Options Appraisal

MAY 2021

ROCKBORN

MANAGEMENT CONSULTANTS

"HISA's position is that the UHI as a single coordinated entity would best meet the interests of current and prospective students. In the absence of that, a grouping of the smaller colleges would be a better solution for the colleges they serve. HISA believes that a merger between the smaller colleges would establish a more sustainable curriculum and ensure equity of experience and access to services for students across the most rural parts of Scotland, ensuring our students receive easily accessible and high-quality education as well as a better student experience. The status quo is not an option to HISA anymore."

– Florence Jansen, President HISA

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CONTENTS

1.0 EXECUTIVE SUMMARY

The Highlands and Islands Region is unique within the British Isles. It is almost as big as Belgium yet is one of the most sparsely populated areas in Europe. Population density at 12 persons per km is considerably lower than the UK average of 275 and that of Glasgow at 3,400.

The University of Highlands and Islands (UHI) was designed to respond to the needs of that population. The UHI is made up of 14 partners including the University. It is based on a strategy where local colleges, in addition to their local service, provide a portal to the whole of the collective UHI's offer. Put another way, the UHI offers a teenager born in a remote community the opportunity to follow their dream of working in the computing industry without giving up the sense of place and community that is so important.

The seven colleges that have undertaken this options appraisal serve a huge geographical spread and maintain a large learning infrastructure for remote and rural communities. They face shared challenges that the urban based colleges within UHI do not have to contend with, depopulation, a draw of young people to the mainland or urban centres and they sit right at the heart of their communities, both as educators and employers.

They deliver on a daily basis what UHI was set up to achieve, access to further and higher education in the furthest corners of region.

Yet the UHI's configuration contains some aspects that mitigate against their effective operation. That strong sense of place translates to strong support for local colleges. The colleges must respond to their dispersed communities, but this often spreads their offer too thinly. Costs rise as a result. The additional funding provided for this remoteness is not enough to cover the inherent inefficiencies of delivering to low numbers, and in some cases this is evident. As the colleges are vital to their communities, they hesitate to cut provision or staff. Owing to an aging population, funding priorities, and outward migration, the numbers of senior-phase students reduce creating a demographic problem for recruitment and income.

Some colleges have no option but to compete for this declining market, making the situation worse. Colleges operate with too few staff and with individual systems. These circumstances create challenges for the institutions in terms of their efficiency, and resilience. It puts unnecessary stress on staff who are less effective than they could be in meeting student need despite a great deal of hard work.

The University and its Executive Office are seen as a separate entity to the colleges. Leaders have put in place mechanisms to facilitate a sense of involvement for all partner colleges, but the number of voices involved makes decision taking sclerotic and alienates some. Past change processes have run into the sand. For example, it should be relatively straightforward to implement a common financial system with clear decision making, proper planning and effective implementation. Such a system is urgently needed as the current arrangement with multiple mechanisms for recording and reporting financial information is counterproductive at best. Yet it has taken 5 years to come to the point where a revised system, Technology one, is being introduced. Other systems have not yet been addressed.

The simple fact is, that while everyone signs up to the UHI's vision, the way partner colleges and Executive Office operate in practise undermines its potential. Essentially, there are too many faces on this Rubik's Cube. Attempts to line up all the elements required to deliver the vision underpinning the UHI - and which everyone signs up to - repeatedly fall short.

There have been attempts to improve the position. Several internal reviews are taking place intended to make good on these issues. There have been more in the past, too. Ernest and Young said, back in 2009:

"The current governance model is described as 'collegiate' and 'collaborative' and a great deal of management time is expended in making decisions by consensus. However, the practical results of this model appear to be slow progress, frustration for all parties, and a lack of adherence to the organisation's founding principles..." [1]

Three years later, Capita stated:

"The University was envisaged and operates as a partnership. While this is both the source of its strength it is also the origin of the many challenges the UHI faces on a day to day [2] basis. Partnerships can be painful and challenging enterprises - they only really thrive when the partners' desire for co-creation outweighs their other priorities."

And in 2020 in response to the phase one review by the SFC, the University itself reported that:

"As yet, there is no formally agreed process to assure academic partners and the Regional Strategic Body of the alignment of academic partner strategies to the overarching University of the Highlands and Islands Strategic Plan." [3]

This review was commissioned following the Scottish Government and Scottish Funding Council (SFC's) Phase 1 report on Coherent Provision and Sustainable Funding. The purpose of this review was to consider academic partners' options for consolidation to provide efficient and sustainable delivery for remote, rural and island contexts. Individual colleges have shared, and do share, some back office and curriculum delivery staff. Yet this is limited and facilitated by links between individual Principals rather than strategy.

Too many partner colleges are struggling with finances and staffing. There is an over-reliance on a few key individuals and no Plan B except to call for help if needed. The lack of common key systems exacerbates the risk.

There is a sense that the individual colleges, and their multiple sites, are too important to lose. We understand that. However, a college's purpose is to provide educational opportunities for the population it serves. It is the service which is important and not the independence of the institution itself. West Highland College is an example of this. It was formed from two geographically separate organisations, yet this is not a barrier to its current success. Argyll has no central location, yet this underpins rather than undermines its work. There are other and better ways to respect sense of place local identity and loyalties, which we utterly respect, while at the same time adding value and impact. We provide examples of how this has been achieved elsewhere in this report.

All partner colleges and stakeholders identify that the “do nothing” option is not sustainable and is likely to lead to slow but inevitable decline. Maintaining the status quo is not in the best interests of students, the colleges or the communities served, and it prevents the colleges and UHI as a whole from fulfilling its true potential and from fully realising the many opportunities on offer in the region as we define post-Covid. And post-Brexit economic and social renewal. However, different partner colleges are at different stages of their development journeys and one-size-fits-all solutions are not currently appropriate.

Shetland College needs to complete its merger. It has taken a long time to reach this point; the process needs to complete, and the new college needs the opportunity to realise its ambition of becoming a freestanding, successful entity taking the opportunities that new freedoms can bring. While it finds its commercial feet, Shetland College will be subsidised to the tune of £3m over the first three years. To become successful, leaders plan to grow by 20%.

The population of the Shetland Islands, and the opportunities provided by distance learning, are shrinking. Without close collaboration with the other partner colleges, Shetland runs the risk of trying to feed its growth by competing with the other colleges. So, while Shetland needs to complete its merger, its leaders need to plan collaboratively to grow audiences rather than compete for slices of the same market share. Equally Shetland’s leaders need to control costs. As the college comes away from the council, so it will lose the back-office services the council provides. Replicating those services will build cost. That is probably unavoidable, but leaders could improve resilience and find some cost saving by adopting the same systems and processes as the other partner colleges and the collective UHI. Going forwards, leaders should look at how staff can work with other staff across the other partner colleges to share and develop curriculum.

Orkney College has previously determined that they will remain part of Orkney Council and be subject to the benefits and the constraints that come from that. This decision will mean operating Council finance and back-office systems, but staff will also have to operate the UHI systems, doing the work twice. For curriculum planning and management, however, college staff, working with the systems of the UHI, or at least those of this wider partnership will increase benefits to students. A decision to follow a path of greater integration beyond that will require the Council to determine that the College has a greater ability to serve the island’s needs and opportunities as a stand-alone organisation – where it would be likely to be subject to the same vulnerabilities as Shetland without the subsidy or become part of a bigger entity to realise more effectively the economies of scale.

We hope this report sets out the issues to be considered in making that decision when it deals with the position of the other partner colleges.

For those other partner colleges in this study, we suggest a merger offers the best benefit to cost and effort. We reviewed college group structures in England as asked and showed that they are not corporate groups in the way that was envisaged when the brief was written. Each group reviewed is a single entity with local sites. And varying approaches to devolved brand, governance and executive leadership under a single overarching strategy. We believe this model can fulfil partner colleges’ needs. A single entity comprised of LCC, West Highland College (WHC), Argyll and potentially North Highland College (NHC) would allow a single Management Board and a single Management Team to plan and oversee the curriculum coherently, eliminate competition between the individual entities, and facilitate coherent resource management and cut costs allowing money to be directed to front line services.

The Management Board would need to represent all the communities it serves, and this would have to be written into the Governance structure. The overarching Board could be supported by local advisory committees, operating within clear delegations, and working to clear parameters. Careful thought would need to be given to whether it would have a HQ as such. A number of leaderships teams in the English and Welsh 'Groups' have abandoned that idea and have embraced dispersed leadership. That model would work well here. Back-office services would be brought together, organisationally if not physically, improving capacity to specialise, enhance and innovate. One of the few good things to come from the recent pandemic is a wider realisation that teams can be dispersed and still be effective. That would eliminate one of the key concerns in change – a loss of local jobs.

Whilst this report was commissioned to focus on resilience and sustainability, there is no stepping back from the fact that the future, however it may be structured for these colleges, will bring greater financial challenges as public spending on tertiary education will come under increasing pressure following the economic impacts of the Covid pandemic and Brexit. Any compelling case for change therefore needs to assess the financial challenges and look to ways of delivering greater efficiencies, reducing cost bases wherever that is possible, alongside working smarter to deliver greater impact. The financial savings this merger could deliver could be achieved over time and in a number of different ways, and they could be based on reduced corporate workload as common systems, automated reports and less formal reporting lines, with fewer management teams and Boards, are introduced.

It is our view that this merger would help to simplify UHI's current partnership arrangements, creating fewer and more equally sized partners, creating an improved balance of rural and metropolitan perspectives, and possibly quicker and more streamlined decision-making realising greater impact and effectiveness for all in UHI.

Whilst merger is, in our view the strongest way forward, we have also assessed strategic collaboration of the seven college partners for creation of shared services only. It may be feasible to set up a shared services function within the partner colleges or some smaller grouping, but the effort outweighs the benefits. Savings would be limited and only worth the effort required if such an arrangement were implemented across the whole of the UHI rather than a part of it. There are 14.6 FTE finance staff in WHC, NHC, Argyll and Lews whereas there are approx. 70 across all the partner colleges including the UHI itself. Given all the other priorities, we cannot see that a limited shared services model is worth the time and the investment.

THE UHI CORE

Some aspects of the UHI's governance are out of the scope of this review but impact on it.

The role of executive office and the fairness and transparency of top-slice funding methodology are issues that come up again and again in discussions with partner colleges. We have reviewed the information provided and fail to see what the top-slice pays for with the clarity and detail required. This lack of transparency and perceived unfairness are barriers to trust now, as they were in 2012 when first reported.

The Executive Office is seen as remote from the everyday reality of the partner colleges. Without transparency about the costs of services executive office provides, it will always be seen as an agency of the UHI – a separate entity – rather than a support mechanism. Some leaders and governors state that decision making at the UHI is ineffective and frustrating as partner colleges give lip service to decisions, committing to a proposal when together, then later changing their minds. This was also identified as a problem over a decade ago.

The new Vice Chancellor of the UHI is taking forward a new strategic plan and a reform of how the executive office is structured and will operate in future. We hope that this process will address the concerns that colleges have raised overtime, but moreover, provides a real opportunity for these colleges to help drive the necessary changes within UHI with their circumstances taken account of. It is the opportunity for the seven colleges to agree and develop a way forward for their localities to protect the mission, realise the benefits inherent in the UHI and make life easier for staff and students.

We have identified a number of significant concerns and in doing so paint an overly bleak picture: that is not our intention. The individual colleges have many strengths, they are committed to their local communities and have delivered a great deal for their students over many years resulting in very high levels of student satisfaction. They have done so in the face of significant challenges. They have a common understanding and a common purpose, serving remote, rural and island communities. They have already developed projects to share staff and resources within FE, mirroring the systems already in place in HE and these are very much welcomed by the staff concerned. Our point is that they are far stronger and more able to build on those combined strengths, influence the university partnership and increase resilience as a larger entity.

Bringing about change is not easy. There are potential pitfalls that would need to be addressed and lessons from prior mergers that should be taken on Board including those from the Shetland Merger and from the earlier round of regionalisation.

Pensions, the uncertainty of change and its impact on staff motivation, increased turnover and the risk of mission drift would have to be identified and planned for. Support, including financial support, from the Funding Council, and a clear understanding that the EO and the UHI were playing a facilitating rather than leadership role, aligning change programmes within the UHI with those of the changing partnership is key.

Most of all, it would need to be clearly understood that the next chapter in this story was written by the partners themselves. The way forward would be designed by the partners for the needs of their particular communities and implemented in a way that respected the concerns of staff and students. There have been many reports and there is a wealth of data, what is needed is a vision for how the strengths of the partners working together can be stronger than the sum of the parts and that can only come from the partners themselves.

RECOMMENDATIONS

We therefore recommend that:

The Shetland College merger be completed in July as planned.

Subject to approval by the relevant Boards, a steering group be established drawn from the Boards and leadership of Argyll College, West Highland College, North Highland College and Lews Castle College to examine the case for merger in more detail, up to and including the development of an outline business case.

Discussions be held with the UHI and the SFC regarding support for this exercise and for any subsequent developments

In developing elements of this case, all of the partners in this exercise, supported by the EO:

- model a combined curriculum plan
- identify opportunities to extend partnership working on existing programmes
- develop a programme for core system alignment
- develop mechanisms for closer collaboration between curriculum and support teams to develop common ways of working

PROJECT BRIEF

"Shetland college should complete its merger process. It should be part of a wider Confederation of colleges within UHI - as a distinct element at this stage - but there should be a Confederation that allows much greater cooperation and alignment of curriculum, of resources and of systems to realise the benefits the UHI was originally conceived to deliver."

– Peter Campbell, Chair Shetland College

2.1 INTRODUCTION

The Scottish Funding Council (SFC) Phase 1 Report on Coherent Provision and Sustainable Funding published in October 2020 expresses an expectation for UHI to 'consolidate' and consider academic partner options. This is especially noted for the efficient and sustainable delivery for remote, rural and island contexts and also in response to the current economic and financial climate imposed by the global pandemic COVID-19 and reductions in public spending.

Subsequently, seven rural partner colleges commissioned this review to explore opportunities for more strategic collaboration to ensure their continued sustainability and growth opportunities for their students, staff and communities. These colleges, who currently share some activity/services, are:

- Argyll College (AC)
- Lews Castle College (LCC)
- NAFC Marine Centre
- North Highland College (NHC)
- Orkney College (OC)
- Shetland College (SC)
- West Highland College (WHC)

2.2 THE BRIEF

As part of the formal options appraisal, the colleges required a set of options for strategic collaboration to be investigated to deliver:

- sustained and enhanced provision and opportunity for students, staff and the communities/geographies the colleges currently serve individually.
- enhanced sustainability and efficiency.
- a positive impact on the wider UHI partnership.

The options appraisal needs to:

- provide a solid evidence base to inform strategic dialogue and subsequent decision making.
- consider the deliverability of the proposals.
- include a recommended road map.
- formally investigate a 'do nothing' option and present the implications.
- test the assumptions of delivering more sustainable provision, efficiency and positive impact on each college and the wider partnership.

In line with the mandatory requirements set out in the invitation to tender, this report outlines an appraisal of the following options, including the formal assessment of benefits and risks:

Option 1

A federated partnership model based on a contractual agreement for sharing curriculum and identified services, recognising the opportunities of existing collaboration amongst remote rural and islands partners for curriculum, service and growth deals.

Option 2

A group structure which delivers benefits of a single corporate body in terms of strategic and financial planning and efficiencies, but retains a local identity, management and governance for each member of the group (based on models of group structures currently in existence in FE and HE within the UK [example LTE Group or Newcastle Colleges Group], but currently not utilised in this form in Scotland).

Option 3

A merger model for some or all of the seven members – creation of a single new corporate entity into which members transfer.

Option 4

'Do nothing'/status quo: what are the implications?

2.3 APPROACH AND METHODOLOGY

The work involved several activities including:

- discussions with each of the College Principals,
- discussions with the Chairs of the Corporations,
- discussions with key stakeholders, including staff and student representatives,
- reviewing strategic, financial, curriculum, quality and HR information from the colleges,
- desk-based research and review of college papers and strategies.

A full list of interviews conducted can be found in Appendix 1.

2.4 ACKNOWLEDGEMENTS

All those involved have been extremely helpful during the course of our work and we have been received with unfailing courtesy and patience. We are grateful to everyone who has helped us produce this report.

BACKGROUND

3.0 THE ESTABLISHMENT OF A REGIONAL STRUCTURE

Some context is required before we set out the detail.

The regional structure for further education in Scotland was established in 2013/14. It followed the Griggs Review of 2012 – and the subsequent Scottish Government response which identified key drivers for change.

These, in turn, followed a report by the Scottish Government in 2011 'Putting Learners at the Centre, delivering our ambitions for Post 16 Education.' This stated that:

Post-16 education in Scotland must be:

Sustainable: a system that makes optimal use of the resource available.

Open to all: our system should give all those who can benefit the opportunity to do so, removing barriers to access where they exist.

Flexible: the post-16 system should offer a wide range of provision in different ways to meet the diverse needs of learners and businesses. This will demand increased collaboration and co-operation between and across all sectors that contribute to learner outcomes and meeting employer needs.

Learner-centred: funding systems and provision should be designed around the needs of learners and should be simple, transparent and accessible.

Focussed on jobs and growth: taking account of employment and wider economic needs.

Diverse: we need to encourage and nurture diversity and encourage institutions and providers to focus on the areas where they excel and add most value.

Excellent: we set the highest ambition for our learners. It follows that the drive for quality and excellence should be core to all we do. In particular, we must recognise the importance of the link between teaching and research in our universities.

International: our work should be recognised internationally and the reputation of our institutions – particularly our universities - should extend their work abroad, contributing to the promotion of Scotland overseas.

Well-led: strong, properly governed institutions which are financially stable and who are leading innovation and change across the post-16 landscape must be a key feature of the system.

The report set the following design criteria for what would follow:

Our aim is a flexible and fair system that:

- meets the needs of learners and employers,
- results in positive outcomes at all stages of the learner journey, and
- uses public funding to deliver courses, qualifications and degrees as efficiently as possible.

A variety of approaches were taken including establishing regional colleges in the larger urban areas. The particular geography of the Highlands and Islands demanded a different approach and so the UHI was given the role of Strategic Body with the following remit:

"It is the duty of a regional strategic body to exercise its functions with a view to securing the coherent provision of a high quality of fundable further education and fundable higher education in the localities of its colleges. " [4]

Those colleges in existence at the time became incorporated bodies, and with specific powers. Several colleges that formed later were created as charitable companies. A third category were those retained in local authority control.

The partner colleges line up as follows:

Incorporated	• North Highland College • Lews Castle
Assigned Non-Incorporated	• Argyll • West Highland College
Local Authority	• Orkney • Shetland
Non-Assigned Non-Incorporated	• NAFC

In 2012 it was proposed that NAFC, Train Shetland and Shetland College should merge and become Shetland College and be independent of local authority control. That process is due to be complete in July this year.

THE HIGHLANDS AND ISLANDS

4.0
AN INTERESTING CASE

The Highlands and Islands stretch from Shetland in the north to Campbeltown at the southern tip of Argyll and from the Outer Hebrides in the west to Moray in the east. It has a population density of circa 12.1 people per km2 compared to 131.3 per km2 in the rest of Scotland and 3400 and 2958 respectively in Glasgow and Inverness.

The UK average is 297 and for England 278. The UHI is an almost perfect solution to the educational challenges this raises, giving local populations access to the full range of educational opportunities that the UHI offers in both FE and HE through the local college structure.

That said, the low population density brings with it a range of issues around efficiency of delivery. Due to current economic and demographic issues these problems are likely to get worse.

The seven colleges within scope are all in the fragile economic zone within the HIE region. Their communities, which are remote rural and island based, have more in common with each other rather than the larger urban colleges.

4.1
THE POPULATION IS REDUCING AND AGEING
INFORMATION ABOUT THE AREAS

4.1.1
ARGYLL AND THE ISLANDS (ARGYLL COLLEGE)

Argyll & Bute

Current Population
65,881

Projected Population 2018 – 2043 → **-15%**

AGE	2018 Current Population	2028 Projected Population	% Change	% Scotland Change
0 to 15 yrs	13,024	10,727	-17.6%	-6.0%
16 to 24 yrs	8,376	7,782	- 7.1%	-0.9%

- Population density 9 people per sq km (compared to 12 people per sq km in Highlands)
- An older age profile than the Highlands and Islands and Scotland
- Greater % of people self employed (15.9%) compared to the Highlands and Islands (11.6%) and Scotland (8.4%)
- Lower employment rate (76.8%) than Highlands and Islands (77.5%)
- Unemployment rate of 6.5% in December 2020 up from 3.0% in December 2019
- School leaver positive destination rates above the Scottish average
- Older age profile than both the Highlands and Islands and Scotland (27.4% aged over 65 years compared to 22.8% in the Highlands and 20% in Scotland)
- Higher share of employment by industry in construction; retail; transport and storage; accommodation and food services; public administration and defence; education and arts, entertainment, recreation and other services.
- Higher share of employment by occupation in managers, directors and senior officials; skilled trades and elementary occupations than the Highlands and Islands and Scotland.

4.1.2

ORKNEY (ORKNEY COLLEGE)

Orkney

Current Population
22,270

Projected Population 2018 – 2043 → **-2%**

AGE	2018 Current Population	2028 Projected Population	% Change	% Scotland Change
0 to 15 yrs	3,544	3,136	-11.5%	-6.0%
16 to 24 yrs	1,897	1,891	-0.3%	-0.9%

- Population density 23 people per sq km (compared to 12 people per sq km in Highlands)
- An older age profile than the Highlands and Islands and broadly in line with Scotland. Estimated to have a 37% increase in those aged 75 and over by 2028
- Employment rate of 84.8%, which is considerably higher than the Highlands and Islands average (80.9%) and Scotland (77.5%).
- Lower % of people self employed (10.5%) compared to the Highlands and Islands (11.6%) and Scotland (8.4%)
- Unemployment rate of 1.3% compared to 2.3% for Highlands and Islands and 3.2% for Scotland
- School leaver positive destinations rates above the Scottish average, and the second highest of Scotland's Local Authorities.
- Higher share of employment by industry in agriculture, forestry and fishing and transport and storage in 2018.
- Higher share of employment by occupation in managers, directors and senior officials; skilled trades and elementary occupations

4.1.3

SHETLAND (SHETLAND COLLEGE AND NAFC)

Shetland

Current Population
22,920

Projected Population 2018 – 2043 → **-6%**

AGE	2018 Current Population	2028 Projected Population	% Change	% Scotland Change
0 to 15 yrs	4,205	3,820	-9.2	-6.0%
16 to 24 yrs	2,183	2,073	-5	-0.9%

- Predicted 10% increase in technical jobs
- Population density 16 people per sq km (compared to 12 people per sq km in Highlands)
- A younger age profile than the Highlands and Islands and Scotland
- A higher Economic Activity rate of 74.9%, considerably higher than the Highlands and Islands average (79.4%) and Scotland (76.5%).
- Lower % of people self employed (9.3%) compared to the Highlands and Islands (11.6%) and Scotland (8.4%)
- Higher employment rate (72.8%) than Highlands and Islands (77.5%)
- Unemployment rate of 3.2% in December 2020 compared to 1.7% in December 2019
- School leaver positive destinations rates above the Scottish average
- Higher share of employment by industry in agriculture, forestry and fishing; construction; wholesale; transport and storage and arts, entertainment, recreation and other services.
- Higher share of employment by occupation in administrative and secretarial and elementary occupations

4.1.4

LOCHABER, SKYE AND WESTER ROSS (WEST HIGHLAND COLLEGE)

West Highlands

Current Population
39,331

Projected Population 2018 – 2041

- **+9%** Ross & Cromarly
- **+12%** Skye & Lochaish
- **-6%** Lochaber

- Lowest population density of 4 people per sq km (compared to 12 people per sq km in Highlands)
- An older age profile than the Highlands and Islands and Scotland
- A higher Economic Activity rate of 75.2%, considerably higher than the Highlands and Islands average (79.4%) and Scotland (77.9%).
- Higher % of people self employed (22.9%) compared to the Highlands and Islands (11.6%) and Scotland (8.4%)
- Lower employment rate (73.3%) than Highlands and Islands (77.5%)
- Unemployment rate of 5.4% in December 2020 compared to 2.0% in December 2019
- School leaver positive destinations rates above the Scottish average
- Higher share of employment in construction; retail; transport and storage; accommodation and food services; education and arts, entertainment, recreation and other services. Food service sector was almost double that of the Highlands and Islands at 21.1% compared to 10%
- Higher share of employment by occupation in professional; administrative and secretarial and skilled trade occupations

4.1.5

OUTER HEBRIDES (LEWS CASTLE)

Outer Hebrides

Current Population
26,720

Projected Population 2018 – 2043 → **-16%**

- Growth forecast in construction industry 5% by 2028
- Low population density 9 people per sq km (compared to 12 people per sq km in Highlands)
- An older age profile than the Highlands and Islands and Scotland, estimated to have a 25% increase in those aged 75 and over by 2028
- Economic Activity rate of 85.5%, in line with the Highlands and Islands average (79.4%) and Scotland (76.5%).
- Self employed (15.9%) higher than the Highlands and Islands (11.6%) and Scotland (8.4%)
- Employment rate (83.1%) in line with Highlands and Islands (77.5%)
- Unemployment rate of 4.9% in December 2020 up from 2.6% December 2019
- School leaver positive destinations rates above the Scottish average
- Higher share of employment by industry in agriculture, forestry and fishing and public administration and defence. Employment in the agriculture, forestry and fishing sector is 28.1% of the area's workforce employed in the sector, more than double that of the Highlands and Islands (11.7%) and eight times the figure for Scotland (3.2%).

