Extraordinary Meeting of Board of Management

Agenda
Meeting reference: BoM 2022_23/EM
Date: Monday 05 September 2022 at 5:00pm
Location: Boardroom (Brahan Room 019)
Purpose: Extraordinary meeting re time-bound business unable to be discussed at a Scheduled Board Meeting

* Denotes items for discussion.

	Agenda Items	Led by	Paper
1	Welcome and Apologies	Chair	
2	Declaration of a Conflict of Interest in any Agenda Item		
*3	Presentation from Alastair MacColl, Chair of Court, UHI	Chair of Court, UHI	Verbal
*4	General Board Discussion supported by the following items: Paper 1 – Revitalisation Programme (UHI) Paper 2 – Review of Nairn 2 event (Chair/Principal) Paper 3 – Financial Comment (VP Operations)	Interim Chair	 Paper 1 Paper 2 Paper 3
5	Date and time of next Scheduled meeting: • Thursday 20 October 2022		

Paper 1 - Revitalisation Programme

UHI2024

UHI 2024 will see a series of time-bound strategic initiatives implemented by the UHI partnership, working together to reduce expenditure, increase and diversify income, simplify its governing structures and develop and implement a 5-year vision

Background

Despite many successes over the years in its core academic business, the current UHI partnership model is financially unstable, with overly complex governance and a 30-year debate over the role of Executive Office and partners.

As the UHI partnership has evolved over time the formal responsibilities of the University have grown. It was established as a higher education institution in 2002, and a university in 2011 with taught and, ultimately, research degree awarding powers; it has taken on teaching responsibility for some areas of the HE curriculum, and it has become the Regional Strategic Body for further education in the Highlands and Islands region. These milestones have changed the statutory and regulatory responsibilities that the University holds but little has changed in the way the partnership is structured and how the different organisations within the partnership discharge their responsibilities. With recent, and continuing falls in student numbers, and the sector wide squeeze on funding, significant savings and alternative income sources will be required if the organisation is to be sustainable.

The current drivers for change are primarily financial but also reflect a long-standing debate over structure, and in particular the balance between the centre and the partners. In addition, the Government has stated that the pace of reform in multi-college regions needs to quicken.

This paper sets out a response to this situation, an ambitious programme of radical strategic change initiatives across the whole of UHI. This follows two events in the summer of 2022 which were attended by all academic partner Chairs and Principals, together with the Vice Chancellor and Principal of UHI, members of the University's senior executive team, HISA, the Chair of the University Court and representative Court members.

The core purpose of these actions is to generate financial sustainability through a more integrated and connected university, supported by simplified governance arrangements and strong devolved decision making to a local level. Taken together UHI2024 is a fundamental reshaping and improvement of how we work as a partnership which will resolve several longstanding issues and barriers as well as creating a range of new opportunities.

The following seven **strategic change initiatives** were agreed by those in attendance at the Partnership Conference on 23rd August 2022.

	Strategic Outcome	Committed Action
1	Establish a partner-wide cohesive and cost-efficient tertiary curriculum which maximises student recruitment.	a) Utilising data provided by all academic partners, carry out a comprehensive tertiary curriculum mapping exercise across all partners to establish what is being delivered by whom, to where, and establish the economics of this. b) Agree a tertiary curriculum growth strategy and use this to determine new individual programmes of study which will optimise student recruitment. c) Confirm a partnership wide approach to determining arrangements for programme discontinuation, especially where these are deemed to be uneconomic.
2	Establish clear recommendations on which shared services should be established to run across the whole academic partnership. Progress a clear implementation plan based for the creation of partnership wide shared services.	a) Carry out a review of all non-teaching costs (purpose and structure) including a comparison against external benchmarks. b) Use this review to work-up costed models which demonstrate efficiency gains through the creation of a range of shared services across the academic partnership, to include for example registry a common finance system, and human resources. c) Within (b) the development of a fully integrated marketing and recruitment shared service is deemed to be a priority for development
3	Establish a more focused Executive Office based on stakeholder need	a) Conduct a stakeholder focused review of partnership services provided by EO based on need in order to determine areas of activity that are required for regulatory purposes (must haves), what is highly desirable and what is less so. This work will include cost/benefit/ and value and gap analysis.

		b) Determine and progress actions in relation to the outcomes of the review, including the establishment of SLAs for in-scope Executive Office services.
4	Create more simplified governance structures, enhanced clarity of where accountability lies, enhanced clarity of where the points of decision are, and a clear understanding of roles and responsibilities.	a) Implement a project to review the governance structure. b) Secure clear and comprehensive understanding across the partnership about the roles and responsibilities of different elements of the governance structure, including accountabilities, decision making protocols and protocols to ensure agreed actions are progressed in a timeous manner.
5	Enhance partnership working at governance level, improve transparency of decisions, and secure joined up decision making	a) Explore the potential for EO executive staff to attend academic partner boards and for widening partner involvement in UHI Court in order to enhance a sense of collaboration and common purpose across the partnership.
6	Enhance the staff experience, and enhance a culture of partnership	a) Establish a partnership wide people and culture strategy b) Secure enhanced standardisation of people practices, including in areas such as staff development, workload allocation models, HR policies and guidelines. (action aligns with action 2 above)
7	Commence a review of vision and strategy for the partnership across a 5-year period	a) Review the vision and strategy for the partnership for next 5 years, based on a thorough analysis of the external environment, regionally, nationally, and internationally b) Use this review to underpin the development of the University's next strategic plan and to drive planning, investment and positioning decisions.

