

Our ref: 254377181

22 March 2021

Professor Todd Walker  
Principal and Vice Chancellor  
University of the Highlands and Islands  
Executive Office  
Ness Walk  
Inverness

Dear Professor Walker,

**Merger of Shetland College UHI, North Atlantic Fisheries College and Train Shetland**

As you are aware the Shetland Merger Business Case was approved by the University's Finance and General Purposes Committee in May 2020. As part of the merger process, and following approval of the business case by the merging partners, SFC's role is to conduct a visit to the merging institutions to discuss the proposal with key groups including board members (governors) senior managers, staff (teaching and support ) and students.

I now write to provide you with SFC's consideration of the Merger Business Case (Annex A) and our report from our meetings with Board members, Senior Staff, Staff and Students from all merging partners (Annex B).

In determining the model for the new college the merging partners conducted due diligence and options appraisal and reached the decision that the new college would follow the "phoenix model" for establishing a new college. It is planned that the new college will be assigned to University of the Highlands and Islands (UHI) in its capacity as the Regional Strategic Body (RSB) for the Highlands & Islands.

The Transitional Board has also considered the legal structure of the new college and determined that it will be a Scottish Charity (using the legal structure of a Company

Scottish Funding Council  
Apex 2  
97 Haymarket Terrace  
Edinburgh  
EH12 5HD  
T 0131 313 6500  
F 0131 313 6501  
[www.sfc.ac.uk](http://www.sfc.ac.uk)

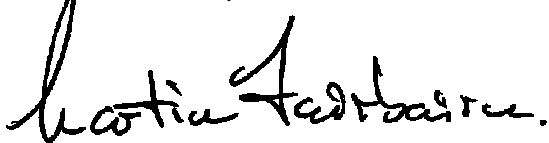
Limited by Guarantee). In taking this decision there is no requirement for primary or secondary legislation at this stage and therefore no formal role for SFC and Scottish Ministers under the terms of the Further & Higher Education (Scotland) Act 1992. Specifically, the Scottish Government confirmed directly to UHI in November 2019 that “the decision on which governance model to adopt [was] for the college and project board to decide” and that it was not a matter about which the Scottish Government had any power of intervention.

SFC’s statutory responsibility comes into play at the point when the new college seeks to be assigned to the RSB (i.e. UHI) under the Further and Higher Education (Scotland) Act 2005. This may take several months post vesting to enable an assessment of governance to be made and for the necessary parliamentary and legislative processes to be completed. We have experience of working with UHI on a previous assignation process and our current intention would be to follow a similar process.

Although we do not have a legal locus at this stage of the merger process (because of the decision that has been made about the legal form of the new college), we are content that the proposal for merger provides a sound basis for our subsequent consideration of the proposal to assign Shetland UHI to the University.

We are now at a critical point in the merger process and would welcome a discussion with you and your executive team to ensure the vesting date deadline is achieved.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Martin Fairbairn". The signature is fluid and cursive, with a large initial 'M'.

**Martin Fairbairn**  
Chief Operating Officer

## **Annex A: Merger of Shetland College UHI, NAFC and Train Shetland: SFC Consideration of the Merger Business Case**

### **Background**

Over the past seven years there has been several business cases developed to support a merger of NAFC Marine Centre, Train Shetland and Shetland College, UHI. It was not until December 2018 that the Shetland Islands Council Full Business Case concluded, with the case for merger being agreed by Shetland Islands Council and with the agreement by the Trustees of NAFC Marine Centre.

Three major pieces of evaluative work underpinned all of the merger proposals to date, to determine how best to provide tertiary education in Shetland. All reports recommended merger of the current provision. These were:

- 2013 – Anderson Solutions Report
- 2016 – Shetland Tertiary Education, Research and Training Draft Integration proposals
- 2018 – the Mullen Report

Following the partners' agreement to merge in December 2018, a 'road map' was agreed to create the new college with the following milestones:

- Creation of a Transition Board.
- Establish a Project team to develop proposals through to full business case.
- Appointment of a principal designate by October 2019.
- Vesting date of 1 August 2021

This Merger Business Case concludes two years of intensive work by all parties to the merger in Shetland. Staff, students, employers and other stakeholders were engaged in the development of the business case to ensure that the vision for the new college reflected the strength of the merging partners and aspirations for tertiary education in Shetland.