4.1.6

CAITHNESS, SUTHERLAND AND ROSS (NORTH HIGHLAND COLLEGE)

Caithness, Sutherland and Ross

Current Population
69,758

-21%

-12%

Projected Population 2018 – 2041 **+8%**

Location	AGE	2010 Recorded Population	2035 Projected Population	% Change
Caithness	0 to 15 yrs	17.5%	17.5%	0
	16 to 24 yrs	10.1%	8.9%	-1.2
Ross	0 to 15 yrs	17.9%	16.8%	-1.1
	16 to 24 yrs	9.7%	8.5%	-1.2
Sutherland	0 to 15 yrs	14.7%	13.7	-1.0
	16 to 24 yrs	8.1%	5.9%	-2.2

- Low population density 5 people per sq km (compared to 12 people per sq km in Highlands)
- An older age profile than the Highlands and Islands and Scotland
- Lower Economic Activity rate of 77.4%, than the Highlands and Islands average (79.4%) and Scotland (76.5%).
- Self employed (10.3%) lower than the Highlands and Islands (11.6%) and above Scotland (8.4%)
- Employment rate (82.2%) higher than the Highlands and Islands (77.5%)
- Unemployment rate of 5.3% in December 2020 up from 3.5% in December 2019
- Higher share of employment by industry in mining, quarrying and utilities, retail; accommodation and food services; education and arts, entertainment, recreation and other services.
- Higher share of employment by occupation in managers, directors and senior officials; administrative and secretarial and skilled trades occupations compared to the Highlands and Islands and Scotland.

4.1.7 POPULATION OVERVIEW

Within the Highlands and Islands, FE and HE are mostly delivered through the UHI, its 13 partner colleges, and research centres. In comparison to those nationally, students studying in the Highlands and Islands tend to be older – 48% of HE students are aged 25+ compared to 39% nationally. Similarly, 50% of FE students are aged 25+ compared to 41% nationally.

A significant number of students within the region study outside the Highlands and Islands. In 2016/17, 56% of HE and 31% of FE students from the Highlands and Islands studied outside the region. Statistics show that it tended to be the younger HE students that moved away from the region to study with 68% of 16-24-year-olds doing so. This trend was not the same for FE students with only 28% choosing to study out the region.

4.2 STUDENTS INCREASINGLY WANT TO STAY

The 2018 Attitudes and Aspirations research examined the thoughts and goals of young people aged between 15-30 in relation to the Highlands and Islands.

The findings from 2018 were as follows:

- Since 2015, an increasing number of young people want to live and work in the Highlands and Islands. Almost half (46%) of survey respondents identified themselves as committed stayers, versus 36% previously – those seeing themselves having to leave mainly through perceived lack of opportunity
- There is evidence of an increase in potential returners – those with interest in, and attraction to, living in the region, from the Highlands and Islands but living elsewhere. Young people from fragile areas are more likely to want to return than those from non-fragile areas, reflecting their strong sense of connection to their community.
- The overall change in young people's views on staying, leaving or moving to the region suggests that efforts to attract and retain young people may be starting to have a positive effect.
- Over half (54%) of young people anticipate living in the Highlands and Islands in ten years' time. Those living in Shetland, the Outer Hebrides and Lochaber, Skye and Wester Ross are the most likely to state this.
- Since 2015, young people's perceptions of other young people who stay in the Highlands and Islands has become more positive. Almost 70% agree that people who stay are lucky to be able to work or study locally.
- Experiences outside of school and advice provided by family and friends are the two most important factors influencing young people's decisions about what to do when they leave school. Knowledge, understanding and awareness of local employment opportunities are also important factors.
- The majority of school pupils are happy with the choice of subjects they can study (71%), but almost half (46%) felt that the range of subjects available to them will limit their postschool options.

- There has been a positive shift in perceptions of the educational offering in the Highlands and Islands with increases in the proportion of respondents agreeing that there is a good education offering overall (from 56% to 60%), a good range of college courses available (from 54% to 62%), and a good range of HE opportunities (from 45% to 54%). More young people reported that there are opportunities to learn remotely, with 62% identifying sufficient opportunities compared with 49% in 2015.
- The majority of young people studying in the Highlands and Islands choose to do so because of its educational offering and availability of courses (70%).
- Not all young people are able to study subjects they want at the right level in the region. More than half of students (52%) from the Highlands and Islands study out of the region, many to access courses that are not otherwise available to them. This demonstrates that despite improvements, there are choice limitations in both FE and HE.
- Apprenticeships remain a less attractive route to a qualification and employment for young people. Whilst most are aware of Modern Apprenticeships (83%), a much smaller proportion appear to be interested in undertaking them, or have, or are doing so (24%), with interest being higher among males.
- Full-time employment is the long-term aspiration for most young people (71%). However, lack of opportunities in their local area is a barrier to employment for 38% of young people.

Recommendations in the survey relating directly to Education

- Subject range in regions need to be as wide as possible. UHI, partner colleges and other providers therefore need to work better with SDS and with employers to better match FE provision to the needs of local and regional economies, and ensure that skills and training provision is much more agile in responding to industry need and emerging opportunities.
- Remote learning and networking of courses throughout UHI's partner institutions and local centres has an important role to play in broadening access to learning and education opportunities. This should be supported and expanded to further its reach, particularly in more remote and fragile areas.
- Work-based and vocational learning is highly valued by employers as providing skills development for staff in the workplace that is considered to be more effective and aligned to working practices. There is scope to better promote the value and relevance of apprenticeship family qualifications amongst young people.
- There is a need to better influence the influencers. Providing current and relevant regional labour market intelligence to careers advisors can help to raise awareness of wider regional opportunities outside their catchment or local authority area.

EXTERNAL POLICY DRIVERS

"We would want to be part of the UHI but retain local decision making to reflect the needs of Shetland and the requirements of the Islands Act. We recognise the need for all the partners in UHI to work well together, to standardise systems and collaborate on the curriculum if we are to achieve the best outcomes for our community."

– Christine Ferguson, Shetland Council

5.1
NATIONAL ISLANDS PLAN

December 2019 saw the launch of the National Islands Plan. [5] **This was the first plan of its kind and its aim is to improve the quality of life for island communities.**

The Islands (Scotland) Act which was passed by the Scottish Parliament in 2018 sets out the purpose of the National Islands Plans. It outlines the main objectives and strategy of the Scottish Government in relation to improving outcomes for island communities and details 13 strategic objectives:

- To address population, decline and ensure a healthy, balanced population profile.
- To improve and promote sustainable economic development.
- To improve transport services.
- To improve housing.
- To reduce levels of fuel poverty.
- To improve digital connectivity.
- To improve and promote health, social care and well-being.
- To improve and promote environmental well-being and deal with bio-security.
- To contribute to climate change mitigation and adaptation and promote clean, affordable and secure energy.
- To empower diverse communities and different places.
- To support arts, culture and language.
- To promote and improve education for all throughout life.
- To support effective implementation of the National Islands Plan.

The statutory provisions have been supplemented with priorities identified by islanders during a consultation process.

The plan has a duration of five years with a requirement for annual reports on progress and a review at the end of the five-year period.

5.2
REGIONAL GROWTH DEALS

The Growth Deals [6] are 10-year packages funded by both the UK and Scottish Governments. They are intended to drive economic growth and creation of sustainable jobs. There are currently six Growth Deals in place:

DEAL	DETAIL
Argyll and Bute October 2019	• £25m each from Scottish Government and UK Government • £20m from Regional Partners • Investment will focus on connecting high value business sectors to national and international business markets attracting additional skills, residents, visitors and businesses and grow benefit from the area's natural assets • Includes a Rural Skills Accelerator Programme with a focus on community wealth building, STEM skills, rural enterprise and the delivery of local education services
Islands July 2020	• £50m each from Scottish Government and UK Government • £235m from three island authorities and Regional Partners • Investment will focus on leading the way to a low carbon future; supporting growth and future industries; and creating thriving, sustainable communities including skills and talent attraction • Potential to create 1300 new jobs • £74m to specifically strengthen academic and research facilities in all three Islands and will include: ◦ The development of the TalEntEd Islands Programme which will – ▪ focus on fast tracking the decarbonisation of the islands creating opportunities for education, skills, entre and intrapreneurship and commercialisation supporting the increase in green jobs. ▪ help the universities and academic partners on the island to develop new approaches that will be built into long-term provision and aligned to need ▪ be led by the UHI working with its academic partners and other universities ◦ Support a number of developments including the Orkney Research and Innovation Campus, The Shetland Campus Redevelopment and Outer Hebrides Campus Redevelopment. This investment will also enhance and expand existing facilities and learning technologies at Lews Castle campuses across the Outer Hebrides.

Inverness
January 2020
	• £135m funding from the Scottish Government
	• £127m from the Highland Council and its partners
	• £53m from the UK Government
	• Help to rebalance the population with the aim of retaining and/or attracting 1500 young people in the 18-19 age group
	• Create an additional 1125 direct jobs with a further 2,200 additional jobs in the construction sector
	• Help to up-skill the labour market and contribute to moving towards a high skilled high wage economy
	• Create 6000 new houses
	• Deliver private sector leverage from hours building
	• The main themes of the Deal are:
	  ▯ Digital – improve digital communications and connectivity
	  ▯ Innovation – encourage and support businesses to increase productivity, develop new products and services and increase exports
	  ▯ Northern Innovation Hub – provide tailored support for high growth and medium sized businesses and new starts
	  ▯ UHI School of Health and Life Science – UHI initiative which will address issues th the innovation and commercialisation of health and care products and services
	  ▯ Assisted Living – support the development of clusters of innovative assisted living schemes at key locations in the region
	  ▯ Workforce Development – exploration of innovative approaches to delivering skills and employability programmes
	  ▯ Science Skills Academy - has been established to transform science, technology, engineering, mathematics and digital creativity (STEMD) education across the entire region. To maximise the impact of this Academy, the Scottish Government and the Science Skills Academy will ensure that it is linked with other local and national STEMD initiatives
	  ▯ Tourism
	  ▯ Housing - create 6,000 new houses over 20 years of which 1,600 will be affordable homes
	  ▯ Transport – improving access to and within communities
	  ▯ Inverness Air Access – improving air access

5.3 BREXIT

Analysis by the Scottish Government of the area's most vulnerable to Brexit (published in September 2019) showed that many of these communities are on the islands with Highland and Argyll and Bute in top most impacted economic areas in Scotland.

The main reasons island communities are so at risk are due to long term community issues such as depopulation, a poor balance of working age versus older communities, and poorer access to services. Also, Brexit brings specific risks such as high proportions of the island workforce being employed in Brexit sensitive industries. [7]

There are several main areas within the UHI likely to be affected by Brexit:

- Non-UK EU nationals make up around 3% of current staff in the sector (variations will be seen across the colleges with a larger impact being in Edinburgh and Glasgow).
- In 2019-20 the SFC allocated circa £13m to colleges in Scotland to deliver European Social Fund ESF) activity. This includes an assumed ESF contribution from the European Commission of around £5m (around 0.7% of current total sector income).
- College accounts for 2017-18 show an additional £2.6m of European Income was received across the sector (0.4% of total sector income). This is predominantly for ERASMUS+ placements.
- The reduction in European funding for research - of UHI's 139 FTE research students, nearly a third are European funded.

An analysis of the annual financial statements of the colleges highlights the fact that each college identified Brexit as a risk to the college.

5.4 COVID 19

A key feature of the UHI is its blended learning delivery model using video conferencing and integrated networks, driven by its geography and mission.

The partner colleges and the UHI's HE provision already had significant expertise in online learning, but this has been further accelerated in the partner colleges' FE provision through COVID. Making greater use of blended and online learning could make a wider range of provision available to more students and could help cost efficiencies.

However, other education institutions have also turned to this form of delivery and are increasingly seeing the opportunities it brings. There is the possibility that the UHI's advantage in this area will have been eroded and that prospective students and businesses will access provision elsewhere.

We also do not yet know what the impact will be on public finances until the bill for the various support mechanisms finally lands. There may well be some level of investment beyond that listed above as governments seek to reboot hard hit economies and that might provide further opportunities for the UHI and its partner colleges. Conversely the need to balance the books may bring a drive for greater efficiency and much less tolerance of systems seen to be less than optimal - as indicated in the SFC's review.

5.5
FUNDING PRESSURES

An analysis of the 2019/20 annual financial accounts identify the following risks to future funding:

- **National Pay Bargaining and Job Evaluation**
  Colleges see the increase in costs associated with the National Bargaining and Job Evaluation as a key risk. Although the costs to date have been mitigated by the SFC through additional funding, it is noted that this funding needs to continue to meet the increasing future costs.
- **National Islands Allowance**
  Lews Castle College further reports the risk of a continued anomaly in relation to lack of funding of the distant island allowance, which is paid to the staff by the college and is a significant cost. The anomaly needs to be resolved.
- **Pension Increase**
  Nationally, employer pension contributions have increased. Employer pension contributions to the Scottish Teachers Pension scheme increased in September 2019 from 17.2% to 23%
- **UHI Funding**
  The UHI announced a drive to save £20m from its revenue budget. This is driven by a £13m deficit on operations and the need to create a buffer for reinvestment. There is some scepticism over the top-level figure as a number of partner colleges see it as being 'created' rather than established. This is unhelpful, but it is clear that reductions will need to be made if the UHI's work is to be sustained. Without strong leadership and close partnership working, this will further erode partner colleges' capacity to deliver.

The flip side of each of these threats is of course an opportunity. Brexit brings the prospect of a UK focus on investment in order to gain new markets. The greater use of the internet for communication plays to a UHI strength. The reduction in UHI funding gives leaders the impetus to explore closer working so provision is sustainable and better aligned to meet students' needs.

Grasping these opportunities and meeting these threats will require effective planning, management and delivery. The feedback we have had is that the present configuration is suboptimal and has been for some time.

CURRENT POSITION

This next section sets out the current position of the colleges within scope in respect of finance, people, estates and systems.

“The point that we have reached in the evolution of our small college requires us to be genuinely reflective and to ask some searching questions. In a challenging environment, we need to seriously consider whether there is a better configuration of how we organise ourselves for sustainability and in order to maintain and enhance opportunity for students across our remote and rural geography.”

– Martin Jones, Principal, Argyll College

6.1 ANALYSIS OF FINANCE

6.1.1 INTRODUCTION

Under the terms of the Financial Memorandum between the UHI and The Scottish Funding Council (SFC), colleges are required to develop a Financial Strategy that ensures long-term sustainability.

This Strategy should flow from, and integrate with, the Institutions' Strategic and Operational Plans. [8] Each college in this review has highlighted, in their risk registers, national trends which bring considerable uncertainty to this planning process and assumptions which underpin budgets.

These risks are set out in the Financial Forecasting Returns [9] (FFR's) and include:

- Staff costs set to increase due to National Pay bargaining and pension payments and whether transitional funding will continue.
- Job evaluation for support staff.
- Maintaining student numbers and achieving FE targets.
- Achieving savings through to 2022/23.
- Cost of maintaining land, buildings & equipment – particularly for incorporated colleges due to the fact that they cannot build up reserves to fund maintenance.
- Exit from the EU.

In past years, the Appointed Auditor concluded that achieving financial sustainability represents significant challenge to North Highland College. The college's leaders have stated that current arrangements will become unsustainable without significant change. Indeed, SFC in its publication of October 2020 [10] stated that for colleges nationally – "maintaining short term liquidity would remain a major challenge and that "The financial sustainability of the College sector is very fluid." In December 2019 the colleges' Auditor, in grading Lews Castle College Amber for its financial sustainability, noted that a "significant share of these savings are planned through specific FTE savings". Shetland College more recently has developed a merger plan which, in three years' time, and with the support of SFC Funding, should turn around a significant deficit budget to arrive at break even budget position.

Each college is developing Financial Sustainability Plans to address these issues and challenges associated with operating under COVID restrictions. The SFC noted that nationally "COVID (CJRS) income is insufficient to offset projected loss of income in 2020/21 and that the sector shortfall in 2020/21 of (£15.3m) was based on planning assumptions that restructuring costs are funded by the SFC."

Additionally, the SFC noted that the "route to financial sustainability for many colleges is a reduction in staff costs, including staff restructuring," with staff costs as a proportion of total expenditure around 68% on average. SFC also noted that cost savings could arise from a review of curriculum delivery, certain categories of discretionary spend and reductions in catering operations.

The English model uses staff costs being analysed as a percentage of income. Using that measure, the 2019/20 staff costs for the colleges within scope are as follows:

COLLEGE	STAFF COSTS AS % OF INCOME
West Highland College	71.9% [11]
North Highland College	74.6%
Argyll	60.9%
Orkney	78.7%
Shetland	93.8%
NAFC	90.7%
Lews Castle	80.4%

Within the English system, the FE Commissioner has set a benchmark of 63-65% staff costs as a % of income benchmark. In reviewing a number of the other colleges within both the UHI and in the English groups gives the following:

COLLEGE	STAFF COSTS AS % OF INCOME (2019/20)
Inverness	69.5%
Perth	79.4%
Activate	64%
NCG	65.4%
Luminate	68%
LTE	72.7%

Although it is acknowledged that staff cost as a % of income across the colleges in scope will be higher due to the geographical distances and also due to the impact of the NJNC and national pay bargaining, the analysis highlights that staff costs are still high particularly in Lews Castle College. Shetland, NAFC and Orkney College are part of councils and therefore the true costs are masked by how staff are accounted for. Argyll College costs are significantly less than income hence the lower ratio as a % of income.

Summary of Financial Indicators (2018-19 and 2019-20)

	UHI Incorprated Colleges				Assigned / To be assigned - non-incorparated colleges (NICs)								Non-assigned / NICs	
	Lews Castle		NHC		Argyll		Orkney		Shetland		West Highland		NAFC	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Income (£000)	6,995	6,342	10,889	11,646	6,287	5,644	5,589	5,080	3,006	3,755	6,248	5,684	2,392	2,965
Net Assets (£000)	3,070	5,465	(5,555)	(537)	996	892	N/A	N/A	N/A	N/A	1,750	1,443	(2,114)	(1,987)
Discretionary Reserves (excluding revaluation reserves and deferred capital grants and other designated reserves) but including pension (deficit)/reserve (£000)	(5,127)	(2,850)	(12,528)	(7,369)	996	892	N/A	N/A	N/A	N/A	1,750	1,443	(2,293)	(2,371)
Pension (deficit)/reserve included in above	(4,487)	(2,385)	(12,263)	(7,246)	(2,107)	(815)	N/A	N/A	N/A	N/A	0	0	(3,306)	(3,932)
KEY PERFORMANCE INDICATORS														
Operating surplus/deficit (before tax & other gains & losses) £000	(737)	(470)	(957)	(1,307)	1,208	(37)	(642)	(103)	(1,199)	(28)	307	373	(752)	(339)
Non SFC income as % of total income	28&	31%	31%	26%	17%	23%	44%	46%	30%	42%	23%	26.8%	67.3%	70.8%
Current assets: Current liabilities: ratio of total current assets to the total of creditors: amounts falling due within one year	0.63	0.63	0.88	0.50	3.05	1.95	N/A	N/A	N/A	N/A	0.97	0.64	3.80	5.91
Operating surplus/deficit as % of total income: surplus/(deficit) on continuing activities after depreciation of assets at valuation and before disposal of assets and tax expressed as % of total income	-10.6%	-7.4%	-8.8%	-11.2%	19.2%	-0.7%	-11.5%	-2.0%	-39.9%	-0.7%	4.9%	6.6%	-31.4%	-11.4%
Days cash: cash and short-term investments divided by total expenditure less depreciation and expressed in days	7	7	14	8	176	113	N/A	N/A	N/A	N/A	56	42	103	107
Staff costs as a % of total expenditure	73%	74%	69%	56%	74%	75%	71%	69%	67%	69%	76%	70%	69%	66%
Underlying surplus/deficit (£000)	21	(23)	44	(361)										
Going concern	YES	YES	YES	YES	YES	YES	N/A	N/A	N/A	N/A	YES	YES	NO*	YES*
Financial Stability														

Summary of Financial Performance

- Out of the seven colleges in scope, five colleges have reported an operating deficit for 2019/20. Only Argyll College and West Highland College reported a surplus. In total the deficit of the colleges increased from £1,911,000 to £2,886,000 – a 50% increase although it is acknowledged that 19/20 saw the beginning of the Covid19 pandemic and this is likely to have impacted on this figure. It should be noted that the deficit of £2,886,000 includes the surplus reported by Argyll College which is unlikely to be repeated.
- As Incorporated Colleges both Lews Castle and NHC report Underlying Surplus/Deficits – for 2019/20 this was £21k and £44k surplus respectively. This is in marked contrast to the operating deficits reported of £737k and £957k reported above.
- All colleges, apart from WHC (which is not part of the LGPS), have reported a pension deficit. The total pension deficit across the colleges in scope is £22,163,000 in 2019/20.
- Of the seven colleges, four colleges have an increase in income from 2018/19. The main reason for the decrease in income being the COVID pandemic.
- Orkney College had the highest percentage on non-SFC income at 41% (catering and accommodation and small amounts of commercial income) and Argyll College had the lowest at 17.1%.
- All seven colleges have submitted plans to their Auditors which illustrates that financial sustainability will be maintained during the following twelve months (2021/22).