Each of the strategic change initiatives will be led by a member of senior staff identified from across our partnership (defined as including UHI academic partners and staff employed by the university directly). Through University Court, Academic Partner Boards and Partnership Council, the whole partnership will be involved in supporting and facilitating each strategic change initiative.

The University Court, the Regional Strategy Committee, and academic partner boards, will receive regular high level monitoring reports about the progress of the strategic plans. The University Court will be the ultimate owner of these reports.

All strategic change initiatives will have clearly articulated project plans and defined financial (where appropriate) and non-financial targets and outcomes. Where appropriate reviews will be based on a zero-assessment method and will be underpinned by robust data, collected from academic partners and the University, and using external data where appropriate.

All strategic change initiatives will be prioritised, underpinned by a project plan, and will completed by December 2024 – hence UHI 2024 - whilst a number will be completed significantly earlier. All plans will be launched by 15th January 2023, and detailed project plans will be completed by December 24th 2022.

The programme of strategic change initiatives does not include, but aligns with, other significant change in UHI, including the potential for further mergers of academic partners, and the commitment to ensure that Executive Office, and indeed the wider partnership, is financially sustainable. It is recognised that the specialist academic partners, Highland Theological College, SAMS and Sabhal Mòr Ostaig may iterate with some of the strategic change initiatives in ways that reflect their constitutional status.

Next Steps

- A lead for each strategic change initiative will be identified, drawn from across the partnership will be identified (by 14th October)
- University Court will secure a senior appointment to support and monitor the progress of the strategic change initiatives (by 30th October)
- A small 'task and finish group' will be established to oversee progress and report to each meeting of the Partnership Council and Court. (by 30th November 2022). Membership will include the strategic change initiative lead, two members of the EO leadership team, two partner representatives, and a member of Court. It will be joined as required by those leading the workstreams.
- Each lead will oversee the working up, and approval, of a detailed project plan, specifically including targets, actions and dates for delivery (by 24th December). Most of the strategic change initiatives will be delivered well within the two-year period ending 31st December 2022.
- The work on each of the strategic change initiatives will begin no later than 1st January 2023.

Paper 2 - Review of Nairn2 Event

Perth College Extraordinary Board of management 05/09/23 – Nairn 2 Review.

This document is an attempt to summarise the proceedings and outcomes of the "Nairn2" (N2) UHI Summit that took place in Inverness 22/08/23. It is intended to give early notice of the outcomes from the authors' perspectives so that consideration of the potential consequences for PC UHI can commence in advance of our extraordinary board meeting. A summary paper is expected to come from UHI by 2nd September and the current document should be seen as the authors take on an interesting and at times positive meeting. We have attempted to be objective in our assessment – given recent events we would request that Board members and SMT also focus on the output of N2 rather than other complicating issues.

It is fair to say that the meeting was a little different to what it might have been as it was preceded by Todd Walker addressing participants on his resignation. (BC Comment: Notable in TW's address, which was substantially the same as given to Court the previous day, was his assertion that it was some Academic Partners' regressive/negative behaviours that was holding up progress to a more functional and integrated partnership, and that SFC had been less than helpful in helping him push through essential reforms. His praise of EO senior team was effusive. It was not the time to observe that it takes two to tango….). Chair of Court also announced that Court had taken the decision not to extend the tenure of BC as Chair of PC UHI by two years, but he did not expand on the reasons. (BC Comment: when formal advice has been received it will be shared with PC UHI Board and SMT)

The meeting was a follow up to the summit (N1) that took place in Nairn in mid-June. In the interval between N1 and N2 three options/cases were worked up, principally by their proponents. The options were then incorporated in a paper developed by Rockbourne Consulting, with further analysis/critique and the proposal of a further blended option. We are not at liberty to distribute this paper which ended up being somewhat different to the brief many Academic Partner participants understood had been developed as output from N1, and in addition contained significant inaccuracies and assumptions in a number of areas. The options contained in the paper are:

- O1 - A parallel HE/FE model in which all aspects of HE teaching would be run by EO, with partners responsible for all aspect of FE teaching; in effect this would mean that all HE staff would transfer to EO and all of the students & income for HE would also go to EO thus meaning that there would be no/little top slice from partners to EO
- O2 - A merger/Integration model that would simplify the partnership, and in extremis could at some time lead to a single integrated body. This would be an organic process and not a strategic way forward
- O3 – a "Federal +" Model that majors on devolution of all teaching to the partners, distribution of shared services across the partnership (where this would reduce costs), and a return of EO to its core purpose. As co-developers of O3 we are at liberty to distribute the supporting paper submitted to Rockbourne, and it is appended to this review.
- O4 – was a blended solution incorporating aspects of O1/O2/O3, and in our view added nothing to the debate.

Recipients will recall debate at the last board meeting when the authors of this document intimated that with respect to the future sustainability of Perth College O3 would be the only option of interest to us – this being entirely consistent with lines taken and elucidated by Board and management of PC UHI over at least the last 6 years or so.