SFC and UHI provided support in the development of the Business Case and gave feedback as the plan evolved.

The business case (which was completed in March 2020 prior to the COVID-19 Pandemic and subsequent restrictions) refers to the new college as Shetland Institute, UHI. However in the consultation process 62% of respondents did not approve of the name. Further options were developed and the Transition Board

undertook additional consultation with students, staff and stakeholders. Following that consultation the name was amended to Shetland UHI.

### **Model of merger**

Following an options appraisal the model for the merger is a 'phoenix model' as this was deemed the most suitable model to realise the merger. The phoenix model is used when all institutions merge to form a completely new entity. It is also intended that the new college will be an assigned college - this means that the college will be assigned to UHI as the Regional Strategic Body (RSB) for the purposes of delivering further education.

### **Options appraisal and due diligence**

In arriving at the preferred option and model for merger the merging partners have conducted a thorough assessment of all possible options. They have sourced professionally-delivered due diligence exercises, which have identified some challenges, but none of these are insurmountable, and are within the new college's and the Regional Strategic Body's capability to address.

### **Key benefits of merger**

The Business case sets out the significant benefits of the merger for students, staff, stakeholders and the Shetland economy. The following benefits are not exclusive. The merger will:

- Achieve the best possible student experience, providing more opportunities educationally, socially and pastorally, than can be achieved by separate entities.
- Simplify the development of coherence in provision.
- Improve school-college activity, so that all students regardless of career choice or further/higher education.
- Provide a single point of entry to students for tertiary education (replacing the three current entry points).
- Establish a single voice for tertiary education on the Shetland Islands.
- Make tertiary education in Shetland sustainable, in ways that cannot be achieved by retaining separate entities with diminishing resources.
- Change and innovate, and build capacity amongst staff.
- Build on relationships with Shetland schools, communities and employers and respond to their ambitions and aspirations for post-school local learning and research.
- Deliver a curriculum better connected with, and responsive to, industry and local community needs.

- Provide a strategic approach to industry engagement, ensuring trends and needs of local sectors (including those specific to micro- and small businesses) inform future curriculum development.

Respondents to the consultation were in agreement with the rationale for the merger believing that the merger will provide wider learning opportunities and enhance provision for learners.

### **Governance**

Following legal advice and extensive consultation, the Transition Board determined that Shetland UHI will be established as a Scottish Charity (using the legal structure of a Company Limited by Guarantee), rather than as a college incorporated under the Further and Higher Education (Scotland) Act 1992. It is planned that it will be an assigned college to UHI, the RSB for the Highlands and Islands, and will adhere to the national Code of Good Governance for Scotland’s Colleges.

It is intended that the new college will have charitable status (only NAFC has charitable status at present).

In a letter to UHI in November 2019 the Deputy First Minister confirmed that “the decision on which governance model to adopt [was] for the college and project board to decide” and that it was not a matter about which the Scottish Government had any power of intervention.

### **Assignment**

It is planned that, in accordance with the Further and Higher Education (Scotland) Act 2005, the new college will be assigned to UHI as the Regional Strategic Body. For this to happen the new college will be required to demonstrate that it is complying with the Financial Memorandum with UHI and the Code of Good Governance for Scotland’s Colleges and therefore assignment will not be in place at the point of vesting.

### **Learning and teaching**

In developing the Merger Business Plan the Partners took into consideration a wide range of national and local policies and strategies to ensure that the new college will reflect the local context and national priorities. These included:

- The National Islands Plan
- Scotland’s Economic Strategy
- Colleges Scotland: Colleges Sector Statement of Ambition 2018-2023
- University of the Highlands and Islands: Strategic Vision and Plan
- Highlands and Islands Skills Investment Plan

- Shetland's Partnership Plan 2018-2028

The curriculum plans and learning and teaching strategy show that the proposed curriculum will align with the aspirations of the wider strategies and is compatible with the strategic vision and plan of UHI.