Summary of Credit Performance (2017 – 20)

	Overall Credit Position (Core + ESF) 2019/20					2018/19	2017/18
Academic Partner	Core Credit Target	ESF Credit Target	Total Credit Target (Core + ESF)	Total Credits Delivered to Date (Core + ESF)	Shortfall-Surplus on combined credit target	Shortfall-Surplus on combined credit target	Shortfall-Surplus on combined credit target
Argyll	6,582	134	6,716	7,590	874	822	532
Inverness	28,915	296	29,211	28,362	-849	227	42
Lews	5,348	0	5,348	4,157	-1,191	-82	-251
Moray	18,807	0	18,807	17,655	-1,152	349	93
NHC	12,335	155	12,490	11,936	554	13	18
Orkney	3,603	145	3,748	3,829	81	493	-226
Perth	23,655	1,200	24,855	24,688	-167	-164	1,180
Shetland	4,309	0	4,309	4,276	-33	201	416
WHC	6,828	270	7,098	7,078	-20	89	-124
Regional Total	**110,382**	**2,200**	**112,582**	**109,573**	**-3,009**	**1,948**	**1,679**

(source: UHI EO)

Summary of financial performance

- Argyll College delivered additional credits and was encouraged to do so by the UHI in order that the regions overall credit target could be met
- Lews Castle College is the major contributor to under-achievement against target.
- Global under-delivery of credits in 2019/20 will not give rise to Financial Grant Clawback (COVID Funding Regulations) but may alert other regions to the possibility of Credit reallocations.
- In year reallocation of Credits within UHI being considered moving forward.
- There is a potential risk of the SFC reallocating credits from the Highlands and Islands region to other Scottish regions that are over performing.

Pension Funds

College	Staff Category	Pension Funds	Employer Contribution 2019
Lews Castle	Academic	STSS	17.2%
	Business Support	Highland Council Pension Fund	17.9%
North Highland	Academic	STSS	17.2%
	Business Support	Highland Council Pension Fund	17.9%
West Highland	Academic	STSS	17.2%
	Business Support	NEST	3%
	Other- DC Scheme	NEST	3%
Orkney	Academic	STSS	17.2%
	Business Support	Local Authority	17.6%
Argyll	Academic	STSS	17.2%
	Business Support	Strathclyde Pension Fund	21.6%
	Other- DC Scheme	NEST	3%
Shetland College	Academic	STSS	17.2%
	Business Support	Local Authority	Unknown
NAFC	Academic	STSS	17.2%
		Local Authority	Unknown

Summary

- LGPS Employer Contributions range from 17.2% for Highland Council Scheme (for Lews, NHC) to 22.6% for Strathclyde Pension Scheme (Argyll College).
- Teachers' Pension Scheme (STSS) - employers contribution rising nationally from 17.2% to 23% for all Colleges from 1st September 2019.
- NEST Pension Schemes – Defined Contribution Schemes in operation in Argyll and West Highland College – With Employer Contribution rate of 3%.

6.1.2 CURRENT FINANCIAL HEALTH OF COLLEGES BEING REVIEWED

a) The Shetland Colleges

Collectively the tertiary education system in Shetland (Shetland College and NAFC) is in deficit by £1.95m p.a. [12], with Shetland College's deficit at £1.1m p.a. These deficits are the largest within the colleges being reviewed as a proportion of annual income. Property costs are a major contributor to the deficit with savings of around £0.75m being sought annually post-merger . The merger document notes that the move to sustainability will take three years contingent on the support of around £3m from the Scottish Funding Council to support both reorganisation costs und underlying deficits in the two years post-merger. [13] Workforce savings of 14 FTE have been planned by the merger. The Shadow Board recognise that the new entity "will remain vulnerable to a range of variables."

The route to a viable future is based on a forecast 20% growth in student numbers. However, there are no guarantees this large growth will be achieved in the suggested timescale. The merger document states that the overall aim is to attract more students to study in Shetland in line with the ambition to increase the population in the islands. Achieving growth is also based on the ability of the independent entity to access opportunities once free of the Council's control.

Merger documents also state that bringing Shetland's tertiary education providers together may lead to reductions in staff numbers of around 14FTE's, after creating new Corporate Services teams to support the new institution. It is recognised that the new institution will require three years to turn around current annual losses and deliver a break even budget for the first time in many years.

"Lews Castle College is fully engaged in the alignment process. It accepts the need for change as the status quo will not address the challenges the UHI faces. There needs to be greater alignment of curriculum and of services/systems recognising the need to deliver services to remote local communities and provide them with the opportunities the UHI can bring. The end solution should provide a local face and allow for a local voice to be part of decision making. "

– Archie MacDonald, Chair Lews Castle

b) North Highland College (NHC)

The college prepared its Financial Forecast Return in August 2020 and “forecast underlying operating deficit position for three years of (£0.7m)”. The External Auditors [14] noted “to achieve a balanced operating budget position over this period will require significant, currently unidentified or unconfirmed savings”. The senior management team reported to the college’s Finance and General Purposes Committee that current arrangements will “become unsustainable without significant change”. Cost savings / Income Generation plans for 2020/21 include:

	NHC - Savings p.a.	
• Estates savings	Ross House	£30k
• Transport and travel savings	Wick College	£7k
• IT savings	Alness Lease	£30k
• Procurement savings	Dale farm	£145k
• Income generation		

Staff note that “FE remoteness uplift per head from the SFC via UHI is so much lower than other rural UHI partner colleges”, which receive higher rurality funding per head.

Staff have developed a Finance Strategy which responds to themes highlighted in the SFC report on sustainability as they relate to UHI. [15]

The Finance Director noted in the NHC Finance Strategy [16] that NHC “Senior Finance Staff [...] spend a lot of time on Financial Accounting – Budgets, Year End Accounts, Forecasts and Cash Flows to the detriment of Management Accounting. The latter focuses on costing, course contribution analysis and cross college income and cost reviews.”

Additionally, The Financial Strategy reflecting on the challenges of financial sustainability noted, “[...] Current governance is a hindrance to a more financially robust partnership. Shared Services is not a magic wand to economic sustainability and has its problems, VAT being a major one. The UHI Executive Office (EO) budget needs further review. The more complex the governance, the larger the EO is likely to be.”

A particular challenge for NHC has been the shortfall in HE enrolments which is anticipated to deliver around £400k less in funding.

Cost savings plans have been developed together with early sharing of Finance Teams and associated systems. Early review of these changes suggest that financial reporting has been improved to both the Finance Committees at Inverness and North Highland College.

It has been recognised by Boards at Shetland & NHC that there are still likely to be financial challenges ahead despite the plans in place.

Some early work has been developed to integrate processes across the SITS student records system, including automating activity between Admissions, Curriculum and Course Planning, Registry and Finance. It is hoped to roll this work out to Inverness College. The Corporate Teams recognise that closer alignment between colleges is likely to aid the development of this approach.

c) Lews Castle College

The three-year financial plan for Lews Castle College shows breakeven budgets for the next two years. Of note is that for both 2019/20 and 2020/21 the college has underachieved significantly against its target credit activity for FE teaching (some 22% below target) and has not suffered clawback of income as the UHI network has not returned funding to the Government.

Internal assessment grades the financial health as red, as the current level of activity may not in the future generate the income levels currently receivable. In-year monitoring of 2020/21 student activity suggests Lews Castle College will continue to fall short of its target FE and HE student activity levels to a similar degree as in 2019/20.[17] It is worth noting the size of the shortfall at Lews as a proportion of the overall shortfall of UHI, some 30% of the combined shortfall of 3,965 credits. This compares to the 5% of total activity target allocated to Lews and perhaps makes a case for potential reallocation within the UHI network.

A curriculum review is currently underway with the aim of improving alignment with emerging industry need and better management of targets. It is important in light of the past years' underachievement in recruitment to develop improved planning and monitoring of the curriculum, together with appropriate financial modelling of the curriculum including contribution analysis and staff utilisation modelling.

d) West Highland College

West Highland College is reporting a surplus of over £0.3m for the year ending 31 July 2020. This is a good outcome when measured against the turnover of around £6m for the year.

The college planned a small surplus for 2020/21 of £15k and reported a forecast surplus in Q2 of £15k. The Finance Director suggests this may rise to around £20k to £30k

No financial sustainability plans have been required to be prepared by WHC and credit targets have been met over the past few years. The college's leaders consider the college's financial position to be relatively stable but identify significant challenges around resilience and capacity.

Cash will drop from £873k in July 2020 to a forecast of £250k at year end July 2021, principally resulting from timing issues associated with the receipt of an ERDF Grant. WHC may require a cash advance from UHI but this is a matter of timing and not an indication of underlying financial health.

e) Argyll College

Argyll College is reporting a surplus for the year ending 31 July 2020. Efficiencies made in prior years together with very lean operations meant that costs remained within income available and budgets were balanced in previous years. This is the first time for some time that a surplus has been realised.

Staff planned a small surplus for 2020/21 of £14k and reported a forecast surplus in Q2 of £32k this may rise to around £250k indicating that the underlying position is not as strong as the 2019/20 results suggest. The forecast of £250k for 2020/21 includes additional COVID funding.

College leaders focus on performance management around class size and online learning. The college had good cash reserves as at July 2020 with 176 days' cash, which is strong and above the average for UHI as a whole. This result is in part due to its corporate structure as a non-incorporated college. Cash forecast at July 2021 is £1.26m

f) Orkney College

Orkney College is reporting a deficit of £0.64m for the year ending 31 July 2020. This is a large deficit when measured against the turnover of around £6m for the year.

The college planned a breakeven budget for 2020/21 and reported a forecast surplus in Q2 of £23k.

Cash forecasting is not reported as the college is embedded in the Local Authority.

6.1.3 FUTURE FINANCIAL CHALLENGE

Table A illustrates the scale of the financial challenge facing the colleges, in particular Shetland & NAFC. As discussed above, a merger plan for Shetland has been developed between Shetland and NAFC which recovers the existing deficit operating position and brings back a balanced budget in year 3 of operation for the new institution.

	(RAG STATUS 20/21 - Court Paprs) Financial Sustainability	FFR Profit / (Deficit) Reported in Court papers 19/20 Actual £M	20/21 Plan £M	20/21 (Q2) Forecast £M	21/22 Plan £M
INCORPORATED		MEASURE: ADJUSTED OPERATING RESULT			
Lews Castle		0.021	0.015	0.046	0.046
NHC		0.045	-0.477	0.059	-0.091
ASSIGNED		MEASURE: SOCIE SURPLUS/(DEFICIT)			
Orkney		-0.642	0	0.023	0
Shetland		-1.199	-1.273	-0.801	0
WHC		0.307	0.015	0.015	0.003
Argyll		1.208	0.014	0.032	0
OTHER					
NAFC		-0.752	-0.25	-0.233	0
OVERALL					
		-1.01	-1.96	-0.86	-0.04

Table A

North Highland College Statement of Comprehensive Income and Expenditure (SOCIE) shows deficits of £0.7m between 2020/21 and 2021/22. This is significant and may require further support from UHI. In-year monitoring for 2020/21 suggests that the NHC Financial Sustainability Strategy will deliver a small surplus of around £59k instead of the anticipated deficit of around £500K. Estates Strategies are required to address the condition issues of the main campus in Thurso. This work may lead to a request for funding (to SFC) for major rebuild/renovation work. Leaders make limited use of room utilisation data which should be available on the student records database from timetabling. Staff noted that the CELCAT system used to load staff timetabling and room allocation often block booked space, which was subsequently not used, a quite common occurrence in FE.

A direct consequence for Lews Castle College and North Highland College of the “Incorporated College” status is the inability to generate surpluses and build reserves to fund equipment and building replacement cycles. The colleges are to a large extent dependant on SFC funding to develop and maintain estates. This issue is of critical importance to UHI, since a large part of the grouping is designated in this way. By contrast, assigned colleges are required to generate surpluses so they can invest in buildings and equipment going forward.

6.1.4 FINANCIAL SUSTAINABLILTY

To consider financial sustainability of individual colleges, it is instructive to reflect on the definition used by the University. In papers presented to the Regional Strategic Board (RSB) as part of its self-evaluation process the University stated:

"Through the Financial Memorandum (FM) (which governs the financial relationship between the University and Academic Partners and indeed the SFC), partners must remain financially viable, allowing for maintenance and investment at a level [...] to maintain adaptive capacity necessary to meet future demands."

This definition is important, as it highlights that Performance must go beyond simply balancing the revenue budget, but also consider the cost drivers behind the Estates Strategy and budget requirements that flow from this – a much higher bar. The Director of Corporate Services at UHI recognises "the ongoing difficulty for Academic Partners to fund CAPX requirements, both in terms of Capital Works to their Buildings, and the procurement of ICT and other equipment." These works can only happen where colleges have regular access to both FE and HE capital funding. This coupled with the constraints placed on Incorporated Colleges through ONS designation, make delivering Financial Sustainability difficult. Indeed, recent planning by the University has considered a group structure as a method by which the financial constraints of Incorporation could be negated.

In 2012 Capita concluded that the Academic Partner Colleges "cannot continue under present arrangements and achieve the level of financial resilience and sustainability necessary for ongoing reinvestment and growth". The conclusions were reached after reviewing collective AP deficit forecasts and recognising that a minimum level of financial performance was a bottom-line surplus of around 2% to 4%. Capita concluded that the "Majority of AP's will encounter material financial challenge". Capita suggested a Financial Strategy built on four pillars:

- Shared Service Centre (SSC) for both FE and HE
- Exec. Office efficiencies of around 5%
- Staff cost savings between £1.6m and £2.1m
- Academic Partner spend savings of between 1% and 2%

This view, of minimum level of surplus, is currently recommended for English colleges, with a bottom-line surplus of between 2% and 4% or an adjusted profit (before depreciation and pension adjustments) of some 8%. In the English context, this is called Educational EBITDA and is often cited by the FE Commissioners Team (part of the Department of Education) as an appropriate performance measure together with liquidity and gearing to give rise to a financial health scored.

Three partner colleges are under severe financial stress and have developed merger or financial sustainability plans with a view to recovering financial health. All three colleges fail to achieve the suggested financial surplus levels needed to remain sustainable and resilient under the definition set by the University.

In addition, liquidity ratios are weak for Lews Castle College - with only a few days' cash reserve at Lews Castle College. WHC have satisfactory levels of cash reserves as at July 2020 and exceeded the planned level of operating surplus in the 2019/20 financial year. Argyll College shows comparatively strong financial health, but the underlying operating results will deteriorate from the 2019/20 levels.

	2% SURPLUS TARGET	ACHIEVED IN 2019/20	
COLLEGE	REQUIRED FOR "NECESSARY INVESTMENT AND GROWTH"	SURPLUS / (DEFICIT)	UNDERLYING SURPLUS
Shetland / NAFC	£108k	(£1,951k)	
NHC	£218k	(£957k)	£44k*
Lews Castle College	£140k	(£737k)	£21k**
WHC	£125k	£307k	
Argyll	£125k	£1,208k	

* change needed to remain financially resilient / ** with benefit of no clawback for under-delivery

Significant risks are attached to assumptions underpinning financial sustainability plans.

Lews Castle are currently working on curriculum realignment plans to address shortfall in credit activity. In addition, future financial health is dependent on payment of "Distant Island Allowance"

"My firm view is that the status quo at Lews Castle College cannot continue if the college wishes to be sustainable in the long term and would not support a 'do nothing' option. I would be looking to one of the 3 other options to provide the level of change that is required to secure the college's long-term future."

– Sue Macfarlane, Principal of Lews Castle College

6.2
COLLEGE SYSTEMS

In interviews we were frequently told that systems were not aligned and that this added to the workload of staff and inefficiencies in collective reporting and analysis. When we looked further into the current core systems in operation across the partnerships, we found the following:

SCOPE	SERVICE	PRODUCT	HOSTING
NAFC	Finance (NAFC)	Sage	Internal
WHC	Finance/Payroll (Sage)	Sage	Internal
WHC	HR	Cascade	Internal
Lews	Finance (Lews)	Access	External
Lews	Payroll	Council	External
NHC	Finance (North Highland)	SUN Accounts	External
NHC	NHC HR & Payroll	CHRIS 21 (Frontier)	External
Shetland	Finance via SIC	SIC	External
Argyll	Finance and Payroll (Argyll)	Cascade	External
Orkney	Finance (OIC)	OIC	External

During the recovery from the recent cyberattack it was found that the Partner Colleges were paying for six separate licenses for the same system and at the last count the Director of Learning Information Systems had identified some 210 separate systems that needed to be recovered.

Executive Office report that it is difficult to even obtain simple data from partner colleges and it is noted that UHI are working on several initiatives at present to drive change but the UHI's collective track record of integrating change is not exemplary.

As we state elsewhere, the lack of consistent systems:

- Adds cost
- Reduces resilience
- Adds workload
- Makes oversight more difficult
- Makes cyber security more difficult

Each college has identified opportunities for the development in corporate reporting which include:

- Improved and better integrated curriculum planning and financial strategies across UHI.
- Improved management information to Boards.
- Improved reporting of the establishment across the UHI network and people data.
- Better use of course costing models.
- Development of departmental contribution analysis.
- Improved monitoring of lecturing staff utilisation.
- Improved estates strategies and room utilisation data.

There was a view that there was little time available to develop strategic management accounting and costing models. Curriculum planning including contribution analysis was also at an early stage of development.

6.3 ANALYSIS OF PEOPLE ACROSS THE COLLEGES

6.3.1 CURRENT STRUCTURE

Each College has its own Executive Team responsible for the leadership and management of the college though not all posts are filled and both LCC and NHC have interim Principals. The total FTE for the Executive Team across all partner colleges is 20.5 FTE and total staffing cost is circa £1.5m.

Each Partner has its own support structure and the table B below shows the breakdown of this:

	NHC	LCC	NAFC Marine Centre	Argyll	Orkney	Shetland College	WHC	TOTAL
Department / Function	FTE	FTE	FTE	FTE	FTE	FTE	FTE	FTE
Academic Development, Academic affairs			1.50				0.95	2.45
Academic Registry and FAST				3.00			4.41	7.41
Administration Service Centre	8.1	2.34						10.44
Assessor/Technician		1.2						1.20
Business Development/ Improvement, project planning								0.00
Change Implementation								
Communications and External Relations								
Corporate Resources			1.00					1.00
Development Office								
Educational Development Unit								
Employer Engagement, Business Development, Partnerships	2.6	1	1.00				4.94	9.54
European and International Development								
Estates, Facilities, Procurement, Reception	10.6	11.72	2.50	18.40	2.00	3.74	2.81	51.77
Refectory, Cafe, gym, centres etc		2.26			2.32	1.89	2.83	9.31
Faculties, Subject Network and Curriculum heads/Programme/Course leaders/Academic partnerships		11.1	5.50	3.00	12.00		16.87	48.47
Financial accounts, Planning and Compliance:		3.5	4.00					7.50
Financial Accounts	5			2.00	1.51	1.00	3.81	13.33
Management Planning								
Grants and Contracts								
Procurement								
Graduate Office								
Governance and Records Management		0.4						0.40
Human Resources	3.2	1.4		1.80			3.74	10.14
Professional Development								
IT / Information Development		2						2.00
Internal Audit								
International development								
Knowledge Exchange and Innovation								
Learning and Teaching Academy								
Learning and Information Services	0		1.00	2.00	1.00	2.00	1.20	7.20
Learner Support	4	1						5.00
Admin		1.79						1.79
Libraries / LRCs (inc Admin)	1.3	1.57			1.49	2.08	9.10	15.54
Marketing and Planning					1.50			1.50
Admissions	5	1		1.00		3.54		10.54
Marketing and events	2.4	1		2.50		1.00	3.20	10.10
Planning								
Webteam/Graphic Design		0.43						0.43
Nursery, early years and childcare services		8.47						8.47
Operations								
Research office		4.6					2.60	7.20
Senior Management	5	2	1.00	2.00	4.00	3.00	2.50	19.50
Personal Assistants/Secretary		1		0.34	1.00	1.57	2.63	6.54
Quality	2	1.5		1.00				4.50
Single Policy Environment								
Student Records Office		2.41		3.00	1.50			6.91
Student Services	8.9	2	1.00		1.49		12.93	26.32
Customer services							2.60	2.60
STEM							2.43	2.43
Training, short courses, vocational								
Work-based Learning, Developing the Young Workforce				3.00	1.00			4.00
Total	58.10	65.69	18.50	43.04	30.81	19.82	79.56	315.52

Table B

As the table B demonstrates each of the partner colleges have developed small Corporate Services Teams covering Finance, HR, Estates and Marketing. Summary headline figures for key support areas across all the colleges shows:

	TOTAL FTE	ORKNEY	SHETLAND & NAFC	NHC/WHC/ LEWS/ARGYLL
Finance	20.83	1.51	5	12.31
HR	10.14			10.14
Marketing/Planning	12.03	1.5	1	9.53
Business Development	9.54		1	8.54
Estates, Facilities, Procurement and Reception	51.77	2	6.24	43.53
TOTAL	104.3	5.01	13.24	84.04

The Executive Office of the UHI currently provides central support in terms of MIS and IT to the colleges although the Partner Colleges still perform certain functions within these areas.

Academic staff are employed directly by the colleges on national contracts with nationally agreed terms and conditions and payscales including pay awards. As reported by staff, there are some differences in the application of these to reflect allowances within the agreements for local discretion.

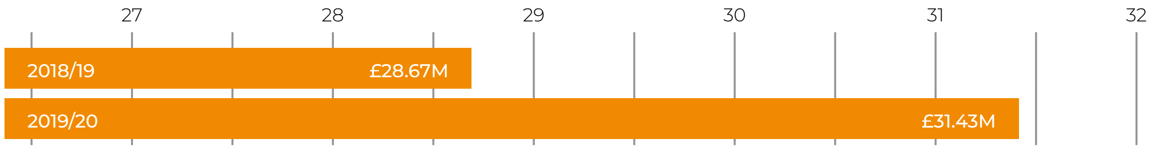
Support staff are also employed on nationally agreed contracts of employment with nationally set pay awards

Staffing costs across partner colleges is circa £31.5m and accounts for 76% of income overall. An analysis of salary costs as a percentage of income is given at Section 6.1.1 but repeated here for ease of reference:

COLLEGE	STAFF COSTS AS % OF INCOME
West Highland College	71.9%
North Highland College	74.6%
Argyll	60.9%
Orkney	78.7%
Shetland	93.8%
NAFC	90.7%
Lews Castle	80.4%

6.3.2
ANALYSIS OF STAFFING CHANGES SINCE 2018

Total Staff Costs for all Partners (£M)



The table right shows the staffing % split between academic and support across all partner colleges:

	2020	2019
Academic	63%	62%
Support	37%	38%

An analysis of the staff costs and profiles for the seven colleges between 2018/19 and 2019/20 identifies the following:

- Staff costs have risen by £2,764,000
- Average staff cost as a % of total expenditure has increased by 3%
- Average staff cost as a % of income has increased by 6% (70% in 2018/19 to 76% in 2019/20).
- Four colleges have seen an increase of between 2-13% of the staff cost as a % of total expenditure. Only Lews Castle, Argyll and Shetland have seen a reduction though we understand that the reduction for Argyll is a matter of timing issue within the college accounts rather than a structural change
- The staffing profile across all partner colleges have remained broadly the same

An analysis of the 2018/19 and 2019/20 annual financial accounts were also undertaken for North Highland College, West Highland College, Argyll and Lews Castle (Orkney College, Shetland College and NAFC were not available). This analysis shows that:

- Staffing across these colleges remained broadly the same across the two years with the overall FTE only increasing by 6.25 FTE in total.
- Research Grants/Contracts/Commercial Activity staffing category saw the largest increase in FTE (6.25FTE). It is noted that staffing resource in this area could be fully funded from the contracts that staff are delivering.
- Admin and Central Services staff saw the second largest increase within an increase of 3.25 FTE over the 12 months.
- Premises staffing saw the largest reduction in FTE of 4.25FTE.