The meeting essentially consisted of 4 parts

- Short table re-engagement (10 tables)
- Split in 3 groups to debate options using Rockbourne document as a help, but not exclusively nor as a set of discrete solutions – Objective of session to develop 6-10 suggested actions/activities
- Review output in plenary, refine and synthesise.
- Agree actions, next steps, way forward – and commit to delivery

In general terms the outputs tended to be similar, as one might expect, and not a great deal of radical reform of the nature that might be required was in evidence. Notably, with isolated exceptions there was very little enthusiasm for the parallel model as that cuts right across the Tertiary ethos that ought to continue to underpin our delivery. There was agreement however that a lot needs to be done, and there is little time to do it. One of the groups delivered a good set of 6 lucid and actionable elements, and this was used to build the consensus output, with some refinement.

Note that all elements below will require participation and actions by ALL partners (i.e., APs and EO), and this includes fundamental reviews with what we took to be explicit agreement that where possible a zero-base approach will be used. This is useful as it will cut across assumptions in EO and possibly some other quarters that because something is currently being done it is "necessary" – this would be a fundamentally new approach in our experience for the partnership, and ought to hold promise for sensible and significant rationalisations.

A further common point of agreement was that we must investigate the possibilities for shared/distributed services, and more contentiously many felt that is not about centralisation of services within EO but potentially distributed widely across the partnership. Briefly, the elements to be addressed are:

1) Intense review of the curriculum (FE/HE) – objective optimisation in terms of both content deliver, depth/breadth, and economic analysis of what makes sense to deliver.
2) Review of purpose/structure of the partnership in the widest possible way - nonteaching/support costs, internal/external provisioning, benchmarking other organisations, options for shared/distributed services etc.
3) Customer (i.e. AP driven review of EO services – operational and regulatory needs/requirements, costs, benchmarking, VFM)
4) Project to scrutinize and define organisational design, Committee Structures, authorities, governance, and accountabilities.
5) Project to examine options for and how to enhance collaboration, break down silos – proposed EO Member on each board (constitutionally problematic and would likely

have to be observer status; representation at court of all APs (this takes us full circle to the early days).

6) Commencement of full blown strategy review consistent with emerging proposals from elements 1 through 5.

During discussion other specifics were raised such as integrated people strategy, integrated marketing and international activity, identification and purchase/commissioning of a single partnership-wide finance and data system, integrated registry etc. It was also noted that the current resource allocation models (RAM and MicroRAM) must be considered effectively dead, and we need a replacement with urgency, that is transparent, equable, and flexible to deliver proper understanding of the real costs of delivery – this would allow a much better understanding of cross-subsidies where current practices tend to result in the larger partners subsidising the smaller ones. The consensus was reached that all these additional topics could be worked into the various elements outlined above.

There was some discussion on whether the proposals are radical enough as it looks remarkably like lists that have been developed before. General consensus emerged that it is timely delivery that is the key to survival, and we must get it right this time.

Chair proposed a timescale of two years for completion of all elements with immediate challenge that some stuff needs to be done much sooner, and agreement that clear "who/what/how/whens" need to be developed with urgency and a focus on big ticket prioritisation. Chair also noted his intent to engage a leader to coordinate the delivery (either internal or external – though where this leaves the current Transformation Director should someone be brought in from outside is a valid question!)

Meeting participants in general terms committed to delivery, subject to review by individual partner boards, and of course Court agreement shall be required. On the latter point it was noted that Court has final say and they would review the meeting output during September.

From the authors perspective we have concluded:

- The meeting did have an air of positive acceptance that this time we must change and deliver, but how that shall be carried through of course remains to be seen – the historic record is not good on this score.
- Many of the participants have been here before, the list looks familiar, and the likelihood remains we shall see incremental as opposed to revolutionary change with the result that the scale of cost reduction and simplification required may not be delivered.
- All this must be done in a financially critical environment with the likelihood of the emergence of the most challenging fiscal conditions in living memory.
- There is no prospect in the immediate future of any significant reduction on the top slice landing on the top line of APs.

In broad terms, for our meeting on the 5th, board and SMT members are invited to consider:

- Does this meet PC UHI needs in the short/medium/long term?
- Will this deliver the student experience that our students want/deserve?

- What should be the balance we apply to short term and long term routes to financial sustainability?
- Should we be content with the plans, or should we commence a parallel examination of options that might better secure our future with the core objectives of enhancing the learner experience and delivering closer coupling to our immediate economic community?

None of these questions are easy, so we need to apply intense focus and objectivity to determine our next steps. The challenges we shall face in the next few years are existential and we must be clear about our responsibilities to deliver sustainability, however tough the decisions may be.

Brian Crichton, Chair Perth College UHI
Margaret Cook, Principal and CEO Perth College UHI,
29/08/22

Appendix 1 – Federal Plus Model

Note – this is an interesting paper but is rather detailed and outlines a federal model that the authors of the paper believe is eminently workable. We have highlighted the section of critical current interest and that is on the impact of the top slice combined with AP overheads, and where that places us with respect to percentage of funding directly spent on the learner. We are clearly at a competitive disadvantage in this area, and the unwitting victims are the learners, and the communities we serve.