### **Merger case consultation**

Following completion of the Merger Business Case the merging partners initiated a consultation process. A combination of an online questionnaire and online meetings were held. Engagement was sought from staff, students and a wide range of stakeholders. A wide range of responses were received to the online questionnaire (30% from staff, 13% from students, 57% from other stakeholders) and there was good engagement of staff and stakeholders through online meetings.

From the responses received the case for merger was widely understood (88% thought the rationale for merger was clear) and widely supported (78% supported the plans to bring tertiary education together in Shetland).

## **Annex B: Merger of Shetland College UHI, NAFC and Train Shetland: Report on SFC Meetings with Staff, Students, Transition Board and UHI**

### **Introduction**

In order to help SFC's understanding of the merger and in accordance with previous practice, after the merging partners signed off the merger proposal and business case SFC arranged to meet Transition Board members, senior management, staff and students to discuss the business case and merger proposal.

Due to the COVID-19 restrictions on travel a series of online meetings was arranged between 30 September and 8 October 2020.

The following notes are a summary of the discussions with each group and sets out SFC recommendations to the Transition Board.

### **Transition Board Members**

Our meeting with Transition Board members provided the opportunity for the Transition Board to socialise the aspirations for the new college, the benefits it will bring to Shetland and the challenges that remain in delivering the merger. We heard that:

- The new college will encompass the main providers of tertiary education and training in Shetland in one entity which will benefit learners, staff, the local community, and employers. It will be central to the Shetland Partnerships vision for economic prosperity and provide cohesion in meeting the education and skills needs of Shetland.
- The new entity will allow a more straightforward relationship with the wider world; at the moment it is complicated. The merger will streamline and improve the relationship with the local authority, local employers, the local community and with the UHI partnership.
- It is acknowledged that the focus on the merger has led to an inward focus and opportunities may have been missed during this time. The merger builds on the strengths of the merging partners and will ensure an integrated and coordinated approach when seeking opportunities for growth and investment.
- The single entity will have significant benefits for students. The merger will enhance the quality of the student experience; provide clearer and joined up learner journeys making coherent pathways for young people and people wanting to access education; increase opportunities and subject choice; and strengthen the learner voice through one student body and representation at Board level.

- It is intended that the new college will be assigned to the University of the Highlands and Islands (UHI), bringing greater opportunities for staff, learners, and research. One entity will strengthen the Shetland voice within the UHI partnership.
- The challenge of providing financial sustainability should not be underestimated. The COVID-19 pandemic has increased the challenges.

### **Senior Staff from Shetland College UHI, NAFC and Shetland Island Council**

Senior staff across all organisations were clear that the merger would bring benefits for learners, apprentices, staff, employers and the wider Shetland community. There was a feeling that “merger blight” has meant that things have stagnated in the Isles in terms of the tertiary sector. The merger brings with it the opportunity to change, innovate and do things differently.

- The group highlighted a number of the opportunities where the new college is better placed as a single entity to play a key role, including research opportunities, the Islands Deal and the outcomes set out in the Shetland Partnership. The new college will be critical in providing the skills, education and research to support Shetland.
- The perception was that the prolonged merger process has had a detrimental effect on curriculum provision and that it no longer meets the needs of the community and learners in Shetland. It is believed that the merger will provide the best possible opportunities for learners and will support the Shetland community in terms of sustainability and growth.
- The leadership and structure of the new college will provide greater flexibility to embrace future opportunities. There are opportunities to drive innovation and research, to develop programmes and to encourage post-graduate students to come and work in Shetland.
- The one stop shop for tertiary provision for the Shetland Isles will provide a better student experience by improving communication, increasing subject choices, clarifying learning pathways and increasing the student voice.
- Communication about the merger process has improved over the last year and staff are feeling more engaged about the process.
- There is more unanimity of purpose than there was a year ago. Participants were excited that they were moving in the same direction and that everyone is pulling together.

The group identified the following key challenges for the new college.

- Providing financial sustainability for the new college to enable growth and realise the opportunities is critical.
- The Phoenix Model agreed by the merging partners has been challenging as it is complex and there are no similar models to provide guidance.