6.3.3
ISSUES AFFECTING STAFF AND STAFF COSTS

- That there is little time to devote to developing and implementing strategy and more time is spent on fire fighting. A review of corporate teams in the colleges illustrate that often between only one to three FTE's are in post in the Finance or HR function leading to little system resilience and capacity to implement new initiatives. This issue has been identified by UHI.
- Though individual staff teams are small, colleges are often major employers within their localities.
- Colleges find it difficult to recruit to positions and back filling those staff that need to be freed up to develop new systems and processes
- Although the job evaluation exercise will ultimately lead to the alignment of all posts - to hopefully, a common footing eliminating differentials between partner colleges -it has an estimated cost nationally of £6m (although this figure is felt by some to be inadequate). These costs are currently covered by the SFC but there is a risk that at a future point, with public funds under pressure, the government could reduce or eliminate this subsidy, leaving already vulnerable colleges with an uplift on the major part of their expenditure.
- The increase in teachers' pension contributions (September 2019 saw an increase of employer contributions from 17.2% to 23%) adding to total staff costs

ANALYSIS OF CURRICULUM

"The status quo is not an option, a greater alignment is needed, and this could include a merger but the non-executive structure of such an entity must have provision for local oversight and this must be meaningful. One of the challenges which will definitely arise from any changes will include the extended geography covered by reconfiguration. Staff and their managers, students and their lecturers all benefit from meeting face to face from time to time."

– Andrew Campbell, Chair Argyll College

7.1 INTRODUCTION

Colleges involved in this review are not only small, but for several colleges a decline in delivery against target credits is apparent. This is not just limited to 2020/21 but was also problematic in the years 2017/18 – 2019/20. Although all colleges in this review are behind target at Q2 in 2020/21, as the table below shows, the range of under-performance is significant. Lews Castle is only at 55%, compared to WHC and Orkney both at 87%, NHC at 86% and Argyll at 78% and Shetland at 76%. This table does not show the final year end figure so colleges will get closer to target. 2020/21 is an exceptional year that has been impacted by Covid, as colleges have focused more on main full-time delivery and been less able to offer short courses and extra delivery.

In-year FE credits 2020/21

Academic Partner	Credit Target	Total Credits Delivered to Date	Shortfall/ Surpluss c.f. Core Credit Target	Total Credit Year-End Forecast by AP	Previous Years Q1 Credit Position	Previous Years Q2 Credit Position	% of Target at 8th Feb	% of Previous Year Q2 Credit Position
Argyll	6,701	5,234	-1,467	6,701	5,867	5,958	78	88
Inverness	29,439	22,524	-6,915	29,439	22,353	27,439	77	82
Lews	5,445	2,971	-2,474	5,445	2,743	3,637	55	82
Moray	19,148	14,468	-4,680	19,148	15,233	16,254	76	89
NHC	12,558	10,751	-1,807	12,558	9,717	11,042	86	97
Orkney	3,668	3,174	-494	3,668	2,167	3,448	87	92
Perth	24,084	22,358	-1,726	24,084	21,473	23,077	93	97
Shetland	4,387	3,356	-1,031	4,387	3,055	3,492	76	96
WHC	6,952	6,064	-888	6,952	5,958	6,527	87	93
Regional Total	**112,382**	**90,900**	**-21,482**	**112,382**	**88,566**	**100,874**	**81**	**90**

Table C

Principals see working together on the curriculum as key to ensuring provision is sustainable. This idea is not new and has been proposed by previous reviews. Capita's 2012 report found that "simply maintaining the status quo is also an unsustainable proposition. Inaction would have an effect almost as damaging as dissolution" [18]. The UHI's intention stated in the Audit Scotland 2018 report [19] of 'planning more effective shared working and working with four of its incorporated colleges to explore opportunities for greater integration', has been slow to be implemented and show impact.

Partner colleges now have a renewed impetus and desire to drive change to benefit students and ensure sustainability of provision. Work is ongoing to find a way forward. A curriculum review was agreed by Partnership Council in March 2020 [20] and is being carried out by the Curriculum Planning Review Group in conjunction with several reference groups including a Data Professionals' Group, HISA, the Faculties, a Principals' Group, and various relevant individuals.

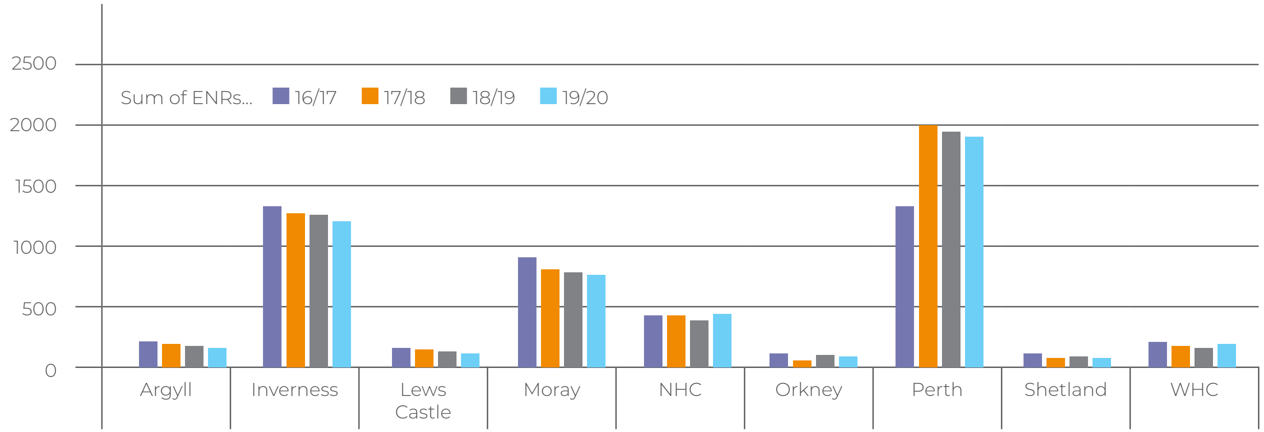
As the curriculum review [21] recognises:

"While 70% of UHI HE, and 90% of FE students have home addresses inside the university's catchment area, there is no agreed strategy to ensure the regional offer is delivered effectively and efficiently [...] This latter situation is particularly perplexing as the main driver in creating the university was to be able to offer a curriculum beyond that which could be supported by any one college and to make this available across the whole region."

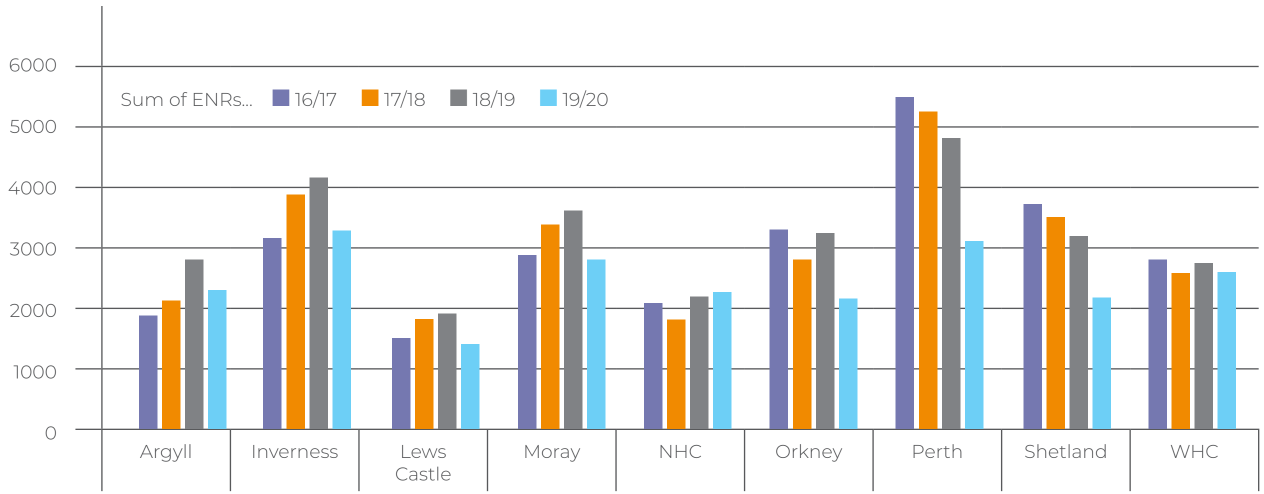
7.2
STUDENT NUMBERS

As noted earlier in the paper, a low proportion of FE provision is full-time, making it difficult for partner colleges to plan provision and to deploy staff efficiently. As the table below shows, the numbers on full-time provision at Argyll, Lews Castle, Orkney, Shetland and WHC are low. Shetland and NAFC had for many years partnered in delivery of FE credits. Numbers at NHC are higher but are still roughly only a quarter of NHC's FE learners.

7.2.1
SUMMARY OF FULL-TIME FE ENROLMENTS



7.2.1
SUMMARY OF PART-TIME FE ENROLMENTS



In FE, without partners offering the same curricula and qualifications, it is hard to share best practice, plan jointly, share teaching and learning resources or guarantee courses will be offered each year. Partner colleges are still in the position where, in between exam results being announced and autumn term starting, they must make difficult decisions about which courses to run. Courses often run with small class sizes or are cancelled as cohorts are not viable.

As the 2012 Capita review recognised:

"[...] moving forward the UHI needs to swiftly develop and grow its curricula to attract more and different types of students, it must become more efficient in delivery and it must become more responsive and effective in securing the opportunities offered in partnering with business" [22].

7.2.3
HE FTES OF COLLEGE PARTNERS SHOWING % OF UHI'S TOTAL HE PROVISION

As can be seen from the table below, numbers of FTEs on HE provision in partner colleges are small and considerably lower than on FE provision. FE is the weightiest component of partner colleges' provision.

Academic Partner	2016-17	2017-18	2018-19	2019-20
Argyll	175 (3%)	196 (3%)	244 (3%)	220 (3%)
Inverness	1,584 (25%)	1,664 (25%)	1,771 (24%)	1,744 (24%)
Lews	333 (5%)	302 (5%)	313 (4%)	321 (4%)
Moray	946 (15%)	958 (14%)	964 (14%)	898 (12%)
NAFC	29 (1%)	32 (1%)	34 (1%)	31 (1%)
NHC	378 (6%)	406 (6%)	412 (6%)	429 (6%)
Orkney	195 (3%)	199 (3%)	216 (3%)	211 (3%)
Perth	2,043 (32%)	2,173 (32%)	2,238 (31%)	2,228 (30%)
Shetland	117 (2%)	119 (2%)	144 (2%)	141 (2%)
WHC	200 (3%)	248 (4%)	257 (4%)	239 (3%)
Total	**5,971 (94%)**	**6,265 (94%)**	**6,559 (91%)**	**6,441 (93%)**

Table D

7.3
THE EXISTING FUNDING MODEL WORKS AGAINST COLLABORATION

Principals feel that each college struggles to meet target so every student counts and this works against collaboration. They rightly want to ensure fairness of funding through credit allocation and sharing of income.

The internal funding mechanism does not promote collective efficiency or quality. Currently, for FE the RSB decide each partner college's core credit target. However, this target has not changed for several years and does not take quality into account. Unsurprisingly, some partner colleges feel these targets are wrong. Argyll have delivered significantly over credit for several years to meet student demand. The current system does not allow for reallocation of FE credits to meet changes in demand in partner colleges. Some have under delivered and been paid for credits they did not deliver.

The UHI could, in theory, respond through a reallocation but it knows that this would be destabilising. It therefore opts to ensure a certain level of funding despite both the unfairness this brings and the fact that it sustains a situation that needs to change.

For HE activity, each academic partner submits their own predictions and sets their own HE targets based on what they expect to be able to deliver. Leaders see this as fairer than the FE model as colleges are paid for what HE they deliver. If combined, HE predictions exceed the overall allocated credits then partner colleges negotiate what they will deliver.

If curriculum is to be shared, colleges need a distribution model they can use. Every partner college needs to be financially stable or, if that isn't possible, then they need to be part of something that is. 'If partners become one entity it is easier to share funding around if the amount of activity is reduced at one partner with fewer learners.'

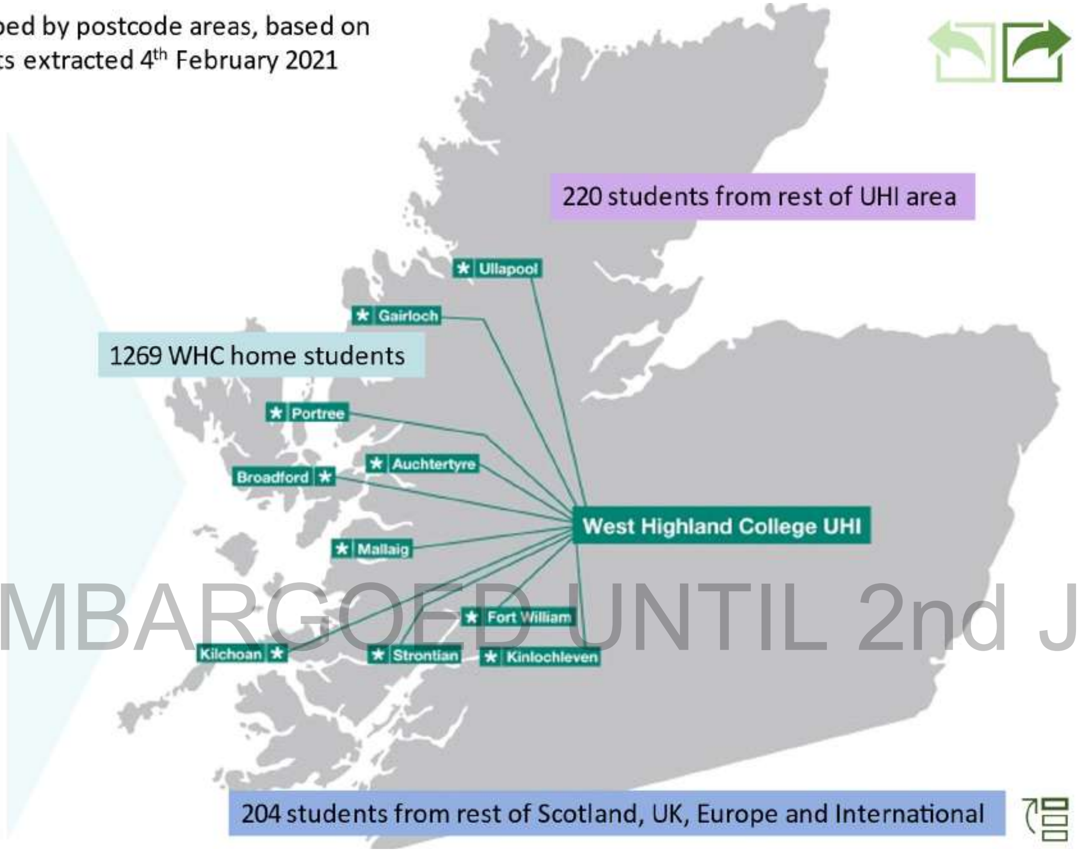
Principals also want to ensure networked delivery is marketed and recruited to fairly.

Partner colleges feel that the main challenge with the suggested shared core model set out in the curriculum review is funding. If the same model is applied for engineering and history, it is unbalanced because engineering needs more resource. Finding a way to share credits among colleges so no college loses money through over-recruitment or under-recruitment is key

West Highland 2020/21 enrolments grouped by postcode areas, based on home address

2020/21 FE and HE enrolments grouped by postcode areas, based on home address, from 1693 enrolments extracted 4th February 2021

Area	Enrols	Area2	Enrols3
Achaphubil	3	Glenfinnan	3
Acharacle	73	Glenmoriston	6
Achdalieu	2	Invergarry	10
Achiltibuie	1	Invergordon	1
Achnasheen	18	Isle Of Canna	2
Appin	9	Kilchoan	15
Applecross	1	Kinlochewe	1
Ardgour	32	Kinlochleven	15
Arisaig	14	Kyle	42
Arnisdale	2	Kyleakin	6
Avoch	2	Lochailort	3
Ballachulish	19	Lochyside	22
Banavie	19	Mallaig	53
Breakish	20	North Ballachulish	5
Broadford	27	Plockton	10
Caol	108	Poolewe	1
Carbost	14	Portree	103
Conon Bridge	1	Skeabost Bridge	20
Corpach	43	Sleat	17
Corrour	1	Spean Bridge	25
Dorline	1	Staffin	8
Dornie	2	Stirling	2
Dornoch	1	Strathcarron	8
Drumnadrochit	5	Strathpeffer	11
Dunvegan	27	Strome Ferry	1
Duror	1	Stromness	2
Edinbane	13	Strontian	59
Elgol	5	Struan	4
Fort Augustus	26	Sykes St 146	1
Fort William	270	Tain	3
Fort William.	1	Ullapool	26
Fortwilliam	1	Waternish	7
Gairloch	25		



7.4
LACK OF TERTIARY CURRICULUM MAPPING

To reach its full potential, UHI would be able to take a learner with no skills and give them the opportunity to progress internally to a doctorate. More learners would have access to a wider range of programmes and planning would be more strategy led. Although individual partners have ensured progression routes are available between different level courses, historically a joint up approach between colleges has been lacking. As leaders recognise, the tertiary curriculum needs mapping, so it is clear to learners how to progress between courses to reach their career goals. Entry and exit points need to be coherent and linked to career requirements.

Students voiced the view during this review that they would have more opportunities if the curriculum was more joined up and if they could access other partner colleges' provision. Without working together and realigning curriculum, the offer for students will remain less than optimal.

As the 2012 Capita review said:

"The expectations of the UHI – and the need for it to deliver on its promise to the communities it serves, demand that it demonstrates a range of capabilities and competencies. It must offer an integrated curriculum accessible to learners across the Highlands and Islands. This curriculum must enable access and progression and address the skills mix required by existing and prospective employers." [23]

As leaders recognise measures of added value, e.g. students moving up through SCQF levels or across from one career to another via the UHI's flexible curriculum should be introduced. [24]

Planning of the HE curriculum is structured through UHI with detailed target setting for partner colleges. Currently each college has its own FE curriculum review process and accesses its own FE credits.

One of the other key issues recognised by partner colleges and the curriculum review is that the tertiary curriculum is too wide ranging. In HE alone there are over 2,300 modules and units. Students are spread too thinly. The HE curriculum in 2019/20 had an average of 3.29 FTE per module or unit. This compares unfavourably with other universities, for example the OU has more than 200 and other Scottish universities around 65. At UHI 80% of HE students are on 30% of programmes. Partner colleges recognise that they need to streamline provision by removing multiple courses in the same subject area at the same level to improve quality and viability of that course. They also need to benchmark curriculum externally to see what best practice exists in other providers and what new provision could be introduced.

"The status quo does not fulfil the mission of the UHI or meet the ambition of staff or students. That would be best served by the UHI being a single entity. Any step towards that would be of benefit but should not be the end state."

– Blair Sandison, Chair North Highland College

Leaders report that historically, both the FE and HE curriculum have grown piecemeal and that as new courses have been added, other courses have not been removed. This has led to some partner colleges internally offering several courses of the same level in the same subject at the same time, in effect with courses competing internally for learners. The Argyll Principal identified that this happened at his college and some courses which could have been merged ran separately with very low numbers (2s and 3s). He is acting to aggregate longitudinal data on enrolment, completion and destinations and benchmarking Argyll's offer across UHI and the sector to help restructure curriculum.

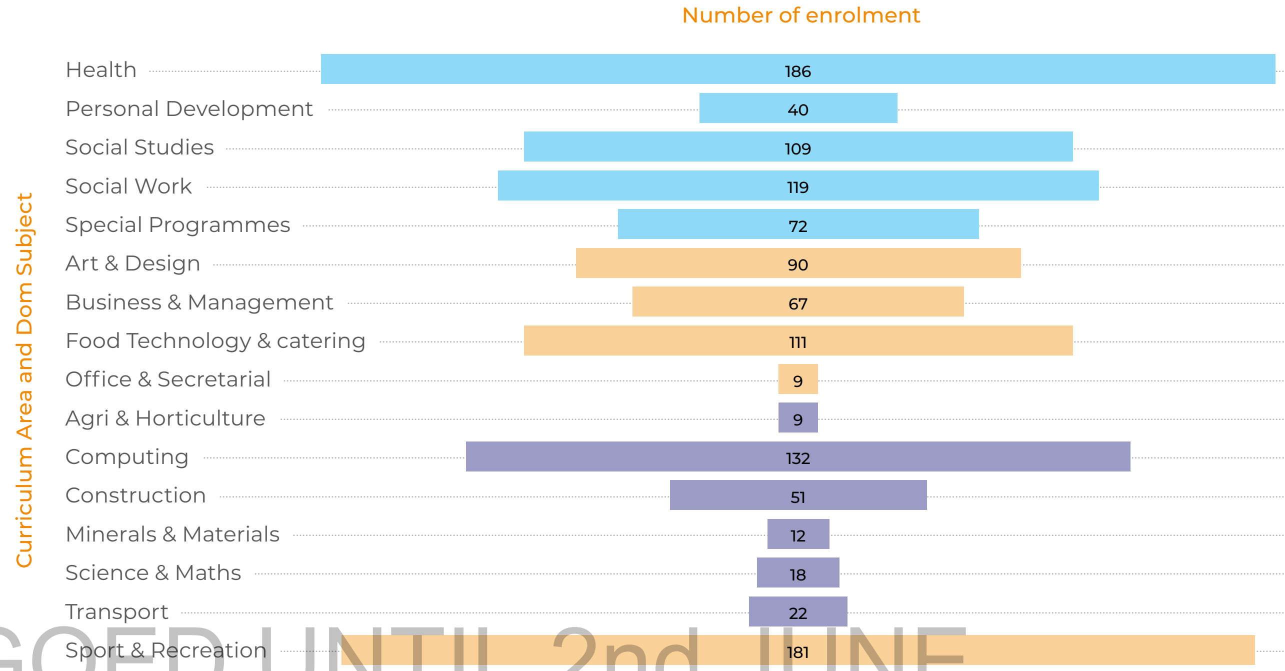
Some courses run with very low numbers. At NHC the C&G level 2 diploma for veterinary care assistants enrolled four in 2019/20. At Orkney the level 4 national certificate in professional cookery enrolled four in 2019/20.

Partner colleges agree they need to work together to ensure provision is sustainable and meets local need, they need more networked FE delivery, and they need to streamline provision and reduce duplication within colleges. This could begin through agreeing a broad target to reduce the number of modules and courses delivered, and the decision-making procedure to deliver this. [25] Targets could be redistributed to better reflect need.