UHI, Federal+

The case for a decentralised and federal structure

'*Three colleges assigned to UHI – Lews Castle College and North Highland College (both incorporated) and West Highland College (non-incorporated) – are considering a merger (from 2023 at the earliest). Several other larger colleges in the UHI region are facing significant financial challenges, which this proposed merger will not address. Wider-ranging changes to the regional college structure may be needed to address the financial risks facing the other incorporated colleges.'*
Audit Scotland, 2022

Introduction

The overarching context and principles for this short paper on the development of UHI into a properly constituted tertiary federal partnership are built upon the following principles – Collective responsibility, articulate leadership, strong and democratic governance and accountability.
Entitlement – each student receiving a full and comparable share of the resource provided and to which they are entitled.
Equity of student and staff experience – whilst local conditions vary, experience and opportunities will be built and measured through our innovative tertiary approach to access

and personal development; underpinned by knowledge acquisition, application and generation.
Effectiveness – each element fulfilling its role and being accountable and scrutinised by the partnership and RSB via agreed KPIs and benchmarks.
Efficiency – each element working to both financial and agreed KPIs/targets which are cognisant of ‘local’ conditions/variations.
Diversity – each element fulfilling the UHI commitment to a tertiary vision and to ensure this is contextualised and accessible to our communities, Scotland and our international ambitions.
The creation of an accessible and vital offer for student and staff opportunity with a commonly owned and annually appraised curriculum.
UHI will define a non-hierarchical tertiary university by generating the maximum income and the maximum possible spend per student and contribute to Scotland’s evolving positioning as an integrated tertiary provider with a single funding body and a single quality agency.

<u>The precepts of a decentralised federal model</u>
The model will have –
A governance and accountability model underpinned by a binding agreement, a democratically representative executive authority (The Senate), executive scrutiny (Court/Boards) and public accountability (RSB).
A common commitment to the tertiary vision and local delivery of UHI values, networked academic/research provision, common and shared services and corporate provisions.
Common, shared and accountable standards, processes, structures, systems and KPIs.
A small and focused Vice-Chancellor’s Office and Secretariat to lead strategic development, plan, hold to account and be accountable. To co-ordinate, review and to target actions.
A (potentially reducing) number of locally engaged and locally defined partners acting within UHI’s internationalised mission.
A general understanding of our combined value, the power and significance of a large and effective university and the discipline to ‘manage up’ to the highest institutional standards.
Please note - that whilst there are examples of long standing federated and federal universities there are also examples of universities using federation as a stage in their development to single or core and associate institute model. This proposal should be regarded as a means of UHI focussing effort, defining itself and the ‘glue' that defines us whilst creating a stable and ambitious base for our successors to make their own decisions.

<u>Entitlement and the student, proposal for future financial arrangements…</u>
All figures are indicative.
A barrier to parity of a UHI student’s experience with other institutions is an overly high combined overhead and top slice. A UHI undergraduate student is subjected to a local overhead of circa 40%-45% (some are at 40%, others may be as high as 50%) to cover essential delivery support and resources. The student is also subject to a central top-slice of 35% to cover the costs of EO and central activity. Circa 25% is spent on direct teaching/academic costs
This contrasts with other universities who typically work to a combined overhead and top slice of circa 50% with 50% being spent on direct teaching/academic costs.

English Universities are tasked to achieve 48% against all overhead/top-slice with 52% spent on direct teaching/academic costs. Poor performance is regarded as 55%/45% with institutions being placed in special measures around 60%/40%.
Please note – this paper is not suggesting a 'one fit' model. Issues such as rurality or Island locations will need to be reflected in an appropriate RAM.
A typical UHI UG student has a 'value' of between £6,118 - £9,552 pa so, using £8,700 as an illustrative example, after a combined overhead and top-slice of 75% the remaining 25% of direct teaching/academic cost is only £2,175.
A reasonably well performing university elsewhere would expect to spend £4,350pa, or twice as much as UHI on direct teaching/academic costs whilst an inefficient university would spend £3,915.
Therefore, it is proposed we move to combined UHI overhead of 50% with a target of 48% by rapidly reducing the central top slice to 15% and the local overhead to 40%, the 2% difference being a targeted 2% surplus. There should be two significant steps to this position with a 12-18 month target of achieving a combined overhead of 55%. Once achieved, further work on efficiencies (corporate costs, services, outsourcing…) and 2nd and 3rd stream income should move and maintain the partnership in its desired position.
Such a reduction would move UHI to a position of offering comparable levels of teaching with UK universities, a better than average position around FE college teaching. The targeted 2% would build funds (a typical post '92 targeted surplus) and the potential for further staff investment in areas from apprentices to research and knowledge transfer and application and position the Vice-Chancellor's Office as a 'central bank'. The 'central bank' function within the university would provide or leverage capital investment and be a key element in providing assurance and support for bids, diligence and project management.
The impact on the 22/23 position of the partners would be as follows –