- The group recognised the challenges of merging the different cultures of each organisation, but felt that this was not an insurmountable challenge.
- Maintaining the brand identity of each organisation will present a challenge to the new college to ensure customers, students and collaborators worldwide recognise the strengths of the merged college.

## **Staff**

SFC met with 13 teaching and non-teaching staff and trade union representatives from both colleges on two occasions and heard both support for and also concerns about the merger. However the overarching message from staff was that they are keen to see the merger concluded to enable them to focus on building the new college. We heard that:

- Staff across all partner organisations are experiencing merger fatigue. They want to complete the merger and move forward positively with teaching and research.
- One of the biggest advantages to completing the merger is that the focus can return to teaching.
- Staff members highlighted benefits of merger including alignment of policy and communications; shared marketing; sustainability and viability of Shetland College and NAFC; a single point of entry for students; a unified prospectus, web presence and a single point for marketing.
- There is a perception that all three organisations have been rudderless as a consequence of the merger process with the attention taken away from the real job such as the development of new courses and a new strategy for Shetland. The merger will refocus the objectives of the college.
- There is a belief that the organisations complement each other – different cultures but the end goal is the same.
- There is no overlap of provision and staff can see advantages in integrating the activities of the 2 colleges.

We also heard concerns about the merger relating to:

- Potential change in employee's terms and conditions and pensions with a change in governance and employer.
- The uncertainty of moving to a new organisation and what that involves.
- The restructure and what it will mean for staff.
- Structure of the new college – lack of structure following vesting has led to staff uncertainty. Further clarity on the management, admin and teaching structures of the new institution will alleviate concerns.

- Train Shetland staff are uncertain of their location in the new college. The fact that the Train Shetland building wasn't picked as being part of the new entity's estate.
- Financial sustainability and challenging income assumptions within the business case.
- Staff involvement in the merger process has been limited over the lockdown/Covid period.
- Staff raised concerns about the non-incorporated status of the new college at staff merger feedback sessions with senior staff

## **Students**

SFC met with a group of 10 students including the HISA President and HISA Shetland Depute. The majority of the students were from Shetland College, UHI.

A number of the students present felt ill-informed about the merger and stated there had been little engagement with the student population. Despite this the questions and points raised demonstrated that there had been a level of information provided. Comments made included:

- It was difficult to understand the merger process as it seems very complicated in terms of incorporated and non-incorporated status and there is a lot of information to digest. Would be good to have a clear explanation of incorporated versus non-incorporated.
- There was a number of comments regarding the private status of the new college and the effect this would have on students, number and type of courses available, student support including childcare and travel,
- The new college may be geared towards profit and businesses rather than providing a large range of courses.
- Students were concerned about the effect of the merger on their lecturers and the time they will get with them and the quality of the courses.
- Students felt that they needed more information regarding ownership of the new college and asked if they would have a vote for whether the merger should go ahead.
- They were aware of the concerns about the financial sustainability of both Shetland College and NAFC and understand that they would not do well without a merger. More investment to student facing services and the student experience would be good.
- On balance a few felt the benefits of the merger outweighed the possible risks. Believed there will be a better learning outcome.

In response to the students questions regarding the legal status of the new college, SFC informed the students that the new college will be a charitable organisation, not

run for profit, with the aim to improve the student experience and learning at all levels.

## **Conclusion**

The meetings were positive and provided helpful reflection on the merger process, aspirations for the new college and the challenges still to be faced. The overall feedback is that the merger is viewed as a positive way forward for the learners, staff, employers and the Shetland community. There remain a number of challenges to overcome including the financial sustainability of the new college and staffing structures, however SFC is confident that the Transition Board is making progress to the planned vesting date.

We recommend that:

- there is increased and sustained interaction with students to ensure they are aware of the reasons for merging, the vision for the new college and the impact that the new college will have on the learner;
- Train Shetland staff are advised of their location within the new college as soon as reasonably possible; and that
- there continues to be engagement with all staff across all merging partners.

## **Next Steps**

This report is included as an annex to SFC's consideration of the Merger Business Case and is therefore being shared with UHI and the Scottish Government.