The review of Regional Strategic bodies confirms that the Highland and Islands colleges undertake a comprehensive analysis of labour market intelligence to ensure that they plan effectively, and provision meets national, regional and local employer needs. The main sources of intelligence are the Regional Skills Assessments (RSAs), Skills Investment Plans (SIPs) relating to specific industries, and national labour market analysis databases. This is reconciled with locally generated employer information to which each college has access. This intelligence is shared and discussed throughout the year by senior staff from each college as part of the ROA process [26].
The infographics next 7.4.1 show some of the comprehensive labour market data gathered by West Highland and how provision offered compares to local employment.

7.4.1
WEST HIGHLAND COLLEGE DATA SHOWING TOP 3 LOCAL EMPLOYMENT SECTORS

7.4.2 DATA SHOWING WEST HIGHLAND'S CURRICULUM PROFILE 2020-2021



Although good practise exists, partner colleges interviewed recognised they need to align curriculum to their local labour market and to involve employers more than they have done in the past to keep young people on the islands and in the highlands. As illustrated elsewhere, planning has not always been linked well to local labour market opportunities. Partner colleges need to be clear what is offered across the UHI, what is specialised and what can be delivered collectively, and they identify coherent pan-regional planning is needed.

The partners recognise making greater use of employers to plan and deliver the curriculum locally will promote employment prospects and maintain local feel.

Partner colleges are committed to meeting the needs of their communities and the Regional Outcome Agreement (ROA) clearly evidences the region's commitment to widening access and equalities. The Scottish Funding Council states that, "Recognising the low populations of MD10 and data zones in the highlands and islands, the region's colleges nonetheless have effective engagement with learners from the most deprived communities and have ambitions to grow this further." [27] Partner colleges feel their physical centres are an important way to build bridges with remote communities and are sensitive to any change which may affect participation in learning.

Many students benefit from work experience with local employers to help them develop their employability skills and prepare for their future careers. However, partner colleges recognise that the core skills in Curriculum for Excellence need mapping, so students understand how they are developing them.

Shared provision currently in place is dependent on good will and individual inclination, which may not continue if key staff change. Principals want to cement certainty around sharing, so it is systematic and not reliant on individuals. Interviewees were broadly supportive of the Curriculum Review paper and the need for a core curriculum. They felt the curriculum review paper provides leadership and impetus to drive improvements in curriculum and drive this down to institutions.

Several partner colleges employ large numbers of part-time staff which is hard to manage in terms of curriculum planning, timetabling, CPD and appraisal. Principals and Deputies felt that a core curriculum would allow specialist staff to be focused on specialist areas, for example cyber security, thus improving the quality of teaching and learning.

Colleges are required to ensure teaching staff have the Teaching Qualification in FE. At Shetland 59% of teaching staff are TQFE, but at Argyll only 34% are. This training needs to be funded and posts covered when staff are released for training which is difficult for colleges who have a large proportion of part-time staff such as Argyll.

7.5 CURRICULUM DEVELOPMENT STRATEGY

Partner colleges identify that they need to balance efficiency with the needs of the region and locality which is central to their mission.

Currently there is a lack of effective and empowered planning bodies to deliver a collective curriculum strategy. Each college has its own curriculum review process and has to access its own FE credits. This is time consuming for staff and does not provide best value for students. No one person is empowered to drive FE curriculum changes across the UHI and partner colleges.

In smaller colleges, staff have to be experts in more things. Staff in small colleges are focused on the here and now. This has been made worse by COVID. Some curriculum teams within individual colleges are small and stretched, for example, agriculture at Shetland. Low student numbers often stop local colleges developing new curriculum which limits opportunities for students.

A single curriculum planning strategy is needed. The 2017 Regional Strategic Body self-evaluation stated that:

"In recent years, Tertiary Curriculum Mapping Groups have been established across subject groups to map the regional offer. These groups have been tasked to map access and progression opportunities, identify gaps and propose additional areas for development. They have also worked to rationalise course titles, simplifying, wherever possible, the offer and progression routes for students. A project has been initiated to develop an on-line curriculum mapping tool for use by students and prospective students needing to clarify routes to career and further study destinations." [28]

Leaders recognise the work of these groups now needs to be taken further. The RSB acknowledges in its self-evaluation that greater progress can be made in curriculum review [29]. As the current Curriculum Review [30] document proposes, programmes should be planned collectively and reviewed annually against targets and benchmarks which are sufficiently challenging to ensure high levels of recruitment, efficiency, and student outcomes. Due to their importance as a core offer, they should be accessible and integrated with other SCQF levels.

To bring about change, partner colleges need to commit to the curriculum review proposals and commit to working together to implement the proposals. Facilitating academic planning of the partner colleges' tertiary provision by investing decision making in a member of staff with delegated authority would act as a catalyst for change. A key member of staff should be identified and empowered to drive changes and be supported by a group of key staff derived from partner colleges to develop a collective FE curriculum strategy. Effort needs coordinating and staff need releasing from other duties so they can focus on specific tasks. Instead of duplicating roles in all colleges, rationalising structures could allow new roles to be introduced resulting in greater expertise and better use of resource.

As the 2012 Capita review found:

"To enable more learners to have access to a wider portfolio of programmes and increase cost effective delivery and better strategy-led planning we make multiple recommendations chief of which is that delegated authority be invested in UHI to enable corporate decision making on academic planning of the full UHI HE programme; to commit each academic partner (AP) to the reality of planning across the partnership and to prevent individual actions by APs (with regard to HE planning) undermining or de-railing decisions taken in best interests of UHI as a whole." [31]

As Principals recognise, partner colleges must not become overly focused on sharing current curriculum, but to think about sharing risks and expertise in new curriculum development, for example, green energy.

Senior staff need the space to think strategically, and staff need the space to work collaboratively. Over the years, staff have committed to, and have tried to work together, but this loose collaboration needs a structural solution to drive pace and impact.

Principals identify they need to collectively agree what a shared framework looks like, that it should have clear parameters but allow curriculum staff autonomy to respond quickly. Working collaboratively and pooling staff expertise for example in agriculture, marine spatial awareness, would help ensure sustainability of these curriculum areas. A robust 3-year curriculum planning process is needed across UHI. As leaders recognise, "a set of appropriate and robust measures of student success, including but not limited to, the standard ones…meaningful to UHI for example - rural poverty/ exclusion" [32] should be agreed.

Anecdotally, partner colleges feel they have a good understanding of students' destinations when students leave college. Although colleges have to report to the funding council on progression data, there is a considerable lag between students leaving and this being collected across Scotland.

Destinations of early leavers are collected by Skills Development Scotland (SDS), but only for those who are under 24. The course leaver survey is done independently by each college and there is an internal dashboard of destinations. What students go on to do when they leave their course is not measured the same way at each college. Information on why students leave their programme early and what those who leave early go on to do is not collated centrally.

There is no agreed way of identifying if these early leavers are not in education, employment or training (NEET). The 'reason for withdrawal' choices for those who leave early are very generic, e.g. personal, financial issues.

From 2020/21 FES is collecting more in-depth reasons for early withdrawals. It would be helpful to curriculum planning if partner colleges had quicker access to more detailed destination information including those who leave early, to help evaluate the impact of programmes on learners' next steps.

To reduce the number of learners who leave early without completing to take up employment for example in hospitality, leaders should consider offering shorter courses and delivering courses outside of employers' busy and seasonal times.

The UHI's High quality learning and teaching: putting our students first [33] document summarises short term (1-2 year) strategic aims as:

- Implement a full curriculum review and so offer an accessible, sustainable, and flexible tertiary curriculum which provides high quality educational opportunities to the people of the region and their employers including the changing needs of learners, industry, and other stakeholders resulting from COVID.
- Establish an attractive tertiary regional offer which will be available across the UHI region to increase the % of our region's student continuing their education locally.
- Identify a suite of subject areas which will attract students from outside our region and increase articulation from other colleges, based on our reputation, environment, and facilities.
- Reduce the reliance on SFC funding through increased levels of international and commercial programmes and enhanced industrial partnerships.

7.6
LEARNERS COMPLETING SUCCESSFULLY

Regional groups such as the Quality Forum, engage in analysis of performance data across outcome agreements, benchmarking performance at the level of region, academic partner and subject against national data where this is available.

Overall rates for students completing successfully in partner colleges are generally at or above the Scottish benchmark. However, success rates vary considerably within colleges. For example, one college (Argyll) has success rates of 33% and 20% for the last two years of access to HN Business Administration and Computing, but much higher rates on Early Education and Childcare National 5 at 81%.

Success rates vary considerably for colleges running the same course, for example Access to Nursing SCQF level 6. In 2019/20, completion success rates were 100% at NHC with three enrolments, 78% at Argyll with 21 enrolments, 38% at Inverness with 50 enrolments and 29% at Shetland with eight enrolments.

Many courses continue to be run year after year despite low success rates for example, at LCC National 5 success over the last four years has been 36%, 27%, 18% and 33%. At the other extreme, LCC's two most recent Electrical Installation SCQF6 LCC cohorts both had 100% success.

7.7 BUILD ON CURRENT STRENGTHS AND BEST PRACTICE

A key feature of the UHI is its blended learning delivery model using videoconferencing and integrated networks. The partner colleges and the UHI's HE provision already had significant expertise in online learning, but this has been further accelerated in the partner colleges' FE provision by COVID. Making greater use of blended and online learning could make a wider range of provision available to more students and could help cost efficiencies.

Partner colleges should now look to develop a resource allocation model for blended and online learning. They should explore the amount of face-to-face and online learning necessary for different types and levels of courses and consider all new delivery being blended and online. For the foreseeable future, many vocational courses will continue to need face-to-face practical training.

Some partner colleges are more advanced with FE pedagogy, particularly blended learning, so the skills set needs developing across the partnership. Some staff felt 'thrown in at the deep end' with blended learning. Staff report some learners prefer online learning as there are fewer distractions and some behave and engage better online. Others appreciate not losing time travelling to college sites. WHC are advanced in thinking and practice. However, blended learning is more of a challenge in FE for some partner colleges who were not previously doing much and may also have to respond to students' IT and mental health issues. Benchmarks have been developed in how learning technologies are used in online teaching across all UHI.

The Director of Academic Affairs at WHC has developed some excellent practice around supporting lower-level learners online. Staff at other colleges state that lower-level learners struggle to engage more with online. Asking curriculum teams to think about what longer term delivery may look like around blended learning may be fruitful.

To move equitably to blended learning, all learners and staff need access to good IT and broadband. Staff need time to think about the right delivery methods and technologies in blended provision. Better use is needed of learning analytics to help staff understand what is working well and not working well in blended learning. Moving to more online learning also gives partner colleges the opportunity to rethink the use of existing estate, for example removing VC studios, having more open self-learning space, and providing students shorter intense 'bursts' in workshops, labs and field etc.

A Quality Forum has worked in recent years to harmonise quality management processes across the region and to bring a higher level of consistency to the student experience across the partner colleges. The Quality Forum has a strong focus on FE and has brought about some practitioner-led initiatives, for example, the introduction of standardised student surveys.

The forum's work has potential to be further extended to help develop schemes of learning, resources and best pedagogical practice in shared curriculum.

The work-based learning hub for apprenticeships is a good example of how effective networking across all partner colleges can allow for sharing of services but with flexibility to meet demand. This model currently only exists in work-based learning and has potential for further exploration in other areas.

Partner colleges aim to reduce any duplication in their relationships with key stakeholders and have taken steps to agree to regional positions (for example the funding submission to the National Manufacturing Institute for Scotland).[34]

Partner colleges work well with schools allowing course sharing across small rural institutions that could not afford to individually provide breadth. This significant school provision is reflected in the high proportion of part-time FE provision. Argyll work with 11 secondary schools in their area and about 1/3 of Argyll's credit target is linked to schools. Enrolment on some schools' provision is high for example, Higher Business Management courses at both Argyll and WHC each have over 20 enrolments.

Some partner colleges deliver onsite in some secondary schools. WHC, NHC and Argyll also deliver virtually as part of virtual schools' networks. Pupils moving into S6, can access a range of provision offered by different partner colleges in the UHI network, allowing them greater choice and flexibility over the subjects they want to study. For example, WHC's website shows courses delivered by partner colleges: Inverness College UHI and North Highland College UHI including Association of Accounting: Bookkeeping, Personal Finance Award, and Degree Module: Economics for Business. Many other examples are listed and include a range of levels. There are also sections for home educated young people, and a Virtual School. Courses are timetabled to correspond with students' school timetables. Staff report good pupil engagement, and pupils can access learning flexibly across remote areas. Provision could possibly extend to other geographical areas.

WHC, NHC and Inverness College are collaborating with Highland Council and 29 Highland secondary schools on the 'Highland Virtual School', a project which has just been short listed for the TES FE 2021 awards in the category of 'outstanding use of technology in delivering remote teaching and learning'. The three colleges are sharing their approach to promoting their school-college course portfolio to all the local authority's schools but each school will only have access to the portfolio delivered by its local partner college (unless otherwise agreed by the three colleges where one has a specialism the others do not).

Good practice exists in sharing of HNC computing with WHC, NHC and Argyll, where no college had enough students to make a course viable. Although it means fewer hours for staff, students benefit as the course would not have been delivered otherwise. This was a bottom-up decision with course teams deciding who would run which units.

NHC offered a model where NHC delivered HN engineering to their own students and students from Argyll and Orkney for whom it would not previously have been available.

7.8
RESEARCH

UHI is committed to the development of research and knowledge transfer and acts as a transformational agent supporting wealth creation, economic, environmental, cultural and social development. Across the partnership research has grown significantly in three main areas: health and environmental science, humanities and social sciences. Four research clusters have been built across the areas to look after the impact of that work on the regional economy. Some partner colleges involved in this review have specialist research areas, some with world class standing for example, NAFC Marine specialises in maritime research including fishing and aquaculture industries, WHC has a thriving centre for recreation and tourism research and strong links with the school of adventure. Orkney and Shetland for northern studies and LCC for education and sustainability studies. Only a small number of learners are involved in research in the partner colleges. In 2019/20 there were 46 learners across the partner colleges: LCC had eight, NAFC one, NHC 17, Orkney 19, Shetland one. Argyll and WHC had no research learners that year.

Post Graduate Taught Student Number by Year and Subject in Partner Colleges

YEAR	RESEARCH SUBJECT AREA	Lews Castle	North Atlantic Fisheries College	North Highland College	Orkney	Shetland	West Highland College
2017/18	Archaeology				12		
	Cultural Studies Music Non validated					1	
	Energy	2		1			
	Environmental Science	1		13			
	Marine Science			1			
	Northern Studies				8	1	
	Sustainability	6					1
2017/18 Total		9		16	20	2	1

YEAR	RESEARCH SUBJECT AREA	Lews Castle	North Atlantic Fisheries College	North Highland College	Orkney	Shetland	West Highland College
2018/19	Archaeology				9		
	Cultural Studies Music Non validated					1	
	Energy	2		1			
	Environmental Science	1		15			
	Marine Science						
	Northern Studies				8		
	Sustainability	7	1				1
2018/19 Total		10	1	16	18	1	1
2019/20	Archaeology				7		
	Cultural Studies Music Non validated					1	
	Energy	1		1			
	Environmental Science			15			
	Marine Science						
	Northern Studies				8		
	Sustainability	5	1				
	Masters by Research General	2			4		
2019/20 Total		8	1	17	19	1	
2020/21	Archaeology				11		
	Cultural Studies Music Non validated					1	
	Energy			2			
	Environmental Science			15			
	Marine Science						
	Northern Studies				8		
	Nursing						
	Sustainability	5	1				
	Masters by Research General	2		1	7	2	
2020/21 Total		7	1	19	26	3	
Grand Total		**57**	**3**	**100**	**116**	**9**	**4**

Some problems exist around the deployment of staff who teach in partner college provision, but also carry out research. There are also issues around national pay bargaining unless there is additional funding. Most staff in partner colleges are on teaching only contracts. Research is polarised – some research-only contracts, some teaching-only contracts, with a small group in the middle on teaching and research contracts. Leaders recognise they need to find a way to work with national bargaining so the University employs research staff working in the partner colleges, so research funding can be accessed.

Financial pressures are more acute now than in previous years. The financial pressures will filter down to the partner colleges. Due to Brexit, European money and other funding streams will be impacted, affecting partner colleges and all UHI. Nearly a third of current research students are European funded. However, other financial streams will come on board. Funding cuts particularly affect environmental science where NAFC and NH have significant activity, and humanities where Orkney is the big player.

It is critically important to UHI that as a university a vibrant research culture exists. Research is integral to UHI's mission and vision and integral to partner colleges' work and has grown significantly. The new VC is supporting this through strategic planning to move into new research areas including creative economy and engineering so there are opportunities for growth for example in Orkney. Education is also another possible new area of research. As new areas are developed staff should ensure existing areas of strength are maintained.

Research staff have been consulted on the curriculum review, which they think is right. The VP Research and Innovation believes it is possible to maintain local identity and bring partner colleges together to further strengthen those colleges and bring additional income and benefits to the communities. The VP Research and Innovation identifies there are too many small centres, some of which could be merged particularly if they are already working together. For example, Orkney's Institute of Agronomy could be linked with Thurso.

OPTIONS

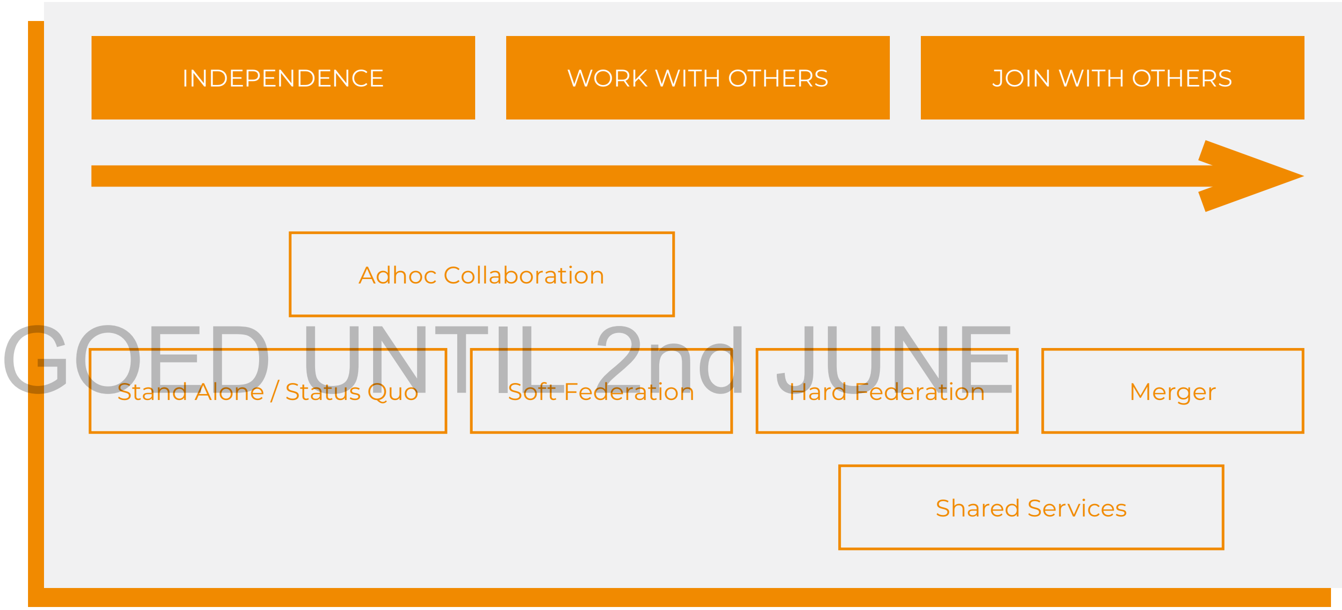
"The College wants to be part of the UHI network, aligned as closely as possible with as many aspects as possible, contributing fully and taking maximum benefit from the opportunities close working brings "

– Bev Cubbley, Chair Orkney College

8.0
STAND ALONE/STATUS QUO/ DO NOTHING

This section details the future options available to the colleges within scope, along with the advantages and disadvantages of each.

The diagrams below detail the strategic options available. Commentary around each of the options can be found in the follow-on sections.



8.1 OPTION 1: STAND ALONE/ STATUS QUO/DO NOTHING

The advantages of the status quo option are, essentially, that it requires no effort or cost. It allows the management team to focus on the needs of the organisation without the distraction and uncertainty of change.

Each college could remain independent in its current form - provided that it makes sufficient contribution to cover its servicing costs and, in the case of assigned colleges, the required surplus to cover reinvestment

8.1.1 APPRAISAL OF THE 'DO NOTHING' OPTION

The sections describing the current position in finance and curriculum sections evidence the fact that the 'do nothing' option is not sustainable, and this is echoed and supported by the stakeholders interviewed as part of the process and has been confirmed in a number of prior external and internal reviews.

Each of the leaders, the students and a number of staff interviewed recognised that the status quo for the collective, is not an option.

APPRAISAL OF THE STANDALONE OPTION

	Benefits	Risks/Costs
Governance	• Boards have autonomy to develop the colleges' strategy and to determine all matters relating to curriculum, estates and positioning within the constraints of the relevant legislation.	• Reduced ability to influence regional priorities • A smaller voice within the UHI • Continued competition with other colleges within the UHI • Less able as single entities to pursue opportunities that require 'mass' • Reduced ability to derive the positive benefits that come from closer collaboration (dependant on Board/Executive commitment) • Significant time spent in servicing local Boards
Corporate	• Provides a local college purely focussed on its community able to understand and respond to local needs • College leaders are free to opt in and out of other collaborative models as they see fit.	• Reduced ability to develop internal strategies and quality • Continuation of the current issue of lack of thinking time and strategic planning for senior staff
Curriculum	• Continues to allow colleges the option to provide very localised provision to meet need and respond quickly to changes in local need. • Allows staff to continue to run courses they are familiar with. • Through informal arrangements allows joint working, for example on networked provision	• Opportunities are missed to fulfil the UHI's potential through sharing curriculum expertise and best practice. • Numbers on some programmes are low making it hard for partner colleges to plan provision effectively. • A number of courses are cancelled each year leading to loss of confidence in future provision or students directed on to alternative courses that are not their first choice. • The existing funding model works against collaboration and colleges compete for learners. • Shared provision currently in place is dependent on good will and individual inclination, which may not continue if key staff change.
Finance	• Financial Planning informed by Local Knowledge and Prior Years Income and Expenditure patterns. • Close to Local providers of Services – For example local council providing Payroll Services.	• Inability to achieve efficiencies of scale in delivery, back office and resource utilisation. • Less financial resilience and greater vulnerability, particularly at a time when additional costs associated with national bargaining, job evaluation and employer pension contribution costs will be seen. • Capacity to develop Strategic Management Accounting. • Finance teams stretched across many competing priorities and have difficulty getting things done.
Systems	• Systems are known and understood	• Lack of resilience • Organisational vulnerability • Increased security risk • More costly to purchase and service • Hard to collate data and oversee performance
People	• Least disruptive for staff and learners and the least costly option.	• Costly as each entity requires its own support function and staffing • Less resilient as critical systems are dependent on single or limited staff members • More vulnerable to recruitment issues where recruitment is entirely dependent on locality

8.2 FEDERATIONS

We were asked to review the potential of a federated model as a way forward for the partner colleges. Federations may be 'soft' or 'hard' depending on the formality of the arrangements between the parties. Soft federations do not require any legally binding arrangements but rely on a shared understanding between those involved. They have been used in areas such as curriculum development, planning, quality improvement, and staff development.