	Gross income	Net Income @35%	Net Income @15%
	£	£	£
Inverness College	21,733,796	17,796,138	20,001,704
Outer Hebrides	5,452,554	4,667,096	5,106,792
Moray	13,036,659	10,814,518	12,059,009
North Highland	8,839,217	7,586,805	8,287,866
Perth	23,716,459	18,806,587	21,557,485
Orkney	3,606,223	3,198,464	3,426,548
Shetland	3,378,671	2,993,891	3,209,127
West Highland	6,728,333	5,931,555	6,382,750
Argyll	6,483,411	5,755,478	6,162,644
SAMS	731,454	509,115	633,766
SMO	1,088,401	757,562	943,041
HTC	466,241	324,518	403,973
EO	384,575	267,677	333,214
	95,655,996	**79,409,001**	**88,507,918**

With a specific HE stop slice impact as follows, but please note, the figures reflect a RAM driven 85% HE and 15% FE apportionment. Therefore, the HE top slice is expressed as 30.4% with the remaining 4.6% being top sliced from the FE allocation. An additional complication is the HE top slice being applied to the HE regional grant funding at 50% leaving the partners to pursue and carry the risk and impact of student fee debtors. In the instance of a student debt, the top slice is 50% against an individual with consequential impact. It is evident that the RAM, as is already intended, needs to be reviewed and become a more transparent tool as a matter of urgency.

	FTE	2022-23	RAM 22-23	Fees	Existing Top Slice Calculation	Pro Rata by AP less FE Top Slice	15% Top Slice	Variance
	£	Nos	£	£				
Inverness	3,953.47	1,441	5,696,944	2,167,656	3,429,919	30.4%	1,694,178	1,735,741
Lews Castle	4,704.15	219	1,030,208	391,989	620,250	30.4%	306,367	313,883
Moray	3,785.09	830	3,141,626	1,195,372	1,891,457	30.4%	934,268	957,188
North Highland	4,241.85	384	1,628,871	619,777	980,683	30.4%	484,400	496,283
Perth	3,955.83	1,877	7,425,091	2,825,207	4,470,372	30.4%	2,208,100	2,262,272
Orkney	4,044.77	114	461,104	175,448	277,614	30.4%	137,125	140,489
Shetland	4,166.00	105	437,430	166,440	263,360	30.4%	130,085	133,276
West Highland	3,643.01	261	950,825	361,784	572,456	30.4%	282,760	289,697
Argyll	3,808.53	215	818,833	311,562	492,989	30.4%	243,508	249,481
SAMS	4,552.99	81	368,792	140,323	222,036	30.4%	109,673	112,363
SMO	4,690.26	117	548,761	208,801	330,389	30.4%	163,193	167,196
HTC	3,093.08	76	235,074	89,444	141,529	30.4%	69,907	71,622
UHI EO	5,386.08	36	193,899	73,778	116,739	30.4%	57,662	59,077
Total		5,756	22,937,458	8,727,578	13,809,793		6,821,224	6,988,569
		AP HE Funding		**31,665,036**				
		Existing Top Slice HE		**13,809,793**				
		15% Top Slice HE		**6,821,224**				

A 15% top slice would generate £7,148m for the Vice-Chancellor's office rather than £16,146m (having re-added the FE top slice). All funding streams need to be assessed and apportioned against agreed overheads. The urgency of this assessment is driven by the forthcoming period of SFC 'flat cash' settlements and potentially high public sector wage settlements which can only be funded through efficiencies.

Inverness' staff costs budget on 31 July 2023 is forecast at £17.6m with a settlement based on 3%. If national pay bargaining settles on 5% it would rise to £17.9m and at 7% would be £18.2m. In England, the teachers have agreed a sliding scale settlement from 5% to the highest grades and 8.9% to the lowest grades.

<u>The Model</u>.

For any model to work there needs to be suitable clarity and consistency in role definitions, overhead definitions and reporting to ensure there are no hidden, mistaken or overstated costs. The same is also true regarding 1st, 2nd and 3rd stream income definitions and the associated overheads and contributions or returns. Within this context and the reduction of overhead and the top-slice, the following are presented as indicative.

<u>The Centre, or Vice-Chancellor's Office and Secretariat</u> will be a focused, small and effective unit responsible for defining the partnership and holding the key levers that define and promote the work of a university.

The Centre will be responsible for leading and/or monitoring the dispersed delivery of services and will lead and manage the combined leadership of the partnership whilst supporting our vision and strategy; and engaging in vital environmental scanning and high-level, data driven planning.

- High level political liaison and co-ordinated 'local messaging'
- Industrial Sector liaison
- Degree awarding powers – RDAPs and TDAPS
- Registrar - coordinated quality enhancement, records and compliance
- Data management, centralised planning SFC engagement
- Central bank – building a 2% surplus fund to replace ALFs
- Monitoring financial strategy/operation -RAM (as per RSB agreement)

- Monitoring student experience enhancement
- Monitoring research/knowledge exchange development
- Monitoring HR with long term goals around PAS
- Supporting leadership via Senate (formal) and Partnership Council (informal)
- Co-ordination/quality for SLAs for each dispersed/distributed service
- Monitoring of KPIs and performance data (MIS).
- Monitoring 1st, 2nd and 3rd stream income generation

