key issues is that the college is financially sustainable. It is therefore essential that the new college is able to be funded by the SFC through the RSB.”

On the basis of the foregoing, the Economic Case contained within the Strategic Outline Case has been revisited and expanded, and the Critical Success Factors revised to take account of crucial information. The Critical Success Factors are now as follows (*change in italics*):

- 1) Develop a financially sustainable model for delivery of tertiary education, research and training in Shetland
 - Establish the most cost effective way to deliver the services in Shetland
 - Reduce the level of annual subsidy from Shetland Islands Council
 - *Ensure the ability of the merged college to achieve assigned status to UHI as the Regional Strategic Body*
- 2) Maintain and enhance quality standards in all aspects of service delivery
 - Ensure ability of services to meet quality requirements set by government and service delivery partners
- 3) Maximise future income
 - Ability to achieve income targets from students, learners, research and business services
 - Ability to respond quickly to income generating activity
- 4) Commit to a single clear, consistent and effective voice for the tertiary sector in Shetland
 - Develop a targeted business development and marketing strategy for the sector, with clear targets for growth and engagement
 - One clear, strong and focused voice at regional and national tables
- 5) Maintain local tertiary education, research and training presence, and build strong relationships with resource enablers and strategic partners

- Maintain physical presence in Shetland
 - Build strong relationships with external organisations vital to the successful delivery of services
- 6) Simplify governance arrangements, and ensure the retention and attraction of appropriately skilled staff
- Ensure appropriate management structure
 - Developed simplified governance structure for the sector

It is essential that the merged college will be an 'assigned college' – this means that the college will be assigned to a Regional Strategic Body (RSB) for the purposes of delivering further education outcomes. It is through the RSB that assigned colleges receive grant funding from the Scottish Funding Council – the RSB for the Highlands and Islands is the University of the Highlands and Islands. All assigned colleges must comply with a number of requirements, including a Financial Memorandum between themselves and the RSB (which, among other things, requires that colleges must operate on a financially sustainable basis), the 2014 ministerial guidelines on college board membership, and Colleges Scotland's Code of Good Governance. There are a number of factors within each of the elements above which raise questions over the ability of Option 5 to meet the requirements for assigned status, including:

- The lack of student and staff representation on the Board of Trustees;
- The legal status of SFTCT as a Trust, which does not provide limited liability protection for Board members;
- Diversity of membership to include a range of community interests;
- Transparent and open decision-making, including public dissemination of agendas, minutes, decisions and financial information;
- Requirement for specific committee structures, which at a minimum comprise Audit, Remuneration, Finance and Nominations/Appointments.

There would also be a requirement for SFTCT to considerably widen its purpose in order to accommodate the course provision delivered by Shetland College and Train Shetland.

A number of the issues above could be dealt with by SFTCT adopting a new legal form. The implication of this is that, under Scottish charity law, the conversion of a charity from one legal model to another effectively ends the previous charity and creates a new one, so any conversion of SFTCT will require the creation of a new entity, which must be capable of achieving charitable status (e.g. company limited by guarantee, SCIO). This is effectively the New College model.

The legal requirements summary notes a number of considerations relating to New College. This includes that “*the structure of the new organisation should reflect the good governance requirements to ensure that there are no problems with obtaining the consent of SFC to assign the college to UHI.*” As the New College model will be a bespoke arrangement designed to achieve the best chance of success, it can be expected that governance arrangements will be designed with this specific goal in mind. The summary also notes that, while the New College model will require complex legal agreements in the form of Transfer Agreements and multiple applications to the Office of the Scottish Charity Regulator (OSCR), these would be required regardless of the Host or New College model being chosen.

On the basis of the foregoing consideration and the revised Critical Success Factors, the two options identified in the preferred way forward have been revisited and the scoring updated, as follows²:

Table 3.4 Summary of revised scoring process

	Option	
	5	6
	Host NAFC	New College
CSF1	10	15
CSF2	5	5
CSF3	10	10
CSF4	10	10
CSF5	10	10
CSF6	9	9
TOTAL	54	59

1.6 The preferred option

Conclusion: the preferred option is **Option 6 – New College**, because it has been evaluated as providing the highest chance of achieving the objectives specified by the Critical Success Factors, and provides a compelling case for change against the status quo.

Option 5 – Host NAFC provided a high degree of benefits against almost all of the Critical Success Factors; however, it was evaluated to have a high degree of risk with regard to being able to achieve assigned status with UHI, and therefore scored lower than Option 6.

² As another scoring factor has been added to CSF1, the weighting for CSF2 has been removed from the revised scoring process.

None of the other options were considered to provide a high degree of benefits against the Critical Success Factors and have therefore been discounted.