There are examples of soft federations within the partner colleges including the sharing of staff between Argyll and West Highland and between North Highland and Inverness colleges and staff commented positively on collaboration in curriculum developments where these had occurred.

While these developments are welcomed, several partner colleges commented that such arrangements are transient, based on the relationships of the Principals and too easy to dismantle.

We have reviewed the evidence for hard federations within the English sector and then in Wales and in Northern Ireland. The two current examples we could find in England were operating a shared service model (see case study below). In the past they have also been used where two distinct corporations shared a Principal and a senior team to manage the still distinct organisations on their behalf.

At a time when federated models were being promoted, a review by the FE Commissioner identified these issues:

- Federations are quick to establish and may avoid many of the common pitfalls of mergers (for example, harmonisation of culture and pay). However, they are not suitable in all circumstances, and can create enormous pressures on leaders (for senior staff running two colleges), and additional bureaucracy. The 'voluntary' nature of many federations makes it difficult to enforce financial efficiencies at an early stage. Single college accountability is also a fundamental principle which affects federation structures.
- Shared services have been a visible part of the FE structural landscape for some time. Independent shared services (i.e., not used as part of a wider 'management' federation) have proved challenging to establish and to run – largely because of the need for high levels of commitment and trust, and a willingness to compromise on systems.
- Federations, which retain separate management teams, have the potential to focus on local provision and local needs, but they cannot deal so quickly and decisively with issues of costs. We may not see so many of these in future.

The FE Commissioner also considered the issue of federations being used to deliver shared services – this was at a time when the Government had provided some £15m to develop models within English FE.

- Shared service federations in particular often started out with a large group of potential partners round the table, many of whom faded away once realities of what was proposed set in. One provider was clear that factors such as an individual change of principal, unwillingness to devote the necessary management time, a lack of appetite to deliver the cultural changes required, or an inability to compromise – were the main reasons for individual colleges (generally smaller colleges who might have benefited disproportionately from shared services) withdrawing at the planning stage. Unless the commitment and expectations of each potential partner are tested rigorously at the outset, there is a danger that change becomes a slow and expensive process.

Hard Federations are more common in the English Schools system. Here, they mean something different and are more akin to the Group structures described below, that is they share a single governing body and management team. We thought it useful, though, to look at two studies that had been done (albeit some time ago) as there are some useful carry-over lessons for the current review. Ofsted carried out a review of a number of federated schools in 2011. They looked at the rationale for federations, performance and key success factors

Rationale: Ofsted identified three reasons for coming together of which the second and potentially the third has relevance here:

The schools taking part in the survey had federated for one of three main reasons.

- In 10 of the federations visited, high performing schools had been approached, often by the local authority, to federate with a school causing concern.
- Thirteen federations consisted of a number of small schools that had been in danger of closure or were unable to recruit high-quality staff. The aim of federation in these cases was to increase capacity and protect the quality of education available across the schools.
- A further six federations combined schools across different phases in an attempt to strengthen the overall education of pupils in the community.

In terms of performance:

- Those federations which had been set up to improve capacity among small schools, had been successful in broadening and enriching the curriculum and care, guidance and support for pupils. In these cases, federation had also resulted in better achievement for different groups of pupils, such as those whose circumstances made them vulnerable; this included those with special educational needs and/or disabilities. As well as maintaining good-quality teaching and learning, these federations shared a greater pool of resources and expertise that could be used more flexibly across schools.

Overall leadership and planning were the key to success:

- Effective leadership … was the single most critical feature that helped to generate improvements and build capacity for federations to be sustained.
- The most effective leaders had a single vision and drive focused on raising expectations. This was underpinned by rigorous procedures for holding staff accountable by checking the quality of provision and, in particular, assessing the quality of teaching and learning.
- Federation leaders maximised the greater flexibility of increased resources and opportunities for professional development to achieve their priorities.

In terms of benefits:

- The school leaders and governors spoken to were generally very positive about the benefits of leading more than one school in a federated arrangement. They saw professional development, staff retention, greater availability of resources and the ability to attract high-quality leaders as the key reasons behind improvements to provision. [35]

8.2.1 APPRAISAL OF A FEDERATED MODEL FOR THE UHI

It should first be remembered that the partner colleges are already members of a form of federation. The UHI has various coordinating committees, shared aspirations and mutual interests. Yet all parties and the commissioning of this review, following the SFC Phase One report, indicate that it's not functioning as desired. The partner colleges, or a number of them, could form a hard federation, ramping up the efforts already underway to collaborate. The benefits and disbenefits of this arrangement are set out elsewhere.

To make it more effective would require clear and binding mechanisms to coordinate curriculum design and delivery, quality assurance, research, marketing and the alignment of back-office systems. Sensibly, this would align with the efforts currently underway in the UHI. Governors and senior teams would establish oversight mechanisms to agree, and document all of the key areas of collaboration and standard operating procedures, they would, for example, agree representation within the UHI decision making structures, so that there was one voice representing them all. The partner colleges considering such a federation would have to determine whether this would happen in practice.

If such arrangement was agreed, it would still leave individual Boards in place – although some reporting could be streamlined, individual executive teams and staff groups would also remain. Without a shared services model (see below), such an arrangement would be unlikely to realise significant savings or deal with the resilience issues which have been identified elsewhere. A federation would also still only be as strong as the individual parties' commitment to it.

8.2.2
APPRAISAL OF THE FEDERATED MODEL

	Benefits	Risks	Mitigation
Governance	• Provides a framework for collaborative working that can build trust leading to further structural opportunities in time if the partner colleges so wish. • Increase local and regional influence as colleges speak with a single voice (provided they agree). • Easier to implement and less costly than merger. • Less likely to cause staff concern • Retains local focus	• More difficult to achieve where organisations have a history of competing. • Current performance measures focus on individual institution success can work against a collaboration. • Can create more bureaucracy with multiple decision-making structures. • Creates more demands on time for governors and managers. • The model is neither 'fish nor fowl,' i.e. the loss of some independence without securing the gains offered by a merger.	• Clear and binding legal framework with delegated powers to co-ordinating committees • Mechanism for resolving disputes
Corporate	• Maintains organisational autonomy within the agreed parameters	• Executive teams may be faced with conflicts of interests, e.g. in dealing with an initiative which benefits one college but may be damaging to the other • Executive teams may be placed in an impossible position if two governing bodies disagree about an important issue.	• Governing Body level oversight directly and through co-ordinating mechanisms, plans and agreements
Curriculum	• Co-ordinated curriculum plan allows for combination of small classes to mitigate risk of closure • Agreed framework allows leadership by sector experts • Mutual learning and staff collaboration means the creation of virtual teams	• Failure to put in place clear and binding mechanisms in respect of curriculum design, delivery and quality oversight results in a failure to realise the benefits a federation would give. • Successful courses based largely within one partner are 'hived off' to keep income in-house	• Binding agreements monitored and managed
Finance	• Allows some of the benefits of combining institutions without some of the costs. • Reduced 'frictional' costs as the colleges no longer compete.	• Additional costs and 'friction' in servicing more co-ordinating mechanisms	• Clear savings and investment plan agreed at outset
Services	• Would still allow for local services	• Defence of in-house provision and control mitigates against efficiencies	• Clear and binding agreements, monitored and managed
Systems	• Would still enable the alignment of systems to that of the UHI and the improvements in process and associated efficiencies that would generate	• Failure to ensure efficient resource in place to effectively deliver on the alignment of systems	• Clear plan agreed at the outset including amount to be invested, specification and project management
People	• Would enable pooled expertise/capacity to tackle strategic issues and concerns and pursue opportunities • Would enable flexible staff deployment. • Potentially develops 'virtual' teams	• Additional workload required by co-ordination Potential balance of power issues in who does what, where	• Clear allocation of responsibilities, documented, monitored and managed

8.3
SHARED SERVICES

Shared services, particularly in relation to back-office functions, have for some time been seen as a way of reducing costs and increasing efficiency – not just in colleges, but across the public sector. However, two points need to be made about shared services:

- there are few success stories within further education services
- the financial savings achievable tend not to be 'game-changing'. Whilst any financial savings are to be welcomed in the current funding climate, offsetting disadvantages often deter colleges from proceeding with such projects. The Capita report delivered in 2012 identified possible savings of 10-15%. Given the small numbers of staff involved, and the set-up and maintenance costs required, we do not believe that this is a model that a smaller group of colleges would wish to pursue.

There are 3 main ways in which a shared back-office function could be achieved:

- Creation of an entirely new unit.
- One college acting as the hub and developing its infrastructure to accommodate the enhanced service
- Buying into an existing hub, i.e. that of an existing outsourced provider or the UHI.

8.3.1 CASE STUDIES

a) Case Study 1

Company 1 is a limited company wholly owned by the local Council. It provides a range of back-office services to the Council, a local health Authority Commissioning Group, a housing provider and around 22 schools. It has 400 staff providing a range of services including HR, payroll, finance, debt collection, pension administration, together with some additional technology and Facilities Management support for schools.The company is governed by a board made up of councillors, the borough finance director and a shareholder representative.

The organisation has been able to deliver savings primarily as a result of reductions in staffing through economies of scale, the fact that new starters are in a company pension scheme rather than the LGPS, and through rationalisation of systems with consequent savings in maintenance costs and license fees.

As a cost sharing model, the function is VAT exempt in terms of the service charge for those participating.

The CEO, with experience of managing two previous shared service functions, suggested that:

- a structure of around 150-200 as a starting point was a viable size allowing for the fact that this would reduce as efficiencies were realized.
- The more partner colleges in the mix, the greater likelihood of fracture. The optimum number of partner colleges would, in his opinion, be 4-5.
- Initial buy in was key; most shared services models fail because one or more of the partner colleges pulled out.

b) Case Study 2

Company 2 is a cost saving vehicle 'owned' by four local authorities. With its genesis in an agreement back in 2009 by two district council leaders to 'share' a CEO and senior team, the arrangement developed to an internal shared services model providing HR and Finance support. Subsequently, seven Councils reviewed an expanded shared services model with four committing to proceed. At that point the range of provision expanded with three of the four transferring all their back-offices services.

The service has now grown to the point where the councils have transferred the majority of their staff - some 600 people - into the jointly owned company, retaining only their statutory and other key senior staff.

As a cost sharing vehicle 'owned' by the partner colleges and therefore VAT and Corporation tax exempt, any surpluses made are reinvested in the company.

Significant work was done with staff and trade unions from the outset to explain the proposals and the need for change. The significant funding pressures on the councils were clear, and the prospects, without some form of response, were seen as worse. There was a commitment from the outset not to use compulsory redundancies and full staff involvement throughout.

Savings have been in the order of £2.5m over 5 years on a £25m turnover. Staff who TUPEd from the councils have pension and condition protection but new staff join a company pension scheme that is cheaper to support than the LGPS. Overall, staff numbers have increased as the organisation was asked to do more. Other savings came from efficiencies arising from better use of new technologies.

Key lessons were that trust, and effective communication, are key, as is the involvement of staff and trade unions in the change process with the need for change clearly understood.

c) Case Study 3

Company 3 was established in 2013 following discussions between five colleges though only two, went forward to develop a shared service company. It is a cost sharing company and therefore VAT exempt. Any surplus can be reinvested or returned to the stakeholders, but the company must be solvent at all times.

Each college has one member of the SMT plus a governor as a director together with the Company CEO. The company provides a range of services including Finance, Exams, MIS, HR, Payroll and enrolment support.

The original intention of the partners was to save money. This was achieved through economies of scale in bringing the staff groups together, which allowed efficiencies to be realised. Existing staff were transferred under TUPE and protected but new staff are appointed on company conditions and to a NEST pension scheme with reduced contributions compared to the LGPS. The pressure to make year on year savings continues, though the scope to cut further is much reduced with the potential for frustration for the partner colleges.

Other elements felt to be relevant were that there is a potential tension as the Directors must act in the interests of the company, but they are also challenged by the need to represent the interests of their college. The fact that the partnership was made up of two very different colleges, that weren't in direct competition, was seen as being helpful but there was a concern that the stability of the organisation was always at risk from a change of leadership in one of the partner colleges.

“As a partner college within UHI we need to find smarter ways of working with our partners to benefit our students students and to become more efficient in the way we work. The impact of smarter working must be to ensure that we can invest in continuous improvement of service and provide the best learning experience for our students.”

– Debbie Murray, Principal North Highland College

APPRAISAL OF THE SHARED SERVICES OPTIONS

Shared Service Opinion	Advantage	Disadvantage
Creation of an entirely new unit.	• Service can be designed from the ground up • Location can be chosen to best suit need • Loyalty will be to unit not to one institution	• Costly to set up between a limited set of partner colleges • Lead in times will be significant • High risk of disruption and loss of existing staff during change phase • RoI likely to be negative for a number of years
One college acting as the hub and developing its infrastructure to accommodate the enhanced service	• Each college is a part of the whole and each is dependent on the other • Easier to implement given that it expands on an existing service • Infrastructure would be extended rather than created • Likely to lead to some economies of scale	• Each college is dependent on the other parties for the quality of the service • Unlikely to generate savings as costs are being reallocated rather than reduced • Would require considerable time and cost to implement effectively. Additional resource would be required due to workload of current personnel • Maybe political issues in deciding which institution takes the lead • Risk of loss of service to the other colleges if the facility failed • Will have cost of implementation through TUPE/Redundancy where staff won't/can't relocate if required
Buying into an existing hub - UHI	• Currently IT and MIS are provided as a core service from the EO and therefore entirely feasible to also move HR, Finance and Payroll to this model • Enables a consistent approach across those involved • Increased resilience of the units • Removes some work and responsibilities from the partner colleges • Allows for some reduced costs in respect of licences, upgrades and staffing • Enables the introduction of common system and possibly reduce non-compliance • Improves communication between the Executive Office and the partner colleges	• Costly to align both in terms of resourcing requirements, consultancy support, project management and system cost • Complex to achieve due to the large number of different systems currently in operation. A clear strategy for alignment would be needed • Would need the commitment of each of the partner colleges to ensure systems were implemented effectively and staff were given time to be fully trained on the use of them • Potential loss of autonomy from the partner colleges • The service would attract a VAT charge which would be offset against savings • Staff resource would be needed to support with implementation and therefore it is unlikely that cost savings associated with staffing resource would not be realised until year 3
Buying into an existing hub - that of an existing outsourced private provider	• Reduced risks by buying into an established model • Known cost of operation • Quicker implementation	• It would create further separation from the UHI • There would be a need to TUPE transfer staff to a private sector company and the issues that this may create • Dependant on remote operator • Few available partner colleges, therefore operator has enhanced negotiating power once contract let • HR costs and impact on existing services likely to be significant

8.3.2
SHARED SERVICE APPRAISAL

We would suggest that the effort of setting up a shared service model between a limited group of partner colleges is not worth the cost. It would require the creation of a vehicle to employ the staff, an infrastructure to manage and control it, commercial agreements between the parties and investment in common systems.

The major savings would come in two forms of efficiency via staff reductions and savings in staff costs as new staff could be appointed on different terms and conditions and to a less costly pension scheme. Such a structure would also be out with national bargaining and be job evaluation arrangements.

From what we have heard, there is no desire to pursue such a route. It would be feasible to transfer staff to the UHI or an existing partner, but the savings would be offset by VAT costs in addition to the other issues described above.

8.4
GROUP STRUCTURE

As part of the harmonisation exercise, we were tasked with reviewing the structure of certain English Groups to evaluate whether any elements of those models were useful to the partner colleges in this exercise.

We have looked at five Groups as follows:

- Activate Learning (AL)
- Chichester College Group (CCG)
- The LTE Group
- Newcastle College Group (NCG)
- Luminate
- Grwp Llandrillo Menai

Each has a different form but all, as we believe we show, have the same core. That is, all have been created following a merger process and then have expanded to include subsidiary commercial companies, Multi Academy Trusts or, in the case of Luminate, an independent HEI.

We have focussed on what we feel are the key elements, structure, strategy where we have been able to establish a rationale underpinning the Group, governance, branding and group or corporate services (Finance, IT etc). We have used publicly available information and interviews with either the CEO or a member of the senior team. In the case of Activate we have also used our own experience having worked with the organisation for the last two years.

The key findings are that English Groups and the Welsh example reviewed aren't 'groups' as perhaps was envisaged when the brief was written. They are, at their core, a single entity with local faces. Strategy is determined and key decisions including resource allocation, investment decisions and performance management are taken at the corporate centre. They have centralised central services usually, but not always, with a local presence.

In most cases the local college carries a local branding, in some cases with its affiliation to the Group clearly displayed in others, not.

Most, but not all, have local boards but these appear to work more effectively where they have a clear focus on specific aspects such as identifying local need, student satisfaction or performance. None have an 'executive' role.

The benefits of these structures are about:

- The scale.
- The ability to derive efficiencies in back-office services, in purchasing and in system development.
- More resilience and more able to absorb financial shocks to the system.
- Giving staff more development opportunities and allowing the organisation to recruit specialist expertise that smaller colleges simply cannot justify.
- Having a greater ability to influence their environment and to have credibility with larger employers.

A number of senior managers in these organisations expected these larger groups to become more common as funding became tighter.

Further details on groups within the English system are included in Appendix 2.

On the basis that this option is, based on the above, the same as merger, then we have not evaluated it as a separate element.

8.5 MERGER

Mergers can be difficult, costly and distracting and it can take some time to realise the benefits. Experience across the FE & HE sectors has shown that it is vital that the reason for the merger is well thought through in advance and that the change process is properly planned and resourced. Benefits are unlikely to accrue before year 3 but a study by BIS in 2015 gave two examples, one where a college realised £2.5m in net savings following a merger (£3.5m savings but at a cost of £1m) and another claimed savings of 5% within the first few months.

The BIS Guidance, published in June 2015, identifies several reasons why colleges may consider merger. The two most relevant are where:

- The merger establishes strategic advantage through an enhanced ability to influence local decision making.
- And/or where the new institution enables 'economies of scale through the operation of shared services, combined procurement, more efficient use of resources and the elimination or reduction in competition.'

8.5.1 MERGER APPRAISAL ON THE UHI

THE CURRENT POSITION

It has already been established that the Shetland College merger needs to cross the line and, unless there is a significant event to change minds, should have the three years of its initial plan to establish itself as a viable entity or at least to test that hypothesis. The Council's view is that it would wish to see a separate Shetland College operating within the UHI and would need convincing evidence of benefits to shift from this position.

We understood that Orkney Council had determined as a matter of policy that Orkney will remain independent though operating within the UHI framework. That was set out in the original literature. We were subsequently advised that this was not established as a full policy position and that the matter would have to be decided by Councillors.

We have not evaluated Orkney College's involvement in a merged entity. That could be done but we would suggest that there would need to be a clear appetite to see the college move from Local Authority control to be brought together with other partner colleges in a formal merger. Should that become clearer post publication of this review, then the same benefits and risks would apply, though there would need to be a recalculation of costs and savings. That said, we believe that the relevant costs and benefits identified within this report apply and therefore potentially form the basis of such a review.

In both cases, Shetland and Orkney, the rationale for curriculum and system alignment with the other partner colleges illustrated elsewhere holds true for the reasons stated.

For the other colleges there is the prospect of merger, with North Highland College specifically noting, that "in order to survive long term" they must work with "UHI partners to make the following be delivered more efficiently":

- Governance and senior posts within the partnership
- Teaching FE more efficiently by creative networking and partnership wide approach
- Further progress with HE networking
- Further progress on shared support services

8.5.2
GOVERNANCE AND STRATEGIC MANAGEMENT CASE FOR MERGER

At present each institution has a separate Board which requires servicing at a significant cost in time and resource. This could be significantly streamlined with one Board instead of four, yet with the same level of oversight. Even with the concept of Local Advisor Boards explored below, the level of support required and therefore the load on Governors and staff would be reduced.

A single entity would:

- Have greater scale to tackle larger projects
- Deploy resource more effectively over a wider region
- Speak with a stronger voice with the UHI and with regional governance
- Streamline the decision making within the UHI

8.5.3 CURRICULUM CASE FOR MERGER

As detailed in Section 7, a review of the curriculum at each college illustrates much overlap and the opportunity to develop a core curriculum which could be delivered more sustainably across the region. Corporate staff report that over the years much has been made of the distinctiveness of each college and perhaps too little emphasis has been placed on the common tertiary delivery and common core curriculum across the region.

Realignment of curriculum between some or all of the colleges involved in this review, has the potential to increase the reach of the curriculum and provide more opportunities to students in the remote areas the UHI seeks to serve. It would ensure the curriculum offer is sustainable, adaptable to meet employers' changing needs, and has the potential to improve further the quality of teaching and learning through the sharing of best practice.

If partner colleges become one entity, it would be easier to share funding if the amount of activity is reduced at one partner with fewer learners. Principals want greater certainty around such sharing, so it is systematic and not reliant on individual good faith.

The major benefit highlighted by leaders was the opportunity to significantly improve the design of the HE and FE curriculum and deliver that more efficiently. The major savings envisaged through realignment flow from the curriculum. At present some colleges have an "over-deployment", with teaching staff on occasions being assigned to administrative tasks. In addition, insufficient analysis of lecturing staff utilisation was being carried out by some partner colleges. This, when coupled with lack of embedded departmental contribution analysis, will lead to inefficiencies in delivery – the core of colleges' business.

The primary non-financial benefits of a single entity are seen as:

- Improved curriculum planning and contributions
- Improved quality and responsiveness of education
- Increased capacity
- Increased resilience

8.5.4 FINANCIAL IMPACT OF FOUR COLLEGES MERGING

The table below illustrates that, should the four Colleges come together, their operating Surplus/ Deficit would move from the combined situation of -1% to a surplus of +3% on the assumption that the savings set out in the above discussions are achieved. It should be noted that this level of surplus is a minimum to deliver financial sustainability and resilience.