Such an office would require a small and focused EMT with dotted lines to the EMTs across the partnership. There would be clear responsibility to manage and oversee SLAs in the partnership or to define and deliver initiatives in areas such as HR or Finance. The Centre would not be a teaching or student facing service unit but would orchestrate and lead. In the role of 'monitor', the Centre would have the critical (and sector standard role) of observing, checking and benchmarking progress and quality against agreed targets over time.
The Academic Units will be bound to the centre by a binding agreement that recognises the authority of the Centre and the RSB and any SLAs for services to the partnership, whilst the Centre will recognise the primacy of local conditions for employment and delivery.
The Academic Units will most likely be made up of a small number of specialists, (post-mergers) four large partners and several smaller partners. The agreement must recognise that financial distribution will be driven by the principles above and the principle of student equity and parity of experience. The KPI matrix and the further development of common costing and management tools will be critically important and there will need to be an appropriate mapping to ensure information, actions, dotted lines and structures can be aligned.
The Academic Units will be responsible for student facing activities, including -

- Local school, community and industry liaison
- Local political liaison
- Specialist liaison including outreach
- Student experience and support
- FE
- Foundation Apprentices
- Modern Apprentices
- Graduate Apprentices
- HE UG
- HE PG (taught)
- HE PG (research)
- Research and Knowledge Transfer
- Full cost, 1st, 2nd and 3rd stream income generation

Success rates and indicators will continue to be locally driven but learning and enhancement would be co-ordinated via the centre and the expectations of the current FE and HE quality organisations and the potential single quality tertiary agency. Equally, local curriculum planning will respond to the local conditions or environment whilst the centre would enable both local and internationalised curriculum to be reviewed and developed in a timely, data informed and regular manner.
The case for partnered networked delivery at a 'local' level is that as teaching units they are close to local schools, employers, stakeholders and highly sensitive to sector need. The centre

will enhance this alignment though its environmental scanning, use of comparative data and targeted curriculum, knowledge transfer and research strategies.

Effectiveness and Efficiency

Dispersed and distributed services.

Previous reports and assessment of UHI have consistently demonstrated high levels of duplication and unnecessary multi-layered process. There is capacity across the whole of the UHI Partnership to decentralise and further cement an equitable, democratically accountable and supportive federal structure. Transactional activity should be based at the point of greatest impact and efficiency.

For example, Inverness and North have a shared finance function that was built upon the pragmatic premise of HR cost saving, software savings, enhanced capacity and resilience. Should the finance service be developed as a service for Inverness and the merger of Hebrides, West and North, (under consideration) it will be responsible for managing 45% of the UHI partnership's operating finances. The management of the unit is via North with staff in Thurso and Inverness making use of UHI's network capacity.

The HR savings to date on the shared service are £150k and rising. Savings have also been achieved on finance software with the additional benefit of resilience and cyber security.

In reducing the complexity of the service and increasing resilience this model should be extended across UHI with all operational finance managed by this or such a unit albeit with a dotted line to the centre and to the Academic Units who would need a local 'specialist' rather than a department and additional software.

This distributed/dispersed model applied to several corporate functions will support the Units in achieving a 40% top slice and drive overall savings on corporate expenses such as software/IT support. Functions to be (and have in some instances been) considered would include –

- H.R.
- Finance
- H&S.
- Estates and asset management
- Registry
- Curriculum unit
- Marketing
- Student experience
- I.T.
- Learning Services
- International

An additional benefit to this model is that some of the smaller partners could be built and enhanced as service centres, as per the HIE model with the benefits of positive local community impact.

Summary.

This short paper lays out a case for a federal structure and in so doing raises several significant questions that are yet to be addressed in detail (legal, charitable, employment…) but the paper lays out a route to our stability.

The paper has received several inputs and attempts to present a plan that can be delivered in stages over a three-year period whilst -

- Embracing the current mergers and creating the environment for further mergers
- Creating a future platform for a single entity or a single core and specialist institute entity, if so desired
- Distributing commitment and democratising accountability
- Building a sustainable business model
- Creating capacity for investment and income diversification
- Targeting the maximum possible spend on the student body and our academic commitments
- Equity of experience for students and staff

And, most importantly, it is an opportunity to build trust, regard and mutual reliance as the corporate transactional work or 'glue' that will help us to further define and deliver an innovative tertiary university that is rooted in the needs of our region and able to educate and inform the communities in matched and targeted similar global regions.

Professor Christopher O'Neil
Mark Sheridan, Brian Crichton, Peter Graham
And further contributions from Partner Chairs, Principles and Professional Services
27 July 2022

Paper 3 - Financial Comment

University of the Highlands and Islands
Perth College

Nairn 2
Financial Comment

University of the Highlands and Islands
Perth College

Contents

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- EO
- Sector Outlook

University of the Highlands and Islands Perth College

UHI Federal +

UHI Federal +

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When reviewing the “Federal +” appendix in the Nairn 2 paper, there are a few important comments/considerations to keep in mind:

- Monies spent on “direct teaching/academic costs”.
- Overhead definition.
- Effectiveness and efficiency.

Each of these topics are dealt with on the pages that follow.