The assumptions surrounding the planned savings are considered low/medium risk and will deliver the staff resource to “concentrate on sustainable solutions”.

a) Simple consolidation FFR: 2020/21

	LEWS	NHC	ARGYLL	WHC	TOTAL		PER PLANNING POTENTIAL SAVINGS	POTENTIAL CONFIG	
					£000		£000	£000	
INCOME	6,314	11,063	5,814	7,098	30,289			30,289	
STAFF COSTS	5,134	7,511	4,557	5,112	22,314	(74%)	-966	21,348	(70%)
OTHER EXPS	794	2,977	1,058	1,491	6,265		-150	6,155	
DEPN	501	720	185	464	1,870			1,870	
INTEREST	-	75	-	16	91			91	
TOTAL EXPENSES	**6,429**	**11,228**	**5,800**	**7,083**	**30,540**		**-1,116**	**29,424**	
OPERATING SURPLUS/DEF	-115	-165	14	15	-251			865	
					-1%			3%	
ADD DEPN	130	250	141						
DEDUCT		500	1,105	100					
		66							
ADJUSTED	**15**	**-481**	**-950**	**-85**	**-1,501**				
					-5%				

b) Summary of savings

SAVINGS	£
SMT realignment savings	400,000
Corporate Service realignment savings	267,000
Academic Staff realignment savings	299,000
Audit, licenses, marketing, procurement efficiencies	150,000
TOTAL	**1,116,000**

Please note staffing savings do not include on costs

These savings have been based on the following assumptions:

c) Senior Management Team (SMT) Structure

SMT	£
CEO/Principal	100,000
Director of Finance/Resources	80,000
Deputy Principal/VP Curriculum	80,000
Director of People & Organisational Development	50,000
Director of New Business/Marketing	50,000
CTO	50,000

The table left details one possible senior management structure across the merged colleges. It is proposed that a new role of Director of People and Organisational Development forms part of the proposed senior management to support the alignment project. This structure realises a saving from the current structure of circa £400k

d) Corporate Services Structure

The table below details one model for a corporate services team. It is likely that these staffing savings will be made following the completion of merger and the system alignment work and won't actually be realised until 2023/24

	CURRENT	PROPOSED
Finance	12.31	9
HR	10.14	7
Marketing / Business Development	9.53	7
TOTAL	31.98	23

e) Academic Staff

The table below details the savings that could be made through the realignment of the curriculum across the four partner colleges. We have used the saving of 2.5% within our overall table of savings

COLLEGE	ACADEMIC COST [36] £000s		5% £000s		2.5% £000s	
NHC	3,970		198		99	
LEWS	3,185		160		80	
ARGYLL	2,325	8,009	116	400	58	200
WHC	2,499		124		62	
TOTAL	11,979		598		299	

f) Non-discretionary spend

As non-discretionary spends are small in each college, it is considered unlikely that material savings could be found here, should greater collaboration take place. This view is supported by the Finance Leads at each college.

Savings will be made in the realignment of systems and the rationalisation of licenses. There will also be further efficiencies made in audit and marketing costs operating as one organisation.

g) Cost of Implementing Realignment

The table below illustrates the potential costs associated with the process of merger and realignment of systems.

COST	£000s
Legal Due Diligence	35
Costs of Project Management etc.	150
Legal costs	80
Costs of systems integration and associated project management	200
Communications	50
Total	515

These figure exclude any restructuring costs which we assume are recoverable over a 6-12-month period. This figure would need to be adjusted in line with any pension strain payments due to eligible staff too.

Please note that all savings included in the summary tables are indicative.

Pension Costs

We have not been able to ascertain the costs that could fall from staff in the LGPS scheme transferring between pension schemes if this was required. This would have to be picked up as part of the business case.

BENEFITS, RISKS AND MITIGATION OF MERGER

On the basis that the assumptions shown in Section 8 are valid and that the idea of a merger of some partner colleges is a credible

	Benefits	Risks	Mitigation
Governance	• Creation of a college of scale and size, more able to withstand funding challenges and more able to make capital investment. • Simpler and faster decision-making structure focused on the bigger picture • Would keep the 'localness of colleges'	• Constituent areas are not effectively represented • Requires extensive Governor, Executive and Management time to make it work with a risk that attention is diverted from delivering high quality provision to learners • Individual governors not seeing the wider picture and too focussed on specific localities • There is a lack of trust between partner colleges which leads to either delay in enacting the merger or failure to enact the merger	• Local partners to design Board structure • Effectiveness of local decision making to be formalised within annual reviews • Develop an initial project plan • Assign clear responsibilities • Appoint specialist project management • Selection of Board members • Training • Ensure regular, open and transparent dialogue throughout the merger process and ensure any arising concerns are aired, discussed and agreed. Seek independent support to support the process
Corporate	• Create one clear uniformed vision and mission across the partner colleges in line with that of the UHI • Potential to identify and use best practice from each college. • Allows the development of one strategic comprehensive plan across all the partner colleges with clear KPIs • Allows savings to be made at Senior Management level and refocused to students/other investment opportunities • Enables a more powerful voice within the UHI itself • May allow reduction in need for support from the Executive Office allowing further savings	• Leadership and Management team don't have sufficient skills and capabilities to be able to manage a large number of campuses across a wide geographically dispersed area • Drive and strength of CEO not equal to task • Would need to review and potentially address reporting lines of other staff in lower tiers within the other partner colleges	• Select on the basis of ability to manage the larger entity and manage change • Provide training and buddy/mentor system with managers in relevant experience • Care in recruitment and selection
Curriculum	• Produces the maximum efficiency and benefits across the partner colleges allowing all students to access a broad and high-quality curriculum. • Creates maximum opportunity for acquisition (fills the curriculum gaps/reduces duplication/eliminates competition) • Improved contributions from poorly performing curriculum areas. • Ensures specialist resource at the point of delivery • Reduces risk of single staff delivery.	• Possible reduction in provision in some subject areas or geographical areas • Some possible staffing reduction among curriculum managers and lecturers • Reduction in quality as managers distracted • High performing colleges' progress 'paused' while focus is on weaker provision	• Principals have the space to think strategically, and staff have the space to work collaboratively. • Principals can collectively agree what a shared curriculum framework looks like • Working collaboratively and pooling staff expertise for example in agriculture and marine spatial awareness helps ensure sustainability of these curriculum areas • Close executive and governor monitoring of specific KPIs • Careful planning of QA programme and monitoring as above

	Benefits	Risks	Mitigation
Finance	• Potential for cost savings as duplication at all levels are reduced. • Better management accounting and business decision making • A capacity to introduce improved business processes using latest technologies • Improved financial decision support systems • Improved programme initiation documentation and disciplined decision making • Improved budgeting and forecasting • A larger Finance team, more able to respond to the need for cross -team working in larger organisations. • Improved capital budgeting/reporting and 10-year capital planning linked to Estates Strategy for the Sub Region. • Improved budgeting and reporting of Commercial Activity • Reversal of Strategic Management Accounting Weaknesses. • Reduced risk of potential under-achievement of recovery by individual Colleges. • Potential savings in EO	• Unable to realise the savings identified • Some transaction costs, e.g. due diligence and legal fees. • Potentially significant costs through harmonisation, system alignment, redundancy. • Organisation delays implanting financial plan leading to further need for further savings	• Clear management plan and close monitoring by Board • Seek Transitional Support • Board and Exec closely monitor implementation of Financial Plan
Services	• Would allow a streamlined but comprehensive strategic planning process across all partner colleges with clear KPIs • Would allow closer working with the Executive Office and reduce the 'them and us' perception	• Some possible staffing reduction	
Systems	• Alignment of core business systems in line with the UHI systems, making reporting, monitoring and issue identification easier across the partner colleges • Would create further financial resilience through the cost savings in terms of licenses and upgrades of multiple current systems • Further implementation of systems in respect of student monitoring, student voice and destination data would make monitoring, reporting and identification of any issues easier • Creates resilience across the partnership and reduces staff workload • Single systems and processes create sense of 'One College'	• Insufficient staffing resource in place to ensure that systems are implemented in a timely and accurate manner • The process is delayed due to the number of partner colleges or other priorities • Would need significant capital investment in the short term to implement the systems both in terms of licenses and staff costs • Sensitivities prevent implementation of common systems	• Use PM support from software provider. • Repurpose existing staff to support project • Clear project plan and careful monitoring agreed in advance. • This is a required cost even without any other structural change • Monitoring of Implementation Plan

	Benefits	Risks	Mitigation
People	• Clarity of roles and responsibilities (which are sometimes absent in a federation) • Would ensure a local presence at each partner was kept, to be able to respond to local events/issues and also address local concerns around jobs • Provides wider career opportunities and multiple progression routes • Reduction in workload through streamlined systems • Development of curriculum leads to new development opportunities and jobs • Improved institution wide financial awareness delivered through business partner structure and knowledge sharing training sessions • Greater job security through organisational financial stability	• Could potentially lead to redundancies in the medium to long term to if savings were not achieved through 'natural' ways. May negatively impact on the view of local communities on the merger. • Can be unsettling for staff – both in terms of job security and resistance to change • Organisation fails to effectively communicate with staff and students leading to stress and uncertainty • Uncertainty leads to loss of key staff • Key staff do not have the necessary leadership and management skills or time to support with the merger process • Key staff may not agree with the merger and therefore do not engage with the process and actions required to enact within the timescales required • There is a complex process to transfer all staff into the merged college. Failure to manage this correctly will lead to move employee relation issues and high legal/compensation costs	• Careful planning of change to maximise opportunities through natural wastage • Develop clear communication plan and consult with staff and Tus throughout process with full transparency • Ensure that additional resource is engaged to support in the process • Engage with specialist to support and guide through the merger process • Ensure a comprehensive communication strategy (both bottom up and top down) is in place with a focus on open, honest and transparent communication in a timely manner across all the colleges • Engage specialist support to support with the transfer process
UHI	• Reduces the feeling of 'them and us' • Streamlines decision making process within the UHI • Eases the tension around 'balancing' credits • Reduces the number of systems even if the UHI fails to develop an integrated model • May attract change funding from the SFC to support the transition. • May enable reduction in EO support resulting in further savings benefitting the wider partnership	• Divergence of management attention while the merger is managed, and the systems integrated. • Defers other larger changes for a period • Is only a partial solution to the wider challenges for the UHI. • May cause local or national political concerns • May not be enough change to satisfy the SFC	• Develop an agreed project plan and devote specialist resource. Formally monitor progress • Only proceed if this makes sense in a wider context. • Develop detailed and extensive communication and consultation strategy. Agree direction of travel and waypoints in advance with key stakeholders. Use staff and student voice. • Agree change and programme with SFC in advance

IMPLEMENTATION ROAD MAP – BASED ON A MERGER DATE ON 01 AUGUST 2023

Our implementation road map is based on the four colleges detailed above merging by 2023 and that for all partner colleges (should that be agreed) core systems are aligned to the UHI over the same period of time.

PHASE	KEY OBJECTIVE	ACTION	DATES
Pre-Stage	Agree in principle to explore merger with the identified partners	• Principals & Boards meet to agree to explore	May 2021
Phase 1a	Agree Set Up - Governance	• Sign Non-Disclosure Agreement • Agree Steering Group arrangements • Agree Terms of Reference • Agree broad work plan, key roles, budgets, progress monitoring and associated timescales • Appoint independent Chair and Clerk • Appoint Project Adviser/Manager • Agree meeting schedule • Approach Scottish Funding Committee	June 2021 – July 2021
Phase 1b	Agree Set Up to Leadership and Management	• Develop headline plan with associated timescales • Develop a comprehensive communication plan to include external stakeholders, staff, Trade Unions and students • Put in place Communication Protocol • Develop risk register • Agree and establish workstream structure • Determine key roles, responsibilities and reporting mechanisms • Determine budget monitoring process	June 2021 – September 2021
Phase 2a	Commence Workstreams	• Commence workstream meetings to support in the development of the outline business case and also to develop implementation plans/ curriculum plans/system integration strategy/finance/communications	September 2021 – ongoing
Phase 2b	Commence system alignment	• Establish separate working groups for each of the systems including the key partners involved in the system alignment strategy • Engage with system companies and develop detail integration plans • Commence work to align systems in line with the plans • Monitor progress	September 2021 – August 2022

PHASE	KEY OBJECTIVE	ACTION	DATES
Phase 3	Develop outline business case and associated financial plans	Working with College Leads and workstreams as identified above undertake the following: • Develop curriculum map and proposal • Develop proposals for back-office structure • Develop proposals for the management structure • Develop proposal in respect of system alignment • Carry out estates review • Conduct a pension review • Undertake a combined financial plan • Develop proposal in respect of Governance Structure (subject to confirmation as part of the review).	September 2021 – January 2022
Phase 4	Commission due diligence • Financial (Historic and Forward) • Legal	• Agree tender process and timescales with Steering Group • Commence tender process • Engage company • Commence work • Feedback outcomes to Steering Groups/individual Boards	January 2022 – February 2022 April 2022
Phase 5	Carry out Public Consultation on the merger	• Determine consultation timescales • Develop consultation document • Agree consultation document • Commence consultation process • Produce summary report of outcome • Review by Steering Group/Individual Boards • Publication of the outcome	May 2022
Phase 6	Seek approval to proceed with merger	• Steering Group/Individual Boards review the outcome of the public consultation and due diligence exercises and agree to proceed	July 2022
Phase 7	Seek Ministerial Approval	• Formal approval including (where appropriate) all necessary consents for the transfer of assets from one college to the host • Engage legal firm to support in the preparation for the transfer of assets and liabilities	June 2022 – July 2022

PHASE	KEY OBJECTIVE	ACTION	DATES
Phase 8	Establish Transitional Leadership and Management Structure	• Develop detailed job descriptions and person specification for the designate roles • Determine recruitment and selection process • Carry out recruitment and selection process • Appoint designate leadership and management team • New designate roles commence	October 2022 – December 2022 January 2023
Phase 9	Commence TUPE consultation	• Agree timescales for process • Agree 'measures' • Commence consultation with staff and Trade Unions • Send TUPE letters to all staff • Transfer staff	April 2023 – July 2023
Phase 10	Preparation for Merger	• Commence preparation for the transfer of assets and liabilities • Commence legal work in respect of dissolution and receiving	April 2023 – July 2023
Phase 11	Merge	• Hold final dissolution and receiving meetings: Merge	01 August 2023
Phase 12	Evaluate	• Undertake a full evaluation on whether the benefits of merger have been realised • Determine and agree any next steps • Implement	July 2024

IS IT FEASIBLE?

9.0 IS IT FEASIBLE TO DELIVER STRUCTURAL CHANGE?

The short answer is yes, in terms of the technicalities of bringing the legal structures together. The relevant provisions of the 2005 and 1992 Further Education (Scotland) Acts would have the following implications.

9.1 UNINCORPORATED COLLEGE/UNINCORPORATED COLLEGE

Section 14 of the 1992 Act permits Scottish Ministers to transfer the management of an unincorporated college (provided that it provides at least one full-time programme of further education and is paid from grant funds out of money provided by Parliament) to an incorporated college. To do so, Scottish Ministers would need to obtain the consent of the unincorporated college (and if the college premises are owned by another entity then that person also requires to consent). Provided that the consents are obtained, Scottish Ministers could promote an order which would transfer the functions of the unincorporated college to the incorporated college.

Section 23O (1) of the Further and Higher Education (Scotland) Act 2005 provides that a regional strategic body can require any of its assigned colleges to transfer such of its staff, property, rights, liabilities to another of its colleges or to itself. There is a requirement before making an order to consult with:

- the college to which the proposed transfer relates
- the reps of the recognised union (or anybody representative of the staff) and
- the students' association.

This consultation is with a view to achieving agreement of the college to the proposed transfer.

Based on 23O (10), the requirement to transfer would not be binding on unincorporated colleges or a transfer to an unincorporated college (or in fact a UHI assigned college) unless that college consents to the making of the requirement. Scottish Ministers could amend 23O to apply this to UHI colleges but, in our opinion, cannot modify it to apply to unincorporated colleges. Therefore, UHI cannot insist on two unincorporated colleges merging under this section – it would require obtaining consent. If consent was obtained, the mechanism for transfer could be by way of a transfer agreement, but this is likely to be subject to the consent of the Scottish Ministers.

Although Scottish Ministers can merge two or more colleges of further education (section 3(1)(b) of the Further and Higher Education (Scotland) Act 1992) or close colleges of further education (section 3(1)(b) of the 1992 Act) it can only exercise these rights in relation to an "incorporated" college of further education, i.e. a college which has been set up as a body corporate under the 1992 Act. It cannot exercise these powers in respect of unincorporated colleges.

However, none of the above would not prevent the relevant colleges choosing to merge. In the event that they choose to merge, the way they would do this would be by way of a transfer agreement transferring the staff etc.

On the assumption that they are both charities, there may be requirements in terms of OSCR.

The actual form may have to meet a number of criteria. There may be pressure to create a phoenix merger to satisfy political concerns regarding the disbandment of local entities and merging them into another college.

Given the need to maximise the flexibilities available, the need to make surpluses to reinvest and for ease of transition, then we would suggest that the best home for the merged entity would be an existing unincorporated college. There are then two possible options, Argyll and West Highland College. Of these two we suggest Argyll College would be preferred as it is already a member of the LGPS, and this would resolve WHC's staff's inability to accommodate the pension scheme. There is also a 'softer' reason in that Argyll is a college without a base and therefore a model for the enlarged college and avoiding the concern that there is an 'over there' where remote decisions are taken. We emphasise that this proposal is for the home of the entity only and makes no presumptions regarding the actual membership of the Board, which would need to be reformulated as below, or the leadership, which would have to be determined.

9.2 BOARD MEMBERSHIP AND 'LOCALITY'

The 1992 Act states that a Board of an assigned college will be made up of 13 to 18 members.

Of these, there needs to be:

- a Chair nominated by the Regional Strategic Body
- 2 staff representatives: 1 support and 1 teaching
- 2 nominated students
- The Principal

leaving 7 to 12 places for 'Ordinary members.'

The published guidance published states:

a regional strategic body should aim for a college board to have:

> *a) a membership which, as far as possible, reflects the make-up of the population which they serve.*
>
> *b) a majority of ordinary board members who have proven experience, or knowledge, of the locality of the college.*

This is in keeping with the statement made by a number of the stakeholders to the effect that any future configuration should reflect the importance of locality. We would suggest that each sub region, as represented by the colleges coming together in this arrangement, should have up to three 'ordinary' places on the Board and those places would be ringfenced within the college's standing orders so that this balance was maintained going forward or until such time as the Board itself judged that some other configuration better met its then needs.

If the proposal above were adopted, then there would be a need for members of an existing Board to stand down and new members appointed or transferred to take up the vacancies.

Local Governance

There is likely to be a desire to maintain some form of Board for each of the partner colleges. We have seen that this is a model used in some but not all the English Groups and at least one of the Welsh multi-site colleges. There is some merit in this, and it will of course be a matter for any future Board to determine its wider configuration, but we would suggest that the learning from the 'Groups' we have studied is that such local bodies should:

- Have clearly defined functions
- Be concerned with specific matters such as quality the learner journey and outcomes and ensuring local demand is reflected in the offer rather than an executive function overseeing the day-to-day management of the site.
- Set local plans within the overview of the 'Group' plan.
- Be chaired by a representative of the main Board.
- Include staff and student representatives.

We would not advise such Boards to receive the wide range of documentation relevant to the main Board (thereby reducing the workload on members and staff), allowing members to focus on the delegated functions. There would still be some servicing needs, therefore, but these would be significantly lighter.

We would also suggest that there should be at least an annual planning and review process whereby all members of the main and sub-Boards came together to discuss progress and next steps for the entity together with a strong focus on communication of the organisation's progress as an aid to creating the sense of a single college.

VIEWS OF THE STAKEHOLDERS

"Change needs to take place with greater alignment of curriculum and services as the colleges are too small to be fully sustainable in the medium term. In theory, the ideal mechanism would be that the colleges would ultimately become part of UHI, that research and HE would be separated off as delivery arms in a similar way to the colleges, and that there would then be a small controlling function at the centre supporting the whole of the entity. This was not likely to be achieved at this point but a greater alignment involving Argyll, WHC, NHC and Lewes could work."

– Derek Lewis, Chair West Highland College

10.1 STAKEHOLDERS

We spoke to a wide range of stake holder as part of the review. The full interview list can be found at Appendix 1.

In summary:

- There was unanimous support for the idea of the UHI and a remarkable clarity as to its mission.
- There was an acceptance by most stakeholders that change was necessary.
- There was widespread frustration at decision making within the organisation, the fault for which seemed to lie with the fact that there are 14 independent partners.
- There was a sense of 'us and them' between the partner colleges and the UHI or rather the EO and this was fuelled in part by the continued lack of transparency in the funding for the EO. First identified as a problem by Capita in 2012.

10.2 STAFF VIEW

Staff, as with all the other stakeholders, were committed to the concept of the UHI. They were proud of their individual institutions but committed to the wider network and the sense of a collective. They gave powerful examples of curriculum collaboration across the University. This, in all cases given, were seen as valuable, both in terms of the development of provision and in building a sense of team but appeared to be more likely to occur within higher education provision than in FE. They also cited examples of the smaller colleges in the West working together to develop partnerships with schools and felt that this was a positive development.

They also gave examples of competition between partner colleges, for example at recruitment fairs which they felt went against the spirit of the wider partnership or where collaborative working in the delivery of one course had subsequently ended as one of the partner colleges took on the whole of the provision for themselves. Some talked about an underlying sense of competition even where collaborative arrangements were in play. Having said that, there was also a clear view that as part of a system, if one college failed then the collective was weaker.

Staff were agreed that the status quo was not an option, though with varying degrees of enthusiasm for change. Merger, either with other partner colleges in this network or within the wider UHI, was also viewed with concern. Staff in Shetland, having lived with the process for some time, were as keen as everyone else surveyed to see the merger cross the line. For the rest of those seen, there was concern that any formal coming together would result in job losses and a worry that local needs would be lost in a bigger organisation with remote leadership. That said, they saw the benefits of shared provision where it meant that otherwise uneconomic courses could run - to the benefit of staff as well as students - because they brought together a wider body of students.

There was a clear sense of affinity with other, smaller colleges serving remote communities and a parallel sense that this was different in larger, more urban colleges with more face-to-face teaching. A number of statements were made to the effect that these larger colleges had primacy within the network and wielded more influence.

Other points made included the clear sense that staff in each organisation had some variation in conditions and working practices and this made some feel less like they were part of one organisation.

Other key concerns regarding a structural solution were:

- The form of the new organisation and whether it was an unincorporated or incorporated college. The latter was preferred as unincorporated colleges were seen as being less likely to agree to the outcome of national bargaining and to operate within the same ethos as their 'public sector' colleagues. We have seen the Eis submission to the Shetland merger and would expect the same concerns to be raised if such a model were adopted here.
- Local Governance: Staff were concerned that governance needed to reflect local need and to protect local provision. They were concerned, as elsewhere that governance could become remote in a larger entity.
- Local leadership: A point was made that without strong local leadership to represent them, staff would be more vulnerable to decisions made at a corporate centre.
- The UHI Partnership: Staff were keen that the colleges should remain part of the UHI.

10.3 STUDENT VIEW

Student satisfaction rates across all the partner colleges in the review are high, often at 90% or greater. There is much obviously that is good, even great, in the support that colleges give to their students. That is not to say that change from the user perspective isn't supported; quite the opposite.

The student view, represented by HISA was coherent, thoughtful and powerful. They want to enhance the learner experience and they are clear that this requires a more co-ordinated approach to the curriculum offer and to maximising the student experience.

Their view of the UHI was that it was often a student's second choice, a steppingstone to better opportunities elsewhere. When challenged as to whether students from small rural communities might not prefer to live the big city experience offered by Glasgow or Edinburgh, they made the valid point that there were equally examples of students from big cities making the opposite choice. Yet, they felt that this opportunity was not fully exploited as the UHI had not focused its collective effort on quality or provision and student support to the point where it ranked alongside alternative choices.

Students, in effect, stated that they had been sold a misconception. They had though they were joining the UHI, with access to all that the concept of the UHI offered, yet too often they found that they had actually joined their local college with little access to that wider community.

Even those who had progressed to HE found that the experience was less than they expected or deserved with some studying in isolation without the benefit of peers even though those could be available across the wider network.

The lack of coherence demonstrated itself in other ways too. Examples were given of partner colleges competing with each other at recruitment events and even with the UHI. Students in different colleges had very different experience of joining dependant on which partner they studied with, some with superb support, others with none. The impact of a poor financial position is being felt on the ground with reduced services and opening hours and in the quality of equipment for study.