UHI Federal + Direct Teaching/Academic Costs

University of the Highlands and Islands
Perth College

The document quotes that “circa 25%” is spent on teaching/academic costs. The document appears to arrive at this numbers by taking Topslice of 35% + local overhead 40% from 100% = 25%. The document states that “local” overhead is 40%. Local does not suggest that it is 40% of the total spend available but 40% of the local spend available. If this is the case it creates a different set of numbers as set out below:

	£	% of “total available”
Total available	100	
Less Topslice of 35% =	35	35%
Available locally	65	
Local overhead at 40% of 65 =	26	26%
Teaching is the balance or 60% of 65	39	39%

So it may be the case that teaching/ academic costs are circa 39% rather than 25%. This calculation was tested further by looking at the accounts for the larger colleges in the partnership……

UHI Federal + Direct Teaching/Academic Costs

University of the Highlands and Islands
Perth College

Published accounts specifically state the staff cost and non-staff cost spend by category. The cumulative spend results for Moray + Inverness + Perth for 19/20 + 20/21 show.....

Local academic spend = 57.1% and non academic spend of 42.9%. Applying these numbers to the model on the previous page you arrive at....

	£	% of "total available"
Total available	100	
Less Topslice of 35% =	35	35%
Available locally	65	
Local overhead at 42.9% of 65 =	28	27.9%
Teaching is the balance or 57.1%% of 65	37	37.1%

This supports the theory on the previous page and arrives at an alternative "circa" teaching/academic spend of 37%.

UHI Federal + Direct Teaching/Academic Costs

University of the Highlands and Islands
Perth College

Agreeing the current level of teaching/academic costs is important as it will have an impact on the thinking and goals of the teams being set up to create change in the Partnership.

It is also important to look college to college. When looking at the accounts of the three colleges noted on the previous page there was a difference in local spend with Moray spending 56.6% on teaching and academic, Inverness spending 51.2% and Perth spending 63.2%. So a one size fits all may not be the way forward.

The next topic, overhead definition, should also be considered……

UHI Federal + Overhead Definition

University of the Highlands and Islands
Perth College

Overheads are those costs that do not earn income but are needed to ensure compliance, student and staff experience and or the running of the college.

The majority of overhead cost in the Partners are student experience/teaching based e.g. Library, Student Services, Estates etc. The importance of this is to remember that when the term overhead is used that most of this is for academic/teaching.

This brings up the important point that when we compare UHI with other universities are we comparing apples with apples? When universities are tasked with only 48% overhead what have they considered as overhead, do they show some of what we call overhead as "academic/teaching" cost?

UHI Federal + Effectiveness & Efficiency

University of the Highlands and Islands
Perth College

The document has a section on effectiveness and efficiency which appears to focus on various overhead categories and seems to be more about “Shared Services”.

Poor effectiveness and efficiency are likely to be costing UHI millions of pounds. Phillip Crosby, a renowned expert in the field of quality, estimates that poor effectiveness and efficiency can cost an organisation the equivalent of 25% of their income. For UHI this equates to £35M. An alternative view on effectiveness and efficiency could allow UHI to focus on and leverage some of the £35M……

Effectiveness = meeting customer requirements.

Efficiency = taking as short a time and using as few resources as possible to meet customer requirements.

These definitions are al about process improvement. Not just in certain overhead areas but right across every function and every partner. Other universities take this very seriously and have teams dedicated to eliminating their 25% of waste. Some started their process improvement journey as far back as 2006 and there is now an large international community who share experiences and best practices.

Shared services should have its own classification while effectiveness and efficiency could be reclassified to look at the opportunities of process improvement.

EO

EO Financial History 11/12 – 20/21

University of the Highlands and Islands
Perth College

A review of the UHI accounts over that last 10 years shows that following:

	11/12	20/21
Staff costs	£7.9M	£17.9M
Number of staff		
Admin	109	175
Research	21	42
Academic/Teaching	22	50
Academic Services	35	66
Premises	1	2
Total	188	335
Non-Staff Costs		
Academic/Admin	£4.0M	£9.7M
Premises	£0.8M	£1.9M
Research	£5.9M	£6.3M
Other	£0.9M	£0.6M
Total	£11.6M	£18.5M

What have Partners seen for the change in costs, is it value for money?

EO Financial History 11/12 – 20/21

University of the Highlands and Islands
Perth College

A review of the UHI accounts over that last 10 years shows that following:

	11/12	20/21
Cash	£4.3M	£22.6M

Cash doesn't make any money for an organisation. How much cash should be held and how much should be "worked" to make money for the college. How did the cash increase so much, is this due to the Topslice being higher than just enough to fund EO expenses?

Research		
Income	£2.9M	£3.4M
Staff Cost	£0.8M	£2.0M
Non-Staff Cost	£5.9M	£6.3M
Profit/(Loss)	£(3.9)M	£(4.9)M

The Research story isn't clear from that accounts and the figures are lifted as they appear i.e. there could be more to the story than appears in the accounts. Over the 10 years reviewed, Research would appear to have lost £(31.2)M. How will this investment benefit UHI in the future will the £(31.2)M be recouped with future courses/income streams?

EO Ranking

University of the Highlands and Islands
Perth College

Source: Complete University Guide.

The Complete University Guide list the top 130 universities in the UK. UHI is not on that list, does this have an impact on student numbers?