The students confirmed that they had made these reports before and indeed we have seen similar comments in earlier reviews. They are frustrated that they are listened to but not heard. They are equally clear about the reasons - a desire to protect the status quo based on a need to retain position and/or fear of change. They gave the same responses given to us by others, that too often there is a call for a review, for further evidence as a prelude to change that would not come. They stated that there was always another element of the organisation given as a rationale for a lack of adequate progress though they confirmed that some progress had been made.

EVALUATION

11.0
EVALUATION MATRIX

We have a number of ways to evaluate the options:

OPTION	POSSIBLE	SENSIBLE	WHY
DO NOTHING	For some	No	Maintains existing concerns.
FEDERATE	Yes	In part	Partial solution, impermanent, expensive compared to outcomes, required though in terms of Shetland and Orkney's relationship to the rest.
GROUP/MERGER	Yes, for some	Yes, for some	Expensive compared to outcomes. Would only apply to Lews, Argyll, WHC and NHC

	MEASURES		
DO NOTHING	Has a negative impact on the learner experience	Has little/no impact on the student experience	Improves the student experience
	Weakens financial sustainability	Has little/no impact on financial stability	Improves Financial stability
	Reduces local responsiveness	Has no impact	Increases Local responsiveness
	Is against the organisational mission	Is in keeping with the organisational mission	Furthers the organisational mission
	Is difficult/impossible/ costly to achieve	Can be achieved at some cost	Can be achieved easily
FEDERATE	Has a negative impact on the learner experience	Has little/no impact on the student experience	Improves the student experience
	Weakens financial sustainability	Has little/no impact on financial stability	Improves Financial stability
	Reduces local responsiveness	Has little/no impact on local responsiveness	Increases Local responsiveness
	Is against the organisational mission	Is in keeping with the organisational mission	Furthers the organisational mission
	Is difficult/impossible/ costly to achieve	Can be achieved at some cost	Can be achieved easily
GROUP/MERGER	Has a negative impact on the learner experience	Has little/no impact on the student experience	Improves the student experience
	Weakens financial sustainability	Has little/no impact on financial stability	Improves Financial stability
	Reduces local responsiveness	Has little/no impact	Increases Local responsiveness
	Is against the organisational mission	Is in keeping with the organisational mission	Furthers the organisational mission
	Is difficult/impossible/ costly to achieve	Can be achieved at some cost	Can be achieved easily

CONCLUSION

12.0 CONCLUSION

We said at the outset that the UHI had the potential to be a perfect response to the educational needs of the dispersed population of the Highlands and Islands. All those we interviewed were fully committed to the overall vision of the organisation. All commented how hard staff worked to support their students. Many gave examples of collaborative working and were very positive about the opportunities these provided. We were given examples of student success and opportunities grasped, not least in some of the specialist capital developments that had been implemented. The people we spoke to were universally impressive.

For all that, there was a clear frustration at long-standing issues from decision making to the difficulties of working with multiple systems and an uncoordinated staff. There is insufficient funding to support everything that people want to do and some partner colleges are facing continued difficulties and others are hampered by the need to balance the whole. As a result, staff and students lose out and the UHI's potential is unfulfilled. We were given 4 options to consider. We were told consistently that 'do nothing' is not an option and so we have reviewed the options available and reached a conclusion, which is that merger of some of the partner colleges and more collaborative working among them all is the best way forward.

We believe that such a solution is both achievable and in the best interests of all those concerned. We are grateful to all we have had the privilege to interview for their work and their candour and we hope this report is of some use in taking the partner colleges forward.

APPENDIX

APPENDIX 1 – LIST OF INTERVIEWEES

- Jane Lewis, Principal Shetland College
- Debbie Murray, Principal North Highland College
- Sue Macfarlane, Principal Lews Castle College
- Martin Jones, Principal Argyll College
- Lydia Rohmer, Principal West Highland College
- Willie Shannon, Principal
- Edward Abbott-Halpin, Principal Orkney College
- Garry Coutts, Chair Strategy Committee
- Michael Foxley, Vice Chair Strategy Committee
- Derek Lewis, Chair WHC
- Andrew Campbell, Chair Argyll College
- Peter Campbell, Chair Shetland College
- Archie MacDonald, Chair Lews Castle
- David Sandison, Chair Transition Board Shetland College, Chair Designate
- John Kemp, Vice Principal FE. UHI
- Niall McArthur Director of Corporate Resources UHI
- Fiona Larg, COO and Sec. UHI
- Blair Sanderson, Chair NHC
- Bev Clubley, Chair Orkney College
- Malcolm Burr, CEO Comhairle nan Eilean Siar
- Linda Mcleod, Scottish Funding Council (SFC)
- Trade Union Representatives – Lews Castle
- Trade Union Representatives – Argyll College
- Trade Union Representatives and Staff Representatives – West Highland College
- Trade Union Representatives – Shetland College/ NAFC
- Flo Jansen, President HISA
- HISA representatives
- Christine Ferguson, Shetland Council
- Board – Lews Castle College
- Management Team – Orkney College (19th April)
- Margaret Cook, Perth College
- David Pattison, Moray College
- Chris O'Neill, Inverness College
- Rhiannon Tinsley, Academic Registrar
- Gary Campbell, Vice Principal Strategic Developments
- Hannah Ritchie-Muir, Depute Principal Lews Castle College
- Professor Neil Simco, Vice Principal Research and Impact
- Anne Bremner, Director of Learning and Teaching North Highland College
- Susan Berry, Outgoing Principal Shetland College
- Eileen Munro, Depute Principal Argyll College
- Roddy Ferrier, Director of Corporate Services, NHC/Inverness College
- Alasdair MacLeod,, Head of Finance, WHC
- Paula Lister, Director of Finance and Resources, WHC
- Alisa Close, Finance Director, Argyll College
- Graham Little, Head of Finance Orkney College
- Isobel Johnson, Finance Manager NAFC Marine Centre
- Elaine Laurenson, Head of Finance Shetland College

APPENDIX 2 – GROUP STRUCTURES

1. Activate Learning (AL)

Activate Learning began following a merger between three colleges to form Oxford and Cherwell College in 2003. Its most recent additions were Bracknell College and the Guildford College Group in 2019. These acquisitions doubled the size of the Group giving it a projected turnover of £86m in 18/19, making it one of the top 5 by size in the English system. Along the way, the Group became sponsor to a Multi Academy trust, comprising four UTCs and three schools, and absorbed two private training providers. It is also involved in four colleges in Saudi Arabia on a contract basis.

a) Strategy

The Group has two elements to its strategy - it is a group to enable efficiencies that can then be redirected to front line teaching, and it has a Learning Philosophy that it seeks to introduce into partner colleges. The size of AL is seen as an advantage when talking to large employers and to Government and provides a degree of security in managing the risks of a system that has been subject to funding pressure for some time.

The Group focuses on a limited geography based in Oxfordshire, Surrey and Berkshire.

b) Branding

Each College has its own local identity but is clearly branded and marketed as part of the AL Group.

https://bracknell.activatelearning.ac.uk

The Group has been reviewing its branding policy with a view to strengthening the awareness of Activate as the core business behind the local face.

c) Structure

The Group is run by an executive team of eight reporting to the CEO and Principal Sally Dicketts. Apart from the CEO, there is a Deputy CEO (who is also Chair of the Academy Trust), two Executive Directors who between them control all the Faculties, a Chief Financial Officer, an Executive Director Commercial Services and the Managing Director of the Apprenticeship arm of AL. There are no 'site' principals, a deliberate choice, though one that is potentially under review with the increased number of sites now being managed. Instead, the organisation runs on a faculty structure with various co-ordinating mechanisms.

d) Group Services

All Group services are centralised with staff for the most part based at the Oxford 'HQ' where the senior team is also based. Some services have an onsite presence. Desktop IT technicians for example are site based, with the number based on calculated load. There is a small HR team in Guildford, a legacy of the former Group and some on site admin but this is by exception, the view being that the economies of scale to be derived from a Group structure can only be realised through a centralised structure.

e) Governance

The Group is controlled by a 'standard' FE Corporation comprising operating on a Carver model.

There are no local advisory committees for the College sites nor any specified mechanisms for ensuring area representation.

2. Chichester College Group

The Chichester College Group is made up of five colleges plus two subsidiary commercial companies. First Steps is a childcare provider with four nurseries, two of which are on college premises. Anglia Exams is intended for the 'establishment and administration of an educational syllabus' and operates internationally. Turnover in 19/20 was £59,333m.

a) Strategy

The Group was Sussex-based originally but this is starting to spread though still within the southern counties. It has grown organically with an original 'Outstanding' Ofsted Inspection following the initial round of mergers leading to the decision to replicate the success in more colleges, an objective it has achieved with the latest Ofsted providing another Outstanding judgement. It did look at using a Federated model but had not found an example of one that was sufficiently robust to proceed.

Local strategies play to local needs whether it is to meet a local industry or an opportunity to grow a specific area like apprenticeships. Like Activate, it seeks to take its success to a wider body of learners while also achieving benefits of scale. Its corporate plan states that it plans to grow further.

b) Structure

The Group is led by a CEO, Shelagh Legrave, with a senior team made up of a CFO, Director of Quality, a Managing Director Commercial Services and the Principals of the constituent college, one of whom has an Executive Principal role. This site representation is starting to create challenges given the growing size of the organisation. It may not survive many more acquisitions.

c) Branding

Each college in the group is marketed as a local college and the Chichester Group is not obvious on the landing page. All staff share a common email address.

https://www.chichester.ac.uk

d) Governance

The Group is controlled by a 'standard' FEC with 17 members, and this has absorbed some members of the constituent former boards. Individual college sites have a Quality and Curriculum Committee made up of local stakeholders including local businesspeople, local council and a headteacher. The Committee has overview of the site's performance and feeds into its local planning. A member of the Group Board chairs. There are also local staff and student councils. A member of the Group board attends the staff councils.

e) Group Services

Group services, Finance, HR, MIS, IT etc are centrally organised though with support allocated to site.

3. LTE Group

LTE fought for a long time to become a 'proper' group. An incoming CEO, recruited from the private sector, identified that each of the constituent parts of the organisation served a different client group in equally different markets. The Manchester College, itself formed through mergers, was already one of the largest colleges in the country. By that time, it had been successful in bidding for a series of prison education contracts that had come to be bigger in turnover than the host college and had a national spread. A third element was MOL a distance learning provider of professional qualifications. The CEO subsequently responded to poor apprenticeship results by acquiring 'Total People' and transferring the college's apprenticeship offer into this entity. The final part of the Group is UCEN, which bundles together the organisation's HE offer.

The CEO believed that each of these elements needed its own existence within a Group structure. Each would need its own strategy and governance to meet the needs of its particular client group. The plan was to move from a situation where each of these elements reported into the FE Corporation to one where they all, including the College, reported to a small Board made up of Executives and paid non-executives that would be responsible for performance management and overall strategy. A five plus year argument was not successful on the grounds that an FEC could not be 'owned'. Essentially there was a concern that public assets could be transferred into private ownership.

LTE had a turnover of £163,373m in 19/20.

a) Strategy

Our Group structure enables each organisation to be focused on its own learners, customers, colleagues and stakeholders, supported by the professional shared services that operate across the group. This also underpins our ability to safely expand, adjust and develop in support of communities, policy and economic needs.

The transfer of specialist knowledge facilitated by our Group structure makes us a leading commentator on sector policy and enables knowledge-sharing with our stakeholders to promote our values and vision.

It also enables us to plan with confidence and look forward as a thought leader in our sector.

b) Governance

The Group operates to a standard FEC structure with a designated membership of 10-12 plus the CEO, student and staff representatives. There are a series of sub-Boards for the operating Divisions and a number of co-ordinating committees with a web of cross memberships.

c) Structure

The Group is run by the CEO, John Thornhill and a small management team made up of a Deputy CEO/ Principal of The Manchester College, a Chief Operating Officer, Chief Financial Officer, the CEO of Novus and a General Counsel (i.e., Company Secretary).

d) Services

Core services are centrally managed but with team members located within the subsidiaries balancing central direction and economies with local responsiveness and business knowledge.

4. Newcastle College Group (NCG)

NCG is different again as it is a geographically dispersed model with its core in Newcastle but with sites as far afield as Carlisle, West Lancashire and Lewisham. It manages six colleges in all, including Newcastle itself and Newcastle Sixth Form College. NCG acquired two commercial firms, Remploy and InTraining, but these have since been put into voluntary liquidation.

a) Strategy

The original strategy of what was then Newcastle College, and now NCG, was based on the vision of the then Principal, Jackie Fisher, and likely based on a need for both growth and diversification. One of the prime benefits of the Group is seen as being size and the ability to ride storms more easily – a shortfall in one college can be balanced, hopefully, by better performance elsewhere. Second, the breadth of the Group brings diversity to management, the principals, coming from such a wide range of colleges serving very diverse communities, bring a variety of perspectives to the leadership team. This is seen as a significant advantage.

b) Governance

The Group is controlled by a 'standard' FEC of 14 members. Each site has its own Board that monitors the performance of that College against its agreed plan which in turn is part of a wider Group Plan. Local Boards have a focus on defined areas including quality, meeting stakeholder need, financial sustainability.

Each site develops its own strategic plan contributing to and encompassed within the overall NCG Plan. Bids for investment are made to the centre as part of a capital planning process.

The Group is shortly to hold a national conference available to all Governors in the Group. It believes local presence and significant local stakeholder engagement is key.

c) Structure

Each College has a Principal and a senior team though corporate services, HR, Finance etc, report to a professional lead at the core (see Services). Each of the Principals in turn is a member of the NCG executive alongside the Principal, Deputy CEO, CFO, Interim Executive Principal North, Chief Information and Data Officer, Executive Director Quality and the Director of People and Development. The Executive Principal North and the Deputy CEO take responsibility for colleges in the North or South of the Country. Individual site-based Principals take responsibility for a Group wide function. Day to day site Principal's report to their local Chair but formal appraisal is carried out as a joint exercise by that Chair, the CEO and either the Executive Principal North or the Deputy CEO.

d) Branding

Each College carries its own branding without explicitly declaring membership of NCG.

www.lewisham.ac.uk

www.kidderminster.ac.uk

e) Services

Core service are run from the centre though with satellite units on site. Staff, other than legacy staff protected under TUPE are on NCG conditions of service whatever their location.

5. Luminate

Luminate is the rebranded Leeds City College and its associated colleges and businesses. Leeds City College itself was formed from a Type A merger where three colleges dissolved, and a new Corporation was formed back in 2008. One of the merger partners brought with them a dowry in the form of Keighley College, actually an outpost of Park Lane College with which it had merged some two years earlier. Since then, the family has grown so that it now includes Harrogate College, Leeds College of Music Ltd, now defined as an Independent Higher Education Institution, a Multi Academy Trust and two subsidiaries in Leeds Apprenticeship Training Agency and White Rose Resourcing Ltd. The former places apprenticeships in companies while the latter sources temporary staff for the College. The College also has Leeds Sixth Form College and University Centre Leeds as delivery brands. These are not separate entities.

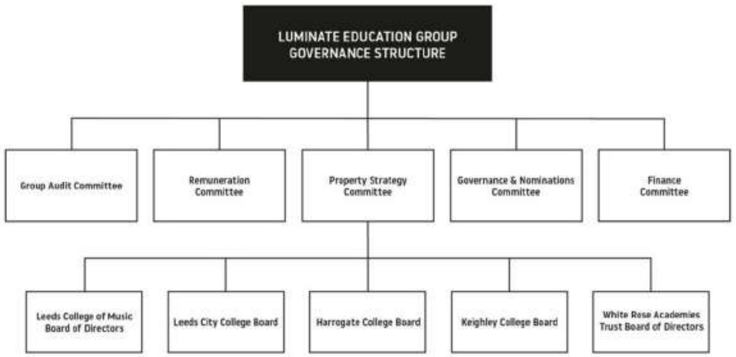
a) Structure

Luminate is led by the CEO, Colin Booth. Its core management team is made up of the CEO, Deputy CEO and Principal of Leeds City College, Deputy CEO Services, Deputy CEO Curriculum and Quality, CEO of White Rose Academies Trust (WRAT), Interim Principal, Leeds Conservatoire, Group Vice Principal Adults, Group Vice Principal Development. The Principals of Keighley and Harrogate Colleges report to a member of the Group Executive.

b) Governance

The Group is Governed by a 'standard' FE Corporation with independent members, staff and student representatives. Keighley and Harrogate have oversight Boards but are not statutory entities in their own right. The College of Music has its own Board of Governors as does the MAT. Members of the Group Board are also members of these other boards and they are all chaired by a Group Board member. There is a dedicated governance committee which, amongst other responsibilities, looks at the skills make up of all the boards and ensures a proper balance is maintained.

The responsibilities of each of the core elements are set out in a scheme of delegation included as Appendix A. Essentially, while there is a degree of autonomy given to subordinate partners, this is within the strategy and parameters set by the Group Board. We have not seen a similar scheme in the other groups reviewed.



c) Branding

Each of the colleges carries its own branding with only limited referencing to the wider Group.

www.keighleycollege.ac.uk
www.leedsconservatoire.ac.uk
https://luminate.ac.uk
https://leedscitycollege.ac.uk
https://www.whiteroseacademies.org or
https://harrogate-college.ac.uk

d) Services

Group services are provided from the centre. This support extends to the Conservatoire and the MAT and includes governance support. The recharge for this is covered by the Group subscription identified in the scheme of delegation which also covers a contribution to the Group Executive. Our information is that as this is a subscription, it doesn't attract VAT.

Luminate is currently exploring the potential for a shared services company operated by the Group encompassing all the core services, HR, IT etc. and supporting all elements of the wider organisation.

6. Grwp Llandrillo Menai

Grwp Llandrillo Menai Group serves north and northwest Wales including Anglesey, Conwy, Denbighshire and Gwynned. It has 2,000 staff supporting 21,000 students including 1,500 on HE programmes. The College was formed as part of the reorganisation of Welsh further education in 2012.

a. Strategy

The College has three primary sites, each a former independent college. It has brought its commercial work under a separate banner and is in the process of developing that strategy is further consolidating this work and placing it within dedicated centres. Each of the colleges serves a particular community with a significant differentiator being the extent to which Welsh is a first language.

b. Governance

The Group is controlled by a single Board with sub committees. Each site has an advisory committee known as Councils, and these focus on local need, performance and the learner journey; they do not have an executive role in respect of local delivery.

The college describes them as follows:
Leading best practice in the sector, Local College Councils have been developed with a primary purpose of sustaining local representation, whilst promoting close relationships with staff, students, local authorities, education partners, wider stakeholders and businesses on a specialised basis across a very diverse geography. Each College Council is chaired by a Governor to focus local interests through a committee of select area representatives, allowing matters to be aired which are specific to each area of the Grŵp's operations, thereby promoting ownership, participation and integration with the community and at the same time providing a direct voice to the Grŵp Board.

c. Branding

While each college site has a separate name, they all appear under the branding of the Group.

d. Services

Services are controlled by the corporate centre with on-site provision where appropriate.

e. Performance

All of the groups identified are Ofsted Good and Chichester is Outstanding proving by this measure that organisations of this size can meet the defined quality metrics. We looked to see if there was a clear indication in the funding record of significantly greater financial performance or efficiency, but this is clouded by the fact that in many instances the groups have been formed by absorbing weaker partners and are at various stages of absorption and turnaround. The position is also affected by the financial strategy of the leadership for example in relation to cash reserves versus investment.

There are examples of groups failing but as ever the final distinction appears due to the quality of governance, leadership and management rather than the form the organisation takes. In all cases the leaders felt that size gave them an advantage in terms of resilience in a difficult environment.

7. Summary

Each of the Groups identified is different but each is also the same. An FE core formed through merger and then expanding either within FE with more mergers or through acquisition of commercial partners to follow some particular aspect of strategy. Most, but not all, give the local partner its own identity, some have local boards operating within a framework of delegation. At least one doesn't have any local structures. Most focus on a particular geography, one has a whole of England focus and sees strength in that.

"The status quo cannot prevail and while there is a range of options we also need to be realistic - efficiencies have to be made whilst protecting front-line delivery as much as possible; this might involve closer collaboration, sharing services and merger. The scale of the challenge should not be under-estimated and if we can move ahead it has to be driven by those most closely affected – it cannot be done to the colleges or the chances of a successful outcome will be vastly reduced."

– Willie Shannon, Principal

FOOTNOTES

1 Ernst and Young: UHI Millennium Institute: Organisational Review 1/06/09.

2 Outline Business Case for a new operating model, University of Highlands and Islands, 10th January 2012.

3 UC19-042. Regional Strategic Body Self-Evaluation Questionnaire 12/06/19

4 Further and Higher Education Act Scotland 2005

5 National Plan for Scotland Islands

6 Scottish Government website

7 National Plan for Scotland's Islands

8 It is noted, External Auditors have in the past reported on poor linkage in some UHI college planning. In addition, the UHI Outcome Agreement for 2019/20 highlighted a theme of improved use of data to inform action planning. Financial Strategies are currently being developed by Niall MacArthur for UHI.

9 For Incorporated colleges – SFC reporting requirements (North Highland College, Lews Castle College)

10 Financial Sustainability of Colleges & Universities in Scotland. October 2020

11 Increasing to 23% from 1 September 2019 for all Colleges.

12 Source – Shetland Merger document

13 At present, property costs are charged by Shetland Island Council to the College but moving forward these charges will be nominal. It should be noted that all Colleges will develop revised Estates Strategies (post-COVID) to respond to the increased focus on blended learning and the inevitable associated impact on room utilisation standards.

14 EY Audit Report

15 20 October 2020, the Scottish Funding Council published 'Coherence and Sustainability: A review of Scotland's Colleges and Universities Phase One Report: Insights to Develop Further'

16 North Highland College UHI Finance Strategy, 1 January 2020 – 31 July 2024

17 UHI – EO: Q2 Credit Target Monitoring report illustrating Q2 Credits delivered in 20/21 of 2,971 (19/20 3,637)

18 Capita – 2012 Outline Business Case for a new operating model, page 9

19 Scotland's Colleges 2018 prepared by Audit Scotland 2018

20 Curriculum Review: Strategy & Framework author Gary Campbell

21 Curriculum Review: Strategy & Framework author Gary Campbell

22 Capita, 2012 Outline Business Case for a new operating model

23 Capita, 2012 Outline Business Case for a new operating model, page 6

24 UHI, High quality learning and teaching: putting our students first, 2021

25 Curriculum Review: Strategy & Framework, author Gary Campbell

26 Review of Regional Strategic Bodies, University of the Highlands and Islands Scottish Funding Council 2020, para 38

27 Review of Regional Strategic Bodies, University of the Highlands and Islands Scottish Funding Council 2020, para 43

28 Regional Strategic Body 2017 self-evaluation

29 Review of Regional Strategic Bodies, University of the Highlands and Islands Scottish Funding Council 2020

30 Curriculum Review: Strategy & Framework, author Gary Campbell

31 Capita, 2012 Outline Business Case for a new operating model, page 15

32 UHI, High quality learning and teaching: putting our students first 2021

33 High quality learning and teaching: putting our students first

34 Review of Regional Strategic Bodies, University of the Highlands and Islands Scottish Funding Council 2020, para 59

35 Leadership of More than One School: an evaluation of Federated Schools : Ofsted 2011

36 Source 2018/19 Statutory Accounts – Staff Costs Note (Subjective Analysis – Academic Teaching)

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