UHI ranking on specific topics:

	UHI Rank
Accounting and Finance	102 from 104
Art & Design	79 from 87
Business & Management	117 from 124
Computer Science	102 from 114
Engineering	71 from 71
Nursing	78 from 78
Music	76 from 86

University of the Highlands and Islands
Perth College

Sector Outlook

Sector Outlook

University of the Highlands and Islands Perth College

The recent spending plan issued by the Scottish Government indicated that there would be £0 additional funds available to the University and College sector over the next 5 years. This gives the sector an issue as there will be no funding to cover cost increases in the following areas:

- Inflation: Inflation has been low for a number of years at around 1-2%. The budget assumed an average of 6%.

- National Bargaining: The Scottish Government recommended the equivalent of just over 2% for 22/23. The budget used around 3%.

At the last BoM meeting a breakeven budget was approved for 22/23 based on specific student numbers, 6% inflation and a 3% staff cost increase. In August, our understanding of that outlook is changing.

Sector Outlook

University of the Highlands and Islands Perth College

At the time of writing it is becoming clear that:

- Perth HE student numbers are lower than budgeted. The FTE's (HE measure) is 520 lower than budget = approximately £2.6M. As we had low numbers in 21/22, are lower FE numbers going to be the norm? Universities appear to be giving entry to students with lower qualifications (who would normally have gone to College). It is also easier to get a job at the moment and with high inflation maybe some potential students are deciding to start work (to help support their family) rather than go to College. Published demographics indicate that student age groups will fall in Perth and Kinross by as much as 8%.

- National Bargaining. Although we do not know what the final staff cost increase will be it is clear that it will be higher than the government guideline.

- Some economists are predicting inflation as high as 18% versus our budget of 6%.

The following pages provide some insight into "what if" scenarios.

Sector Outlook

University of the Highlands and Islands Perth College

	22/23 Budget	21/22 Estimate	1 22/23 @ 31/8/22	2 22/23 @ 31/8/22
Income	28,124	27,152	28,124	28,124
Less HE Shortfall			(2,600)	0
			25,524	28,124
Staff Cost	21,347	20,396	20,396	20,396
Restructuring		99		
Salary increase			2,040	2,040
			22,436	22,436
Non-Staff Cost	6,777	6,407	6,407	6,407
Inflation			641	961
			7,048	7,368
AOP	0	250	(3,959)	(1,680)

The 22/23 budget and 21/22 estimate column's are the numbers sent to the SFC for our last FFR submission. You will see that the budget 22/23 is breakeven while 21/22 will make a small AOP profit.

Column "1" is a 22/23 what-if based on current knowledge and uses has the following assumptions:

- Budget income 22/23 was used.
- There will be a clawback of £2.6M for a shortfall in FTE numbers.
- The 21/22 salary is used as a base as the 22/23 budget will now be uncertain due to lower FTE numbers.
- Salary increase assumes 10%.
- Non-staff costs also use 21/22 as a base as it is easier to apply inflation assumptions to this base.
- Inflation assumed at 10%.

This scenario would give Perth and UHI a significant issue. AS Perth will only have £1.7M (normally good) in the bank at the start of 22/23 a £(4.0)M AOP loss (which is a cash loss) would mean that Perth would run out of money and have to borrow from EO. How many other Partners would be in this position, would EO have enough funds for us all?

Column "2" has the following differing assumptions to column 2:

- College FD's across Scotland are asking the SFC not to clawback in 22/23. This scenario assumes that this request is granted.
- While the 10% salary is maintained, a higher inflation of 15% has been applied.

In this scenario we would have a small amount of cash in the bank at the end of the year. WE would still have to borrow a small amount from EO to fund our operating expenses. However, this would just be the start of our financial sustainability challenges. ....

Sector Outlook

University of the Highlands and Islands
Perth College

	22/23 Budget	21/22 Estimate	2 '23 @ 31/8	23/24	24/25	25/26	26/27
Income	28,124	27,152	28,124	25,524	25,524	25,524	25,524
Less HE Shortfall			0				
			28,124	25,524	25,524	25,524	25,524
Staff Cost	21,347	20,396	20,396	22,436	23,109	23,802	24,516
Restructuring		99					
Salary increase			2,040	673	693	714	735
			22,436	23,109	23,802	24,516	25,251
Non-Staff Cost	6,777	6,407	6,407	6,407	6,920	7,127	7,341
Inflation			961	513	208	214	220
			7,368	6,920	7,127	7,341	7,561
AOP	0	250	(1,680)	(4,504)	(5,405)	(6,333)	(7,289)

Column "2" was used as a base for projecting the four years after 22/23. The following assumptions were used……

- Lower student numbers are permanent so although there may be no clawback in 22/23 we will have to request lower funding is subsequent years.
- The prior year total salary becomes the "staff cost" base for the next year. The model assumes a 3% staff increase year on year from 23/24.
- The non-staff cost for 23/24 uses the 22/23 base because the high inflation in 22/23 will not be permanent i.e. some costs will fall back so the total non-staff cost in column 2 cannot be used as a base for 23/24. I have assumed that the inflation from 23/24 onwards will be 3% but I have added a further 5% to the 22/23 inflation value to take a account of the permanent cost increases that will remain from 22/23.

We could add in increases in business for International etc but the profitability from those increases would be so small compared with the AOP losses that are shown from 23/24 that they have not been assumed in